

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#2 *may 2001*

Good start to 2001

The first quarter of 2001 was highly satisfactory for Swedish Match. Sales rose 28 percent to slightly more than SEK 3 billion. Earnings per share were up a full 36 percent. The performance of cigars, pipe tobacco, lighters and matches was particularly gratifying. The earnings trend for snuff was dampened by costs for product development and launches. **Page 2**



Sequoia set to conquer the US

Swedish Match is sparing no effort as it prepares to enter the US premium market for loose-weight snuff. Starting in May, the totally new Sequoia brand will be launched with two distinctive aromas: Cinnamon Ice and Mountain Cider. With its Timber Wolf loose-weight snuff, Swedish Match is already the leader in the value price segment in the US. **Page 8**

Gem of a museum



For anyone interested in tobacco and matches, the Gubbyllan at Skansen in Stockholm is an unmissable gem. Admire the extensive collections dedicated to the history of tobacco and lights.

Robert Björk.

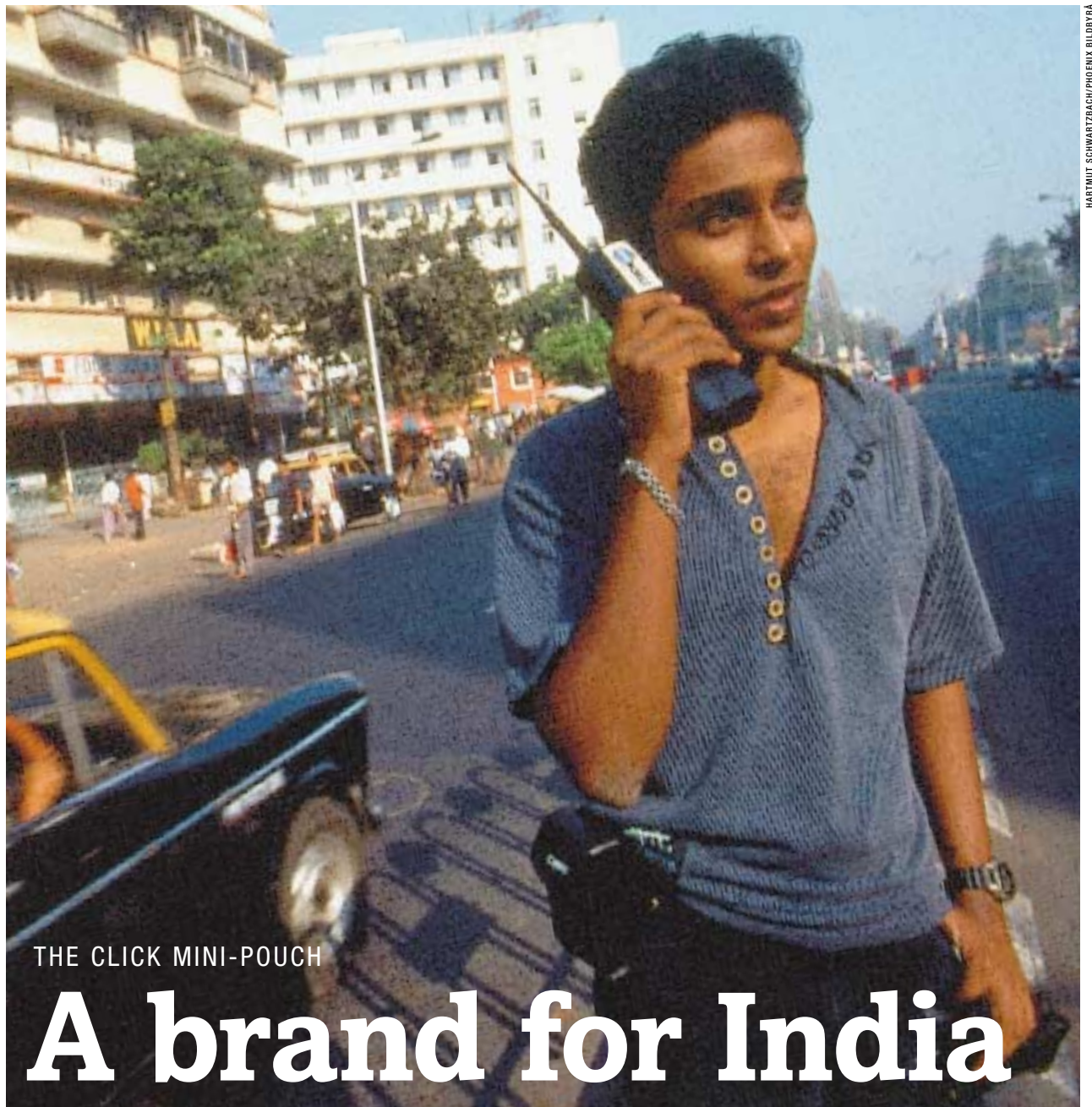
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Exalt – totally new type of tobacco

Swedish Match plans to test-market an alternative smokeless tobacco product in the US. Marketing of the new product will begin during the second quarter of 2001. **Page 10**

Share price continues to rise

The positive trend continued for the Swedish Match share on the Stockholm Exchange during the first quarter of 2001. After starting the year at SEK 36.30, the share price had climbed to SEK 42 by April 24 – a rise of 15 percent. During the corresponding period, the stock market as a whole declined by 14 percent. **Page 11**



HARTMUT SCHWARTZBACH/PHOENIX BILDYRA

THE CLICK MINI-POUCH

A brand for India

This is how Swedish Match launched its snuff marketing campaign in India. In the megacity of Bombay, some 5,000 sales outlets will be stocked with cans of Click snuff on a daily basis, but it remains to be seen whether the Indians will find Click to their liking. **Page 8-9**

SEK 2.4 billion to shareholders

The results reported to shareholders attending Swedish Match's annual general meeting in April were highly positive. »Our success has enabled us to return SEK 2.4 billion to shareholders. The strategy will be maintained in the coming year and there is every reason to hope for a continuation of the positive trend«, said CEO Lennart Sundén in his AGM address. **Page 4-7**





President's comments

THE YEAR GOT OFF to a good start for Swedish Match. The first-quarter report shows continued favorable growth in sales (28 percent) and operating income (19 percent), and even better growth in earnings per share – up 36 percent. The figures show that our strategies are working out well. We have succeeded in creating a growth company capable of going against the trend in a globally stagnating tobacco market.

A key part of our growth strategy has been, and still is, to concentrate on growing segments and make acquisitions within these segments, and this is reflected in the first-quarter figures. But it was even more gratifying that we also achieved organic growth of 9 percent, which far exceeds the average for the tobacco market.

Now we intend to place even greater emphasis on organic growth, albeit without in any way diminishing our efforts in regard to acquisitions. We are investing more in product development than has been the case for many years. We are planning several strategically important launches aimed at opening up entirely new markets for both snuff and cigars. And we are aggressively capitalizing on the synergy effects in distribution, marketing and sales resulting from the integration of our major acquisitions in the US during the past two years.

It is also gratifying to note Swedish Match's increasing success in its unique role as the only tobacco company working globally with world-leading brands and niche products in growing markets. We have earned recognition for our proactive approach in focusing on smokeless tobacco products, such as snuff, and pleasure-oriented products such as cigars. This is evidenced, for example, by the EU's decision in principle to remove the cancer warning from our snuff products. We are optimistic that, slowly but surely, we shall be able to persuade people that snuff is not part of the problem but part of the solution.

Lennart Sundén, CEO

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SWEDISH MATCH

GOOD START TO THE YEAR

Earnings per share

The Group reported good results in the first quarter of the year. Sales rose 28 percent to slightly more than SEK 3 billion, and earnings per share increased sharply, up 36 percent to SEK 0.80. Particularly gratifying results were reported for cigars, which made a strong contribution to improved Group earnings, as well as pipe tobacco, lighters and matches, an area in which structural changes to improve efficiency are now beginning to yield favorable effects. The earnings trend for snuff was affected by costs for product development and the launch of new products, among other factors. »We are in a phase where substantial resources are being invested to increase organic growth«, says CFO Sven Hindrikes, »with particular emphasis on important launches of new snuff products in the US and India.«

The year has started well for the Swedish Match Group. Major acquisitions over the past two years, particularly in cigar operations, have been integrated in the Group and are now providing strong synergy effects via continuous efforts in the development of distribution, marketing and sales in the US and Europe.

»Our focus this year will be characterized by greater concentration on efforts to create a platform for continued development of the Group's organic growth. Organic growth in the first quarter amounted to 9 percent, which is a very good figure, and all product areas showed increased sales. The tobacco markets, as is well known, are very stable. An ongoing process of stagnation that started many years ago is continuing in several areas. We are investing substantial resources in the development of new products and upgrades of old products, and will

incur high costs this year for important product launches and marketing campaigns. These costs will be charged against earnings, but they really amount to investments in future revenue flows«, says Sven Hindrikes.

»However, this does not mean we will stop acquiring companies. Our feelers are always out. As a result of our previous acquisitions of leading companies, the markets in several segments are starting to reflect more favorable structures«.

THE FIRST QUARTER also showed the positive effects of the Group's program for more optimal utilization of capital resources. The redemption program that was implemented last year and the ongoing buyback program have generated substantial transfers of surplus funds to shareholders and improved our key ratios. These effects are reflected in the sharp increase of 36 percent in earnings per share during the first quarter. The Annual General Meeting



Sven Hindrikes.

on April 24 also renewed the Board of Directors' mandate to repurchase sufficient shares to increase the company's holding to a maximum of 10 percent of total shares outstanding.

Sales of snuff, the Group's leading product area, increased 15 percent during the first quarter, but operating income rose by only 2 percent. »Our investments in stronger long-term organic growth through product development and market launches are concentrated mainly in the snuff product area. Costs incurred for these investments are reflected in our earnings«, continues Sven Hindrikes.

THE LAUNCH OF SEQUOIA in May in the US market will be the Group's largest single investment. »We expect to incur significant costs in our quest for success, which may take some time, but we have assumed a long-term approach and we know we have a very good product«, says Sven Hindrikes. The huge Indian market is also being cultivated, with efforts initially concentrated in Bombay. In addition, a new whisky snuff is to be launched in Sweden, and test marketing is to be conducted in Moscow.

Cigar sales increased sharply during

THE MEDIA ABOUT SWEDISH MATCH

»An overlooked growth share«

Swedish Match is the favorite tobacco company of investment banks and institutional investors, according to articles appearing in *Finanstidningen* and *Financial Times* in April.

Swedish Match continues to be the favorite European tobacco company of investment bank Morgan Stanley Dean Witter. Its high ranking was noted in *Finanstidningen* on April 20, four days before the company released its interim report for Q1 2001. »On the strength of

Swedish Match's value-creating acquisitions and strong organic growth, combined with the company's share buyback program, Morgan Stanley Dean Witter has reiterated its strong buy recommendation, with a target price of SEK 52,« according to the article in *Finanstidningen*.

ANTHONY BOLTON, senior fund manager of the American mutual funds giant Fidelity, also likes Swedish Match, as evidenced in an interview published in *The Financial Times* on April 19. Bolton's flagship is the Fidelity European Fund, which manages investment assets totaling USD 2.4 billion. Over the past 15 years, the fund has yielded average annual growth of 22.7 percent. Bolton's »trick« is to look for anomalies in the pricing of European shares. These anomalies, or imbalances, are often found in countries on the periphery of Europe, which offer investors significant opportunities to find inexpensive, undervalued shares that have simply

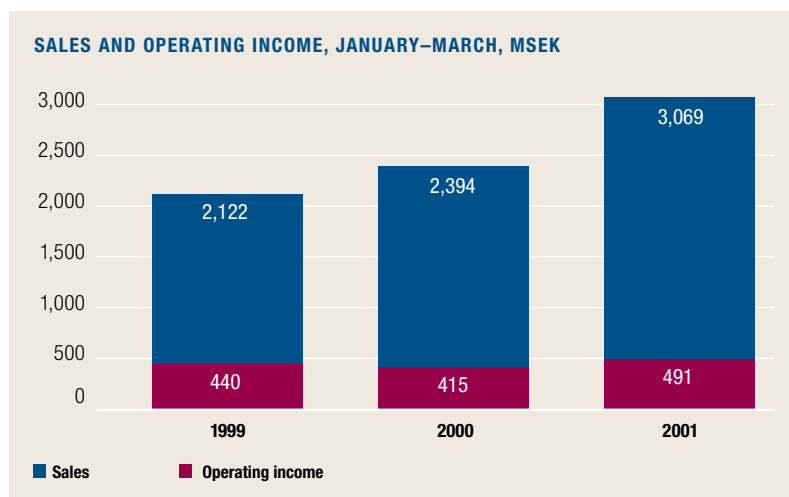
re up 36 percent

the first quarter, up 85 percent, due mainly to acquisitions in North America last year. Reduced demand for premium cigars, a trend first noted last year in the US, was clearly offset by the strong increase in sales of small, machine-made cigars. Operating income, accordingly, was up 94 percent to SEK 101 M. »That's a strong increase, even considering the effects of the acquisitions«, notes Hindrikes.

PIPE TOBACCO AND ACCESSORIES is another area that has expanded recently through acquisitions such as Dinger, the South African pipe tobacco and snuff company, and British American Tobacco's pipe tobacco operations in South Africa, with annual sales of about SEK 200 M. The latter acquisition was consolidated during a two-month period of the first quarter and accounted for the 18-percent increase in sales during Q1. Operating income showed a strong increase of 20 percent.

Lighters and matches have been problem areas in the Group for a long time, with earnings and profitability far below target levels. »The restructuring of our Lighters operations is now considered complete«, says Sven Hindrikes, »and the figures are showing a satisfactory trend and level of results.« Sales rose 26 percent and operating income was up 56 percent, with a healthy operating margin of 11.5 percent.

The Match Division's performance was the biggest surprise of the first quarter. A comprehensive restructuring program has been in progress for the past year to restore the division's operating margin to the target level of at least 10 percent. A sharp improvement was noted during the first three months of the year, with operating income up 76 percent to SEK 44 M, and a margin of 10.4 percent. Sven Hindrikes remains cautious in his comments, however: »The explanation lies in higher volumes and a number of



	SALES, MSEK			OPERATING INCOME, MSEK		
	Jan–March 2001	Jan–March 2000	Change %	Jan–March 2001	Jan–March 2000	Change %
Snus & Snuff	528	459	15	214	209	2
Chewing tobacco	314	282	11	89	89	0
Cigars	750	405	85	101	52	94
Pipe Tobacco & Accessories	205	173	18	59	49	20
Matches	425	391	9	44	25	76
Lighters	220	175	26	25	16	56
Other		627	509		–41	–25
Total	3,069	2,394	28	491	415	18

price improvements, which generated higher margins in certain markets. We are also seeing the positive effects of ongoing structural changes, but we still have some work to do before the operating margin is stabilized long-term at the 10-percent level.«

OTHER INFORMATION in the interim report indicates the Group is entering a peri-

od of heavy investments. Capital expenditures for tangible assets rose sharply to SEK 132 M, compared with SEK 331 M for full-year 2000. The equity/assets ratio declined from a high level of 38.3 percent in Q1 2000 to a more »normal« 31.8 percent in the first quarter of this year – an effect of the Group's acquisition and capital-restructuring programs. □

been overlooked, he says. Swedish Match, which is one of his 10 largest investment assets, is a typical example. On the surface, Swedish Match may appear to be a classic security share. But, in fact, the company has virtually nothing in common with any of the other European tobacco companies, Bolton says. »They have sold their cigarette operations, so now it's mostly smokeless tobacco – chewing tobacco and snuff. There is a big market for these products, both in the US and Scandinavia.« And for this reason, the company is performing like a growth share, Bolton continues. »The company's business operations are generating revenues that are increasing by 20 percent annually, but its shares are priced as if it were a traditional tobacco company. That's a bit like throwing the baby out with the bathwater,« Anthony Bolton says, as reported in The Financial Times.

ALL OF SWEDEN'S LEADING news media and a large number of international media have naturally focused their attention on the company's most recent interim report. According to Dagens Industri, Swedish Match's reported net sales, excluding tobacco tax, were slightly higher than analyst expectations of SEK 2,946 million. In fact, sales amounted to SEK 3,069. Pretax profit also exceeded expectations: SEK 445 million compared with average analyst estimates of SEK 412 M. The fact that Swedish is now moving into the Indian market with its snuff products has also caught the attention of the media, as has the Grop's high-profile launch of the Sequoia brand in the American market.

AND FINALLY, ON APRIL 20, Finanstidningen devoted an entire two-page spread to Swedish Match's cigar operations. Under the headline »Sopranos promote

Match's cigars,« the newspaper published an interview with Lennart Sundén, CEO of Swedish Match, and Edgar Cullman Jr, President of General Cigar. The headline is a reference to the front page of the latest edition of the exclusive publication Cigar Aficionado, which featured the entire male cast of the popular TV series, The Sopranos. Naturally, they were all puffing on impressive premium cigars. Sundén and Cullman are both convinced this type of support is good for sales, according to the article. The other reason for the article in Finanstidningen, of course, was the acquisition last year by Swedish Match of a majority interest in General Cigar. □

Analysts' questions

Swedish Match's first-quarter report was presented on April 24, on the same day as the annual general meeting was held. Publication of the report was followed, in the customary manner, by a telephone conference with the analysts, attached to banks and brokerage houses, who focus on monitoring the tobacco industry. Here are some of the questions and answers from the conference:

JOHAN STÅHL, CARNEGIE:

»I have a question concerning the improved operating margin for matches. You are now showing a margin of more than 10 percent for the first quarter, which is in line with the target of the restructuring program. Does this mean that restructuring is now complete and we can expect similar margins for the remainder of the year?«

LENNART SUNDÉN, CEO:

»It is difficult to make such an assertion without qualification, since matches are an operating area that is highly diversified globally. Developments in some markets remain uncertain, and there are also uncertainties regarding currencies in some areas. As far as Europe is concerned, it's fair to say that the steps we have taken have created a more stable situation, although certain additional measures are still required. New expenses may also arise. Nevertheless, we can say in general that sales have picked up and that many markets are showing an improvement.«

MICHAEL SMITH, MORGAN STANLEY DEAN WITTER:

»I notice that volume growth for snuff in Sweden has slackened off. What is the reason for this and what are you doing about it? It also seems as if the value price segment in the US had stagnated. How has this affected you?«

LENNART SUNDÉN:

»Growth in Sweden was slightly more than 4 percent, which is a perfectly normal level historically. Seen in that light, last year's 8 percent growth was rather surprising.

We are continuing to grow in the US, albeit at a slower pace than before. We are also broadening our base into a new premium segment. If the launch costs involved are disregarded, we still recorded a slight improvement in profitability.«

JONATHAN FELL, MERRILL LYNCH:

»Can you fill in a little more detail on the launch of Sequoia snuff in the US and the snuff launch in India? Will distribution in India be via Swedish Match's own distribution network?«

LENNART SUNDÉN:

»For reasons of competition, we are naturally cautious about revealing our tactics in detail. However, Sequoia is a totally new premium product in a market segment that is new for us in the US. It follows from this that we realize, from experience, that the new product will take time to become established, and we are fully prepared to accept this. It is a very interesting product, in which we believe strongly. But of course we are not underestimating the costs and effort that will be required.

As far as India is concerned, the situation is rather different. We regard the launch of Click as a test case, even though it was preceded by extensive market surveys. The results will show us how we should proceed in the long term. For the same reason, we have initially established a separate sales force. However, as soon the time is right for sales on a broad front, Swedish Match's distribution network could serve the purpose.«

LENNART SUNDÉN'S ADDRESS TO THE ANNUAL GENERAL MEETING

» You are stakeholders



From left: Swedish Match President and CEO Lennart Sundén, Chairman of the Board of Directors Bernt Magnusson, AGM Chairman Ingemar Mundebo and Chief Legal Counsel Bo Aulin were all on hand to answer questions.

Swedish Match is the only international company in the tobacco industry that focuses on niche tobacco products. Our strategy is to be a global specialist with leading brands in the growing and profitable product segments of the tobacco market. Acquisitions, organic growth and product development have made the company a world leader in a number of product areas. These successes enabled us to return SEK 2.4 billion to shareholders during last year. The same strategy will be maintained in the coming year, and we have every reason to believe that the positive trend will continue. This was the message that CEO Lennart Sundén presented to this year's AGM.



LADIES AND GENTLEMEN, shareholders and other meeting participants, You are stakeholders in a unique company.

Today, Swedish Match is a profitable and well-consolidated company with a number of well-positioned global brands. We are the only international company in the tobacco industry that has a strategy focused on niche tobacco products – smokeless tobacco products as well as cigars and pipe tobacco. In contrast to many of our competitors, we are working with the consumer trends, rather than against them. We focus on taste experiences and enjoyment of high quality. We are among the world leaders – in first or second place – and have an extensive product range in those segments where demand is growing and solid potential exists for continued profitable growth.

During the past year, you, as shareholders, have harvested the fruits of the strategic decisions taken two years ago. The total return, including the share performance, dividend and redemption rights, amounted to 29 percent. The performance of the Swedish Match share during the last six months of the year was considerably stronger than the market average.

THE BACKGROUND to these developments is the strategy renewal that took place in autumn 1998, when we faced the challenge of how best to deal with three overriding trends that have dominated the global tobacco market and will continue to do so for the foreseeable future:

- Firstly, consumption of cigarettes – by far the largest tobacco product – is declining in the most developed markets. The main

Focus on equality at spirited AGM

This year's Annual General Meeting, held at the Stockholm International Fairs facility, was a congenial and at times spirited gathering. It was obvious the company has a large number of loyal and committed shareholders, some of whom have been with the company since the days of the old Tändsticksbolaget. A total of 384 shareholders and representatives attended the meeting.

Several topics were raised during the question-and-answer period in conjunction with the report on last year's operations. The discussion flowed freely and many people praised the company and the Annual General Meeting's organizing staff.

Several participants also raised the

question of gender equality, stating that women are a rarity both in management and on the Board of Directors. Bernt Magnusson, Chairman of the Board, expressed his agreement that the situation needs to be addressed.

»At the same time, based on my experience here and with other companies, there is a historic explanation. The recruitment base for Board positions consists largely of persons with experience as company presidents. And, until now, there haven't been very many women working in executive management capacities. But I have noticed that things are starting to

Christer Jansson with daughter Camilla attended his first AGM. Christer became a Match share holder when Volvo distributed the shares in 1996 – a deal with which he is more than pleased.



in a unique company«

reasons are concern about the health effects of smoking, the smoking bans in effect in many places and the increased taxation.

- Secondly, in response to this trend, snuff consumption is increasing in many markets – particularly in our large Nordic home market, but also in the other main market, the US.
- And thirdly, cigar consumption is undergoing a renaissance as a more socially acceptable and pleasure-oriented form of tobacco consumption.

THESE THREE CONSUMER TRENDS have resulted in an industry characterized by overcapacity, a need for restructuring and a global consolidation process that is steadily reducing the number of players.

After analyzing these trends, we decided to construct an operative strategic platform based on Swedish Match's many traditional strengths: world-leading expertise in niche tobacco products, a range of well-known brands with international strength and compass, favorable market positions in Europe and the US, and a sound financial position.

The strategic platform can be summarized as a global niche strategy for profitable growth. Our aim is to become a global specialist, with leading brands and good market shares in growing product segments, with the emphasis on smokeless tobacco, complemented by a focus on cigars.

The lighter and match operations are key assets that contribute in terms of distribution expertise and worldwide distribution networks.

»Here in Sweden in particular, it is becoming increasingly clear that, when it comes to the use of tobacco, we are part of the solution rather than part of the problem.«



Bernt Magnusson opened the meeting and answered questions.

TO SUM UP, WE HAVE TAKEN the following strategic steps during the past few years:

- As one of the first strategic measures, we sold our cigarette operations to Austria Tabak for a price of SEK 4,800 M. This gave us additional financial resources to participate in the restructuring of the industry and make acquisitions in line with our main strategic orientation.
- Through acquisitions, in above in the US, we became the world's second largest cigar company. By the same means, we also established a strong position in southern Africa – an interesting market that, among other notable features, has an established snuff tradition.
- We have worked intensively to integrate the acquisitions and develop synergies with the operations we already had.
- We have focused on organic growth through product development, launches of new products and in new markets, brand development and marketing campaigns.
- Restructuring of the lighter operations has produced earnings with satisfactory margins. In the match operations, a major restructuring program is under way that will take time, but significant steps have already been taken.

TO THESE OPERATIVE STRATEGIES I would also like to add the financial strategy, which is strongly linked to our overall objective of

»Our acquisitions have positioned us well in growing markets. During the year, we increased our investment in product development, product renewal and product launches, with the aim of speeding up organic growth.«

creating shareholder value and comprises active measures to optimize our balance sheet and ensure that we do not employ more capital than is necessary, but can actually return »surplus capital« to shareholders.

Now let us take a more detailed look at how the Company developed during last year, before examining the first quarter, strategic development and the future.

Last year, Swedish Match increased its sales by 22 percent to SEK 11.5 billion. Organic growth accounted for 6 percent of the growth and acquisitions for 16 percent.

We continued to achieve notable successes in the snuff area. In the US, sales volumes increased by 19 percent in a growing market. Market share strengthened from 6 percent to 8 percent. In northern Europe, sales accelerated to produce a volume increase of 8 percent, compared with the average of 5 percent per year during the past few years.

GROWTH FOR SNUFF was driven by the trend characterized by the increasing number of consumers who wish, for various reasons, to quit smoking and switch to snuff.

Our sales of chewing tobacco in the US increased somewhat during last year, despite a declining trend in the market. Our success in increasing our market share was due in part to the stronger sales organization resulting from the acquisition of General Cigar.

Sales in our other tobacco area, Cigars and Pipe Tobacco, increased by 87 percent, mostly as a result of acquisitions. As the world's second largest cigar company, we hold strong positions particularly in the US and Europe. Growth during last year took place primarily in the machine-made cigar segment, where we have strong brands such

as La Paz, Garcia y Vega, White Owl, Hofnar and Bellman. In the segment for exclusive, hand-rolled cigars, Macanudo, the world's largest premium cigar brand, has now joined our brand portfolio via General Cigar.

SALES OF PIPE TOBACCO, a segment in which we are one of the world's largest producers, increased by 81 percent, primarily due to the acquisitions of Leonard Dingler and Brasant in South Africa. Our position in the South African market was further strengthened by the acquisition of BAT's pipe tobacco operations, with annual sales of about 200 MSEK, in February this year. While the pipe tobacco market is declining globally, profitability is favorable.

The markets for both cigars and pipe tobacco are fragmented, and consolidation moves can be expected in both segments.

Our lighter and match operations are important for their strong contribution to our global dimension, with exceptional expertise and networks for marketing and sales directed at the retail trade and locally well-known brands on five continents.

During 1999, the lighter operations underwent a major restructuring process, as a result of which the production units were able to operate at close to full capacity and with reduced overall costs. Moreover, the market situation in Eastern Europe and Asia has shown signs of recovery.

Moving on to look at the earnings trend, we can report a strong increase in income before tax and items affecting comparability, which rose 30 percent to SEK 1.7 billion. All product areas except matches made a positive contribution to the increase. →

change. Women are beginning to make their mark in the corporate world and, in a few years, I am convinced that we will have a completely different picture. In any case, that is my goal.«

CEO LENNART SUNDÉN also stated that gender equality is an integral element of the company's recruitment and personnel policy, and that efforts along these lines are a natural part of the mission of all business areas and divisions.

»Competence, and nothing else, is the fundamental element in all our recruitment efforts. All forms of discrimination, regardless of the reason, are naturally unacceptable. Our approach to gender equality is reflected clearly in our management development program, which will also yield dividends over time«, he said.

Included among the more formal items on the agenda, the meeting approved a proposal by the Board to acquire shares within the framework of the company's options program for senior executive officers. Some shareholders, however, wanted to

know how the program was structured in comparison with similar programs offered by other Swedish and international companies.

Bernt Magnusson explained that, although traditional remuneration systems vary from one country to another, levels of bonuses in Sweden are low compared with the US, for example.

»We haven't looked abroad that much, however; Sweden is and will remain our frame of reference. Swedish standards and Swedish tax regulations are the critical factors, and there are now statistics that show, in comparison with other Swedish companies, that Swedish Match's program is almost exactly at the midpoint of the middle range.« →

Many of the participants also took the opportunity to get better acquainted with the Swedish Match product range, on display in connection with the AGM.



»All in all, our operative measures during the first quarter and our program to optimize the company's capital structure yielded a healthy increase in earnings per share for shareholders – up 36%«

→ In the Smokeless Tobacco Products product area, earnings for snuff increased by 15 percent last year and earnings for chewing tobacco by 11 percent. Operating margins are highly satisfactory – 46 percent for snuff and 27 percent for chewing tobacco.

WE GREATLY STRENGTHENED the Cigars and Pipe Tobacco product area, mainly through acquisitions, which is the primary explanation for the increases in operating income – by 68 percent and 95 percent respectively – for these products. The operating margin for cigars rose to 13 percent and for pipe tobacco to 28 percent.

Lighter operations showed a highly positive trend, achieving an operating income of 74 MSEK. The Matches product area is currently being restructured, with the aim of achieving a 10 percent operating margin.

During 2000, we focused on three main tasks:

- creating continued growth through acquisitions and capitalizing on the synergies realized through integration of the acquisitions
- laying the foundations for increased organic growth by focusing on business and product development
- and optimizing the balance sheet structure by means of a large-scale redemption program and buybacks of the company's shares.

ACQUISITIONS CONTINUED during last year. We now own 64 percent of the shares in General Cigar and have thereby claimed a leading position in the premium cigars segment in the US. We acquired a leading tobacco distributor in South Africa, Brasant, and we also acquired a number of minority shares in already partly owned companies.

Much effort was expended on optimizing the synergy effects from previous acquisitions in the cigar segment. We were able to coordinate our sales forces and improve their efficiency, which had a positive effect on costs for administration, marketing and sales, and on sales volumes. We achieved better market cultivation and coverage for our products in the large US market. We

can now offer the retail trade an unmatched full range of niche tobacco products.

Our acquisitions have positioned us well in growing markets. During the year, we increased our investment in product development, product renewal and product launches, with the aim of speeding up organic growth. The primary markets in this regard are the US and northern Europe. Our long-term brand renewal program focusing on the Swedish snuff brands has achieved good results. The brands that have undergone renewal to date are Catch, General and Ettan, and more brands are in the pipeline.

The launch during the year of our quality label, Gothia Tek, should prove highly significant in the long term. Gothia Tek is the designation for origin-labeled Swedish snuff from Swedish Match, and thus also for our unparalleled 30 years of quality-

»For a number of years, Swedish Match has displayed a high degree of stability as successive business cycles give way to each other which is yet another source of strength for the Swedish Match share.«

focused research and development. The aim has been to eliminate harmful substances as far as possible throughout the entire chain, from tobacco cultivation, through production using unique pasteurization processes, and onward to the refrigerated counters in the stores – a total quality concept that covers every stage.

SWEDISH MATCH SNUFF is in the process of becoming a distinctive product category for all snuff users who want to know »what they are putting in their mouths.« We are convinced that this could be a key competitive factor for future international expansion.

Sweden and Swedish Match are attracting increasing international attention for

their proactive stance in promoting smokeless alternatives, particularly snuff, that have significantly lower health risks than cigarettes, as well as refined forms of pleasure such as cigars. Here in Sweden in particular, it is becoming increasingly clear that, when it comes to the use of tobacco, we are part of the solution rather than part of the problem. Our policy has always been that tobacco is an adult product that should not be used by anyone under the age of 18.

In both the snuff and cigar areas, important preparations were made during the year for product launches and marketing campaigns – to which I will return shortly.

The third main task during the year was to complete our strategy for optimal use of capital, based on redemptions and buybacks of shares, and a healthy dividend. As you will recall, last year's annual general meeting approved a mandate for the repurchase of a maximum of 5 percent of the total shares outstanding. This proportion was subsequently increased to 10 percent by an extraordinary general meeting, at which it was also decided to cancel approximately 17.3 million of the repurchased shares. These measures, combined with a redemption program worth nearly 1 billion SEK and a dividend of nearly 540 MSEKI, meant that we returned some 2.4 billion SEK to shareholders during last year. In relative terms, this is one of the most far-reaching programs of its kind in Sweden and is, together with our operating strategies, one of the main reasons for the performance of our key ratios.

THIS BRINGS US TO THE NEW YEAR and the first quarter.

2001 began well for the Group. Sales increased by 28 percent, supported by a strong dollar that boosted sales figures by four percentage points. The acquired operations accounted for 15 percentage points of the increase, and all product areas reported higher sales figures. It was gratifying to note that organic growth was as high as 9 percent.

Operating income was up 18 percent, thanks primarily to the contributions from cigars, pipe tobacco, lighters and matches. Cigars showed a 94 percent increase in operating income – an excellent performance on a par with the 85 percent increase in sales. The major acquisitions in the US naturally come through in the figures, but markets showed overall growth in both North America and Europe.

Pipe tobacco sales also increase substantially when we consolidated the acqui-



Lennart Sundén, on the podium.

sition of BAT's pipe tobacco operations in South Africa during two of the period's three months. Sales increased by 18 percent and operating income by 20 percent during the quarter.

MATCHES PRODUCED a positive surprise. After several years of concern about profitability, the area showed a strong 76 percent increase in earnings on the back of a 9 percent increase in sales. For the past year, matches have been undergoing a restructuring program aimed at restoring the profit margin to at least 10 percent, and this level was reached during the quarter. We effected positive price changes in some markets, producing high margins that had a strong impact. This is not intended to detract from the message that an upturn is imminent in this area, but much work still remains to be done before we will be satisfied.

Restructuring of the Lighters division is now complete. Lighters had an operating margin of 11.5 percent during the quarter, and operating income rose strongly by 56 percent. Sales were up 26 percent and demand is increasing in some of our most important markets.

Snuff also showed solid growth, with an increase of 15 percent. The volume increase in the US continued at a high level, rising by 8 percent, while the volume increase in the Nordic region fell off to 4 percent.

Snuff takes pride of place in our major

»The redemption program worth nearly 1 billion SEK and a dividend of nearly 540 MSEKI, meant that we returned some 2.4 billion SEK to shareholders during last year.«



Olof Nordenfelt, devoted pipe smoker enjoyed the aroma of a South African pipe tobacco, demonstrated by Karin Karlsson and Karin Eriksson from Swedish Match.

→ THE SHARE BUYBACK PROGRAM also generated interest, including questions about the company's long-term objective for its capital structure.

»The reason we welcomed this new opportunity to repurchase and redeem shares is that it presents better potential to achieve an optimal degree of capital utilization«, Bernt Magnusson said. »During the 1970s and 1980s, when companies accumulated substantial cash reserves, these opportunities were not available. As a result, companies resorted to comprehensive diversification adventures with, as you all know, catastrophic results.«

»Today, we want to use available funds primarily for profitable acquisitions in our business areas«, added Lennart Sundén. »But we also want to optimize dividend payments to shareholders. By using some of our assets to repurchase shares in the company, we are increasing the level of earnings per outstanding share. We also know this creates a generally favorable effect on the share price.«

The long-term goal for capital utiliza-

tion is presented in greater detail in the Annual Report, Lennart Sundén also stated. The company is targeting an equity/assets ratio of 25–30 percent, with a debt/equity ratio not exceeding 100 percent.

Shareholders at the meeting voted unanimously to re-elect all members of the Board, namely Arne Bennborn, Jan Blomberg, Anders Lannebo, Bernt Magnusson, Lennart Sundén, Meg Tivéus and Klaus Unger. The employees' ordinary Board representatives are Kenneth Ek, of PTK (the Negotiation Cartel for Salaried Employees in the Private Business Sector), and Eva Larsson and Joakim Lindström, of LO (the Swedish Trade Union Confederation).

Nomination committee members Bernt Magnusson and Björn Franzon, of the 4th AP Fund, were re-elected. Elected as new members of the committee were Anders Ek, of Robur, and Lars Otterbeck, of SPP. □

focus on product development, product launches and market capture, which will result in increased costs being expensed against earnings during the year. As a consequence, the increase in operating income for snuff was limited to 2 percent. However, we are talking here about interesting investments, with considerable sales and profitability potential in the longer term.

ALL IN ALL, our operative measures during the first quarter and our program to optimize the company's capital structure yielded a healthy increase in earnings per share for shareholders – up 36 percent.

If we now turn our gaze to the future and the rest of this year, the strategies are already in place. We will continue to focus on developing synergies following our major acquisitions, as well as seeking suitable operations to acquire, pursuing the restructuring program in the match operations and focusing on increased organic growth – notably via an exciting program of product launches in various markets worldwide. We are continuing with the implementation of our financial strategies, pursuing our share buyback program so as to continuously optimize the use of capital for the best interests of shareholders.

Allow me to give some indications about what lies in store.

As you know, we have scored substantial successes with snuff in the US, where, within only a few years, we have built up a market share that today stands at 8 percent. This success is attributable to the Timber Wolf brand, improved market coverage and a stronger sales force.

Next month we will be venturing into the premium segment with the Sequoia brand, aimed at the US market. At the same time, we intend to continue with our efforts to cultivate the US snuff market on a broader front.

I am also pleased to be able to report today that we have begun our launch of portion-packaged snuff in India. We are starting with a limited campaign in Bombay, a city of some 15 million inhabitants in a country with a population of 1 billion. It

»It is now essentially clear that the misleading cancer warning on snuff cans that was mandated by the EU, will now disappear.«

is a totally new product for this market, aimed primarily at the same consumer group that is giving up cigarettes in favor of snuff in Sweden – that is to say a modern and aware middle-class group. Progress will undoubtedly take some time, but Swedish Match has a long-term approach.

I can also report that we are engaged in a small-scale experiment aimed at creating a snuff market in Moscow. Test sales have been initiated in 60 stores in the Russian capital. However, I must emphasize that caution is the watchword – we are talking about test sales at this stage.

Here in Sweden, we are continuing to differentiate and refine the range of snuff products, with a special focus on people who are highly motivated to give up cigarette smoking. We are strengthening our competitiveness by building a new production plant.

IN THE CIGAR AREA, the premium American brands are opening up many expansion opportunities for us in other parts of the world. Macanudo, the biggest-selling premium cigar in the US and the world, will be the focus of a strengthened marketing campaign in Europe. Several of the high-quality brands in the General Cigar portfolio have a potential that has not yet been exploited outside the US.

These were a few examples of the product development program we shall now continue to pursue.

For a number of years, Swedish Match has displayed a high degree of stability as successive business cycles give way to each other. It is simply the case that economic trends have a minimal effect on demand for our products, which is yet another source of strength for the Swedish Match share.



Barbro Nordlund from the Marketing & Sales department introduced Borkum Riff tobacco to Jan Tullsten and Lars-Inge Svensson.

Against this background, we take a positive view of the development potential for the company during the current year.

It is now essentially clear that the misleading cancer warning on snuff cans that was mandated by the EU, will now disappear. We are convinced that this is a first step toward the lifting of the ban on snuff within the EU. In Sweden, snuff has contributed to a reduction in smoking, which has been welcomed by most people. It is simply unreasonable to deny this same opportunity to cigarette smokers in other European countries, and we are continuing with our efforts to widen understanding of this situation.

In closing, I would like to express my thanks to our shareholders for the interest and confidence they have shown in us. We will do our utmost to justify this confidence during the period from now until we meet again in a year's time.

Thank you. □



Ambitious objectives for website

SWEDISH MATCH'S WEBSITE is one of the company's most important channels for financial information. Since the aim is to make it even better and easier for shareholders to use, development is ongoing and new services are being added continuously.

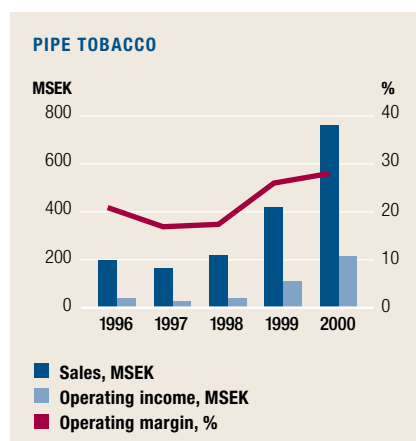
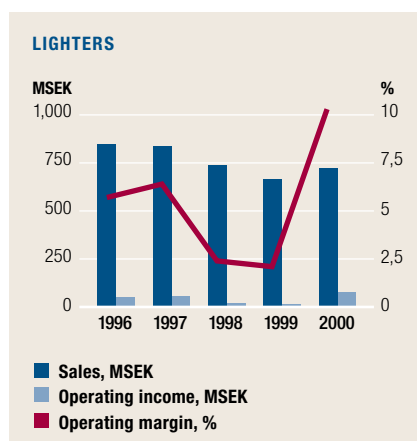
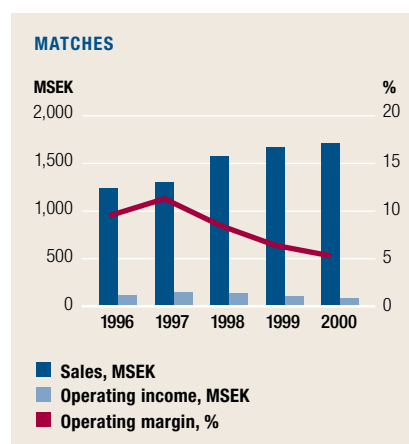
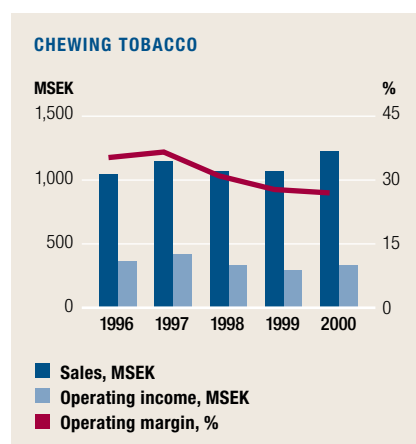
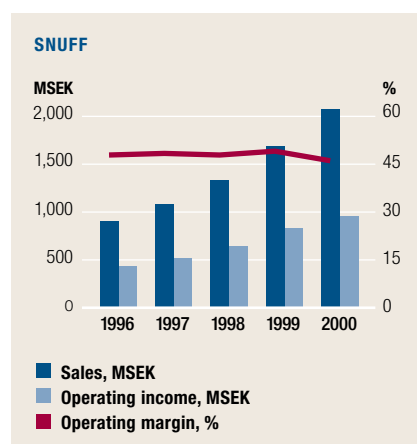
»We are already getting around 30,000 visitors per month, 70 percent of them from outside Sweden«, says Annette Kaunitz, who is responsible for website content at Swedish Match. »But of course we want to be even better and reach considerably more users with up-to-date material – particularly our shareholders.«

THIS MEANS THAT IT will be possible this year to follow the CEO's address to the annual general meeting on video as from April 25, the day after the meeting. It has been possible for the past three years to apply to take part via the website, and naturally this will continue to be the case in future.

The projects currently under way to further enhance the usability of the website include enabling users to have course information sent to their e-mail address or via SMS, as well as an »alert« function for the various events included in the website calendar – for example, the publication of financial reports, sponsorship activities and telephone conferences. Users will also be able to get press releases sent to them via e-mail or SMS.

»We are determined to look to the future and be at the cutting edge of new developments – we want to ensure that our stakeholders and shareholders know that the Swedish Match website is the place where they can always quickly find relevant information about the company«, concludes Annette.

Striking successes during 2000



THE CLICK MINI-POUCH

»The smarter choice«



VICTOR BROTT / FOTOGRAFIER AB

This was the slogan when Swedish Match launched its snuff marketing campaign in India. Bombay is the chosen marketplace – a mini-universe in itself, with 17 million inhabitants, where some 5,000 sales outlets are to be stocked with cans of snuff. But so far it is only a test launch.

An old saying declares that one should first set foot on Indian soil either from the Khyber Pass in the northwest or via the Gate of India in Bombay.

Swedish Match chose Bombay, the second largest city in Asia, sometimes known as Bollywood, since more movies are made here than in any other city in the world. Bombay is the stamping ground for many trend-setters – well-known actors, directors, authors

and other celebrities. It is also the heartland of the nation's modern industrial and commercial activity, with financial markets and IT companies, and numerous head offices of companies and banks. Purchasing power here is the highest in the country. The city recently changed its name to the more Indian-sounding Mumbai.

»We chose Bombay as our first market«, says Walter Barolo, head of the department within the North Europe Division that is responsible for develop-

Sequoia – new snuff brand in the US



Swedish Match is now focusing its full force on the American premium market for moist snuff. With the new Sequoia brand, scheduled for launch in the spring, the company intends to strengthen its position as the market's leading producer of smokeless tobacco products. In the value price segment, Swedish Match is already the market leader on the strength of its Timber Wolf loose-weight snuff brand.

Sequoia, which will be produced with two aromas, Cinnamon Ice and Mountain Cider, was developed after extensive consumer surveys in the American market, explains

Lennart Freeman, President of Swedish Match North America.

»Timber Wolf, which was introduced in 1994–95, has been a huge success – one of the most successful launches ever.

in Bombay

»Swedish Match's sales campaign in India is aimed at people with an urban lifestyle who are seeking a smarter alternative to cigarettes.«

ment and test launches. »The market surveys we performed indicated a strong consumer interest in a smokeless tobacco alternative – primarily to cigarettes.

»The product we are launching is Click portion-packed moist snuff with a eucalyptus taste – the same product that is marketed as CatchDry in Sweden«, continues Walter. »Catch was less suitable as a brand name, since it is already well known as a mineral water and salt brand in India.«

CLICK WILL BE SOLD in small cans a few centimeters in diameter containing ten portion-packed pouches, and in a mini-package containing two portion-packed pouches.

Swedish Match has been conducting market surveys in India since 1998. The project to find promising snuff markets outside Sweden began with a survey of potential markets and included close examination of such factors as political and economic stability, tobacco consumption and distribution possibilities.

»It is my impression that there are many cigarette smokers in India who have a positive attitude to smokeless tobacco alternatives«, says Biswaroop Mukherjee, president of the Group company that markets smokeless tobacco products in India.



Swedish Match is targeting its campaign to smokers in the age range from 20–45 years, with good purchasing power and a modern lifestyle, which is to say the same target group that has largely underpinned the Group's snuff successes in northern Europe and the US – people with urban lifestyles who are seeking smarter alternatives to cigarettes.

Anyone who has been in Bombay, or any major Indian city for that matter, will quickly realize that Swedish Match has a major distribution problem to solve. A walk through this teeming metropolis reveals a total absence of western-style supermarkets, food stores or tobacco shops. On the other hand, there are small open kiosks on virtually every street corner, with bundles of cigarettes dangling from cords. Whenever the fancy takes them, passers-by stop, proffer a rupee and purchase a loose cigarette.



In India, tobacco products are distributed via a kiosk such as this. They are a common feature of the Bombay street scene and are usually located where the largest numbers of customers are gathered – at street intersections and outside restaurants and railway stations.

A SPECIAL FOCUS is currently being placed on distribution and training. Shops will receive daily deliveries of cans of snuff from wholesalers and the distributor's workforce of bicycle-borne delivery workers.

It will be a considerable task to teach the Indians to handle the portion-packed pouches correctly. Sales representatives dressed in green uniforms will train the retailers. It is important not to underestimate the difficulties. □

The fact that we are now moving into the premium market, a segment in which we have not been represented in the past, is completely in line with our goal to become the leading company in the entire smokeless market. It's a matter of finding gaps in different segments where we can provide new consumer groups with new products«, he adds.

SEQUOIA IS THE RESULT of meticulous development and analytical work, both in terms of taste, consistency and design. The established snuff market in the US is highly traditional. Sequoia is aimed at an active urban public. The weighting has focused on presenting something that feels new and different, without departing too far from market traditions. Sequoia is a »long cut« variety of loose-weight snuff, which has certain

similarities with portion-packed snuff.

The aromas are highly distinctive, however, resulting from extensive consumer tests, according to Ed Golden, Vice President Marketing.

»Cinnamon Ice is a taste combination that contains a hint of both hot and cold, while Mountain Cider has a milder, rounder apple flavor.«

The products also have distinctively different packaging designs, with colors that match the aromas. Black is otherwise the dominant color of most snuff cans in the US. The cans also have screw-on caps, which makes them easier to open, while also improving the product's keeping qualities.

Sequoia will be available to consumers as from May 15, but market rollout has already begun among dis-

tributors and retailers, according to Mark Whitfield, Vice President of New Products.

»Constantly working in close cooperation with the retail trade is part of our mode of business operations. Retail considerations are included in the entire planning process, and in the future, we will provide retailers with relevant market information about how the products are performing. We can also provide them with good advice on exposure, which products they should eliminate and which products they should be selling instead, for example.«

As a result of the company's approach to retail partnerships, Lennart Freeman and Swedish Match were recently named the winners of this year's highly prestigious »Captain of the Year« award. The prize is awarded annually by the Pennsylvania Distributors' Association. □



Lennart Freeman.



NEW LAUNCH

Probe now available as moist snuff

ANOTHER NEW LAUNCH in Swedish Match's range of snuff products will take place in June. This time it's the whisky-flavored portion-packed snuff called Probe, which will be complemented with a loose-weight version. Both products, however, will retain Probe's characteristic taste. The packaging will take on a completely new design, however, including the portion-packed version.

»Our consumers wanted a loose-weight version of Probe,« says Anna-Karin Karlsson, Brand Manager for Probe. »Many people feel that loose-weight snuff is the more genuine article. They think it provides a stronger taste experience and a more traditional snuff sensation.«

On the one hand, Probe has its loyal band of consumers. On the other hand, it is also a product that many people use when they want to try something different, for a festive occasion, for example, or after a good meal.

The latter factor has also been recognized in the new design, which corresponds more accurately with the brand image. The new design projects a sober impression. It sends a signal that Probe is a product for people with refined tastes, says Anna-Karin Karlsson.

The investment in a new loose-weight snuff product might seem to go against the trend characterized by increasing consumption of portion-packed snuff.

»It's true that portion-packed snuff is showing strong growth,« says Anna-Karin Karlsson. »During recent years, the trend has been complemented by increased sales of loose-weight snuff. There is also a large group of consumers who use both products, portion-packed snuff at work and loose-weight snuff in their leisure time. These are some of the wishes of our consumers that we are trying to meet by also providing Probe as a loose-weight product.«

New appointments

STEFAN VAN DER LAAN has joined the Group as legal counsel within Continental Europe. Van der Laan has a background in commercial law and worked most recently for DAS, a Dutch company active in legal and insurance advisory services. He has also worked for KPN Telecom.



THORBJÖRN ÅKESSON has been named plant manager of the Swedish Match snuff production plant in Gothenburg. He was employed previously by Volvo Cars.

HAROLD PRICE has been named vice president of Business Development and Strategic Planning in the North America Division. He



was previously in charge of sales and marketing. **DAN CARR** has been appointed vice president



Sales and **ED GOLDEN**, has been appointed vice president Marketing.



JOY EVERLY has been appointed human resources manager at the production plant in Owensboro, Kentucky.



Pipe smoker of the year...

Russ Abbot, who has been named »TV's funniest man« five times in Great Britain, can now add another award to his long list of merits. Before a crowd of more than 200 invited guests at the Savoy Hotel in London, he was recently named 2001's »Pipe Smoker of the Year.« Abbot has been a dedicated pipe smoker for many years. The »Pipe Smoker of the Year« prize has been awarded annually since 1964.



HELENA HALVARISSON/HH BILD

...and pipe champion of the year

The pipe-smoking championship of Spain was held recently in Barcelona, sponsored by Borkum Riff. The winner smoked for an hour and a half, which was 30 minutes more than last year's champion. About 80 people took part in the contest, with all contestants smoking Borkum Riff Vanilla Cavendish. The world record for uninterrupted pipe smoking is three hours.

Gem of a museum for tobacco historians

Now that summer and the vacation season are almost upon us, it may be an opportune time to start considering suitable activities to include in your program. For anyone interested in tobacco and matches, the Gubbhyllan museum at Skansen in Stockholm is an unmissable gem.

The Tobacco and Match Museum, to give it the name it bears today, is located immediately outside the entrance to the Skansen Heritage Park in Stockholm. Visitors are greeted by inviting verandas that lead them into the authentic interior of an historic inn. The building also houses the Ljunglöf Gallery, dedicated to the legendary snuff maker Knut Ljunglöf.

THE GROUND FLOOR is still occupied by a café and a shop selling the museum's own products. How you choose to organize your visit is obviously a matter of personal preference, but the truly inquisitive visitor will perhaps first wish to take a tour of the building to study and admire the extensive collections dedicated to the history of tobacco, matches and lighters, and thereby delight in a genuine piece of traditional Swedish industrial history.

Among the treasures in the building's cellar is one of the world's oldest functioning cigarette machines, on which the popular postwar cigarette brand Robin Hood is still produced. Moist snuff is also packaged here in cartridges for sale to museum visitors.

DIFFERENT ROOMS on the upper floors are devoted to virtually all aspects of tobacco culture: snuffboxes ranging from the elegant to the simple and practical, snuff and tobacco jars, cigars and accessories, matches and lighters of various kinds, ashtrays, splendid meer-



Museum supervisor Robert Björk, together with one of the museum's wooden North American Indian figures, welcomes visitors to the »Gubbhyllan« museum at Skansen. The clay pipe was made by the museum's own pipe-maker, Arne Åkerhagen, one of the few people in the world who is still a master of the pipe-making art.

schaum pipes from all epochs, and, last but not least, the world's largest object made from matches – a bureau painstakingly constructed from 227,000 matches during the years 1948–1951. There is also a small room dedicated as a memorial to Ivar Kreuger, the Swedish match king.

THE MUSEUM IS OPEN DAILY, but visitors wanting to see manufacturing in progress are best advised to come on a Sunday, since Sundays are arts and crafts days at Skansen. □



Among the many treasures on display in the museum are parts of one of the largest hoards of clay pipes ever discovered. The 300,000 pipes were found in 1984 during excavations at Slussen in Stockholm. They were all made by Olof Forsberg, who had a pipe-making factory not far from Slussen during the years from 1739 to 1759.

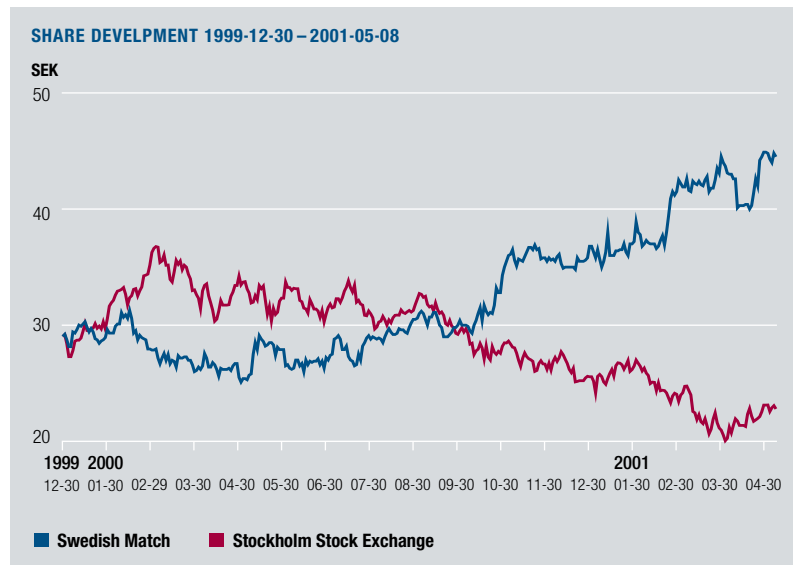
Museum curator Inga Junhem enjoys a good cigar and a glass of punch in the company of the venerable gentlemen in the authentically decorated smoking room from the 1880s. The building as a whole was originally an inn, and the name »Gubbhyllan« derives from the elderly gents who, in the good old days, would sit on the verandas surrounding the house to drink punch and smoke cigars.

Swedish Match share price continues to rise

The Swedish Match share performed favorably at the beginning of 2001. After starting the year at SEK 36.50, the share price climbed to SEK 42 (April 24), which amounts to a price rise of 15 percent. During the corresponding period, the Stockholm Exchange index declined by 14 percent and the Nasdaq exchange (on which Swedish Match's American Depository Receipts are listed) declined by 17 percent.

The early part of 2001 was marked by a continuation of the trend that prevailed at the close of 2000, namely an ongoing decline for the growth companies, primarily in the IT and telecom sectors, that had previously been so highly rated. On average, IT companies have lost one third of their market value since the beginning of the year, and companies in the engineering sector have also started the year on a gloomy note.

The period was dominated by fears of a dramatic slump in the US economy, which prompted the Federal Reserve to lower its key interest rate no fewer than four times, reducing it by two percentage points altogether. It remains to be seen whether this will be sufficient to achieve a soft landing for the US economy and pave the way for an upturn later in the year. The majority of analysts have revised their growth forecasts for 2001 downward, although there are few who believe



that a genuine recession is in prospect.

With its stable earnings capacity and favorable cash flow, Swedish Match is regarded as a safe share in turbulent times. Investor interest has been further encouraged by the fact that the company is not only stable but can also point to substantial growth. As the company's first-quarter report reveals, Swedish Match had sales growth of 28 percent for the period, of which roughly half was attributable to organic growth (including currency effects) and half to acquisitions.

A palpable interest in the Swedish Match share currently prevails among the professional players in the stock market, including investors outside Sweden.

As an example of investor confidence, the US investment bank Morgan Stanley, for which Swedish Match has long been a favorite share among tobacco-industry companies, has continued to recommend the share throughout the first quarter, setting a target price of SEK 52. □

Buybacks improve key ratios

Swedish Match's annual general meeting approved a decision to continue with the company's share buyback program. The meeting decided to give the Board of Directors a mandate to buy back a sufficient number of the company's own shares to bring its shareholding up to a maximum of 10 percent of the shares outstanding in the company. The program was made possible by the new law on share buybacks passed by the Swedish Parliament last year. The buybacks are a way of improving Swedish Match's capital structure and making it easier for the company to achieve its financial objectives.

SWEDISH MATCH HAD ALREADY repurchased approximately 10 percent of its own shares, in accordance with decisions approved at the annual general meeting for year 2000 and at an extraordinary general meeting held in October 2000. The company also redeemed shares from its shareholders during last year. Some 17 million of the repurchased shares were canceled in accordance with a previous AGM decision. The AGM for 2001 approved a decision to cancel an additional 15 million shares. The combined effect of redemptions and buybacks will be a reduction of the total number of shares in Swedish Match from more than 430 million at the beginning of 2000 to 371

million after the AGM for 2001. The new mandate authorizes the Board of Directors to acquire a maximum of 37 million additional shares.

THE REDUCTION in the number of shares outstanding will improve the company's financial key ratios, such as earnings per share, since its total earnings will now be spread over fewer shares. This effect was evident in the consolidated accounts for the first quarter of 2001. Group operating income increased by approximately 18 percent,

compared with the same period last year, but due to the reduction in the total number of shares, earnings per share improved by a full 36 percent.

At this year's annual general meeting, CEO Lennart Sundén noted that Swedish Match's program for returning capital to the company's shareholders, through share buybacks, dividends and the redemptions already implemented, is one of the most forceful programs of its kind ever effected in Sweden. Last year, a total of SEK 2.4 billion was returned by the company to the stock market. □

Exalt a new alternative for smokers

SWEDISH MATCH PLANNED to test market a new smoker's alternative product in the United States. The New Exalt Tobacco Packets provide a smokeless alternative for cigarette smokers when they cannot, or choose not, to smoke.

»Exalt is the beginning of a new category«, said Lennart Sundén, President and CEO of Swedish Match. »Exalt Tobacco Packets build upon our experience of over 30 years manufacturing tobacco products with the Swedish process. This unique manufacturing standard, branded Gothia-

Tek®, delivers a positive alternative to cigarette smokers. We are excited to lead the development of a new smoker's alternative category with the introduction of Exalt«, he said.

The GothiaTek standard works towards eliminating or reducing the elements in tobacco that have been identified by the scientific community as controversial as well as yielding a product of the highest quality. Exalt Tobacco Packets are the first product in the U.S. with this distinction. □

New sailing trophy

The Swedish Match Grand Prix Sailing Tour has entered a program of cooperation with Waterford Wedgwood Ltd for production of the winner's trophy for the Tour. It will be 30 cm tall and adorned with 22-carat gilding. The second and third place prizes will also be produced by Wedgwood, as well as plaques that will be presented as mementos to all participants.

The Tour comes to Europe

In May it will be Europe's turn to enjoy the excitement of the Swedish Match Grand Prix Sailing Tour. The first competition is scheduled to take place in Split, Croatia, from May 24-30, after which the Tour moves on to Lake Constance for the next race series, from May 31-June 4. Finally, from July 2-8, it is time for the classic regatta in Marstrand, on Sweden's west coast. The Tour, which spans the entire globe, is one of the world's leading professional sailing competitions, with a number of high-profile competitors. For more information about the Tour, visit www.swedishmatchgp.com.

New environmental certificates

The cigar production plants in Houthalen and Overpelt, both in Belgium, have been certified in accordance with ISO 14001. The lighter factory in Assen, in the Netherlands, has also received its certification. Four production units of Swedish Match are now certified in accordance with ISO 14001. The first was the plant in Owensboro, Kentucky.



New »heavyweight« from El Credito Cigars

El Credito Cigars, acquired by Swedish Match in 1999, recently launched a cigar – Serie R. Classified as a »robusto« cigar, Serie R is a large, imposing cigar with a stronger and tighter taste than La Gloria Cubana, El Credito's biggest seller.

Serie R cigars are hand-made using tobacco from the Dominican Republic and Nicaragua and wrappers from Honduras. The product is marketed in three sizes at competitive prices that provide good value for money.

Ernesto Perez-Carillo, a legendary figure in the world of cigars, is the man behind Serie R. He represents the second generation of a Cuban cigar family now residing in Miami. »I wanted to create a Dominican cigar with a Cuban soul, based on the best tobacco money can buy«, he says.

Ernesto Perez-Carillo developed one of the finest cigar companies in the US, its success actually based on a single cigar, La Gloria Cubana. When the market discovered the rich-tasting and slightly spicy cigar in the early 1990s, Perez-Carillo owned a small cigar factory in Miami. Sales increased from 500,000 cigars in 1990 to nearly 5 million annually at the end of the 1990s. Today, his cigars are also made in the Dominican Republic, and La Gloria Cubana is one of the most prestigious brands in the Swedish Match cigar collection.

From the trenches to luxurious pleasure

During the First World War, Alfred Dunhill's pipes and tobacco became a source of solace and comfort for officers in the trenches. Today, the brand still stands for tobacco enjoyment in the luxury class, although fashion items for gentlemen dominate the product portfolio. The shop in London is well worth a visit, particularly since it boasts the finest humidors in the world.

Throughout most of the 1900s, Alfred Dunhill was unchallenged as the leading brand of luxury tobacco products in Europe and the US. Dunhill's range of pipes and pipe tobacco was the perfect match for the American and Continental dream of wainscot-paneled men's clubs and gentlemen in leather armchairs, reading *The Times* amid a fragrant cloud of smoke.

THIS SYNONYM OF »British club life« is owned today by Richemont of Switzerland, one of the world's most prominent concerns for luxury brands, including names such as Cartier, Piaget and Montblanc. Since the 1970s, the Dunhill brand has lent its many years of prestige to a complete line of luxury products for men, ranging from clothing to eau-de-cologne.

Alfred Dunhill probably never imagined this evolution when he embarked on a

business career under his own name in 1893 by selling – car accessories. In 1907, he changed course and established himself as a pipe-maker and tobacco blender.

Business started to improve, and the definitive breakthrough came with the First World War. Friends and customers took their pipes and tobacco into the trenches, where smoking, especially pipe smoking, became a requisite source of comfort and a pastime for officers. Alfred Dunhill sent large shipments that were distributed on the front lines, and smoking Dunhill soon became the »in« thing.

Success was followed by more success in the 1920s, with exports to both New York and Paris, and a stock market listing as early as 1928. But the family never relinquished control, with Alfred's son Herbert succeeding his father and remaining as Managing Director of the company until his death in 1950.

Cigars were brought at an early stage of business development into the main shop, which has been situated since 1907 at the corner of St. James's and Duke Street, in the heart of London's luxury shopping area, near Piccadilly. The building was bombed by the German Luftwaffe during World War Two, and Churchill – who had many suppliers – telephoned in great concern to ask how his beloved cigars had survived the attack.

The shop underwent a comprehensive



Pipe-smoking became a comfort and a pastime in the trenches during World War I.

restoration in 1997, and, as a sign of the times, cigars and tobacco were moved to the second floor.

When customers visit the second floor, however, they are treated to a beautiful sight, one of the world's most magnificent humidors, in terms of both content and technology. It was Alfred himself who thought of and introduced the »tempered cigar room« in the 1920s. In those days, it was a complicated system comprising three stages: the Maturing Room, the Keeping Room and the Humidor, nowadays all contained in a single unit. It offers everything, absolutely everything, in quality cigars.

CONCEALED BEHIND the beautiful and massive wrought-iron gates is another room, a private storage room where customers with

numbered boxes keep their cigars for perfect aging. Nearly 100,000 cigars lie there waiting for their owners. Customers who buy 10 cigar boxes are entitled to their own anonymous box.

The next time you go to London, a visit to the Dunhill shop is time well spent. If for no other reason than to take a short rest in the extremely comfortable chairs on the second floor and leaf through beautiful magazines and the company's elegant corporate history book, which features a host of pictures from Dunhill's illustrious past and present. Memorabilia can also be viewed, such as the large standard boxes made of cedarwood, which contained no fewer than 10,000 cigars. And naturally, you are welcome to light up and enjoy a fine cigar. □



Dunhill stand for tobacco pleasure in the luxury class.

SWEDISH MATCH IN BRIEF

Swedish Match is an international group specializing in niche tobacco products, OTP (Other Tobacco Products), as well as matches and lighters. The Group's products are manufactured in 26 plants located in 15 countries and are sold in 180 countries. During 1999, the average number of employees was 11,797. The Swedish Match share is listed on the OM Stockholm Exchange (SWMA) and on NASDAQ (SWMAY) in the form of American Depositary Receipts.

Smokeless tobacco

Smokeless tobacco operations include snuff and chewing tobacco and account for 31 percent of Group sales.



MARKET POSITION

Snuff: Leader in the Nordic region and South Africa. Third largest player in North America.
Chewing tobacco: Leader in North America

Brown tobacco

Brown tobacco operations include cigars and pipe tobacco and account for 22 percent of Group Sales.



MARKET POSITION

Cigars: The world's second largest cigar company.
Pipe tobacco: One of the world's major players in the pipe tobacco area.

Matches and Lighters

Operations relating to matches and lighters account for 27 percent of Group sales.



MARKET POSITION

Matches: The world's only global match company.
Lighters: One of the world's three largest producers.

KEY FIGURES

MSEK	2000	1999
Net sales	11,533	9,420
Operating income	1,886	1,689
Operating income before depreciation	2,429	5,777*
Net income	1,153	4,656
Income per share after tax, SEK	2:78	2:26
Dividend per share, SEK	1:35	1:25
Return on shareholder's equity, %	21.8	115.0

* Includes 3,707 MSEK in capital gain etc.

☆☆☆
SWEDISH MATCH