

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

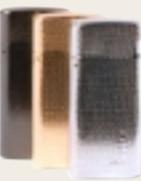
#3 november 2000



Draft legislation withdrawn

The draft legislation banning tobacco advertising presented by the EU Council of Ministers has been rejected. The European Court of Justice rejected the arguments behind the directive. As a direct consequence of the ruling, the Swedish Government will have to withdraw its proposal for a ban on indirect tobacco advertising. For Swedish Match, this means unchanged conditions for Swedish Match in the European markets. **Page 6**

"Both life and career are great adventures"



So says Peter Nilsson, whose leadership was responsible for reversing the trend for the Group's former problem child, lighters. Meet Peter Nilsson, one of Swedish Match's young and hungry managers, in a topical profile. **Page 2-3**

Snuff popular in IT companies

Snuff is gaining ground at the expense of cigarettes – a consumer trend that benefits Swedish Match. It is interesting that snuff is proving popular with new user categories, particularly employees in "New Economy" companies. Swedish Match Inside reveals the latest figures confirming the trend. **Page 8**

"Snuff ban to be lifted"

The ban on the sale of snuff within the EU is expected to be lifted by 2004. This is the prediction at Swedish Match following recent developments concerning the issue. The EU is in the process of altering the warning texts on snuff cans. The next stage is total removal of the ban, which could open up new markets to the highly successful Swedish product. **Page 6**

Buyback program

A special general meeting of Swedish Match has approved the Board's proposal to expand the Group's share buyback program. The Group can now buy back up to 10 percent of its share capital, in addition to the program just concluded.



"We currently have more funds in reserve than we need," says Group CFO Sven Hindrikes. **Page 7**



BETH A KEISER/PRESSSENS BILD

SWEDISH MATCH RIDES OUT MARKET STORM:

Stable amid chaos

Swedish Match is among those companies that coped best with the autumn's bull market. While IT shares plunged, Match's share price climbed higher. At a recent seminar in New York, Group management met analysts who monitor the industry. Some of them reveal to Swedish Match Inside how they scrutinize a company. **Page 4-5 and 7**



JOHAN FRICK-MEIJER/LUCKY LOOK

New major investment in snuff

NOVEMBER MARKS THE LAUNCH of Swedish Match GothiaTek as a quality hallmark for Swedish snuff.

"GothiaTek will give consumers a clear signal about the product they are enjoying in their mouth – a signal of total quality and reliability," says Stefan Gelkner, in charge of the North Europe Division, and the man behind the New GothiaTek approach.

Development and quality programs over the past 25 years have created a unique product based on selected raw materials, unique processes and, hence, unique quality. Swedish snuff is in fact set to become a product category in its own right.



Swedish snuff – the hallmark of excellence!

Swedish Match is investing SEK 500 M in a new snuff plant in Gothenburg. **Page 5**

Surge in sales and earnings

SWEDISH MATCH REPORTED a strong third quarter. Both sales and earnings advanced sharply. Reported earnings of SEK 500 M approached the quarterly record. The star performer was snuff, but there are several other positive features in the report, including the lighter operation robust recovery. Overall, fiscal 2000 has proved very positive for the Group, which is now beginning to reap the benefits of the streamlining strategy implemented under CEO Lennart Sundén. Earnings fulfilled market expectations. **Page 2-3**



Dear shareholder!

Welcome to our shareholder publication which, effective with this number, is appearing under a new name - Inside - and in a fresh new format. The special effort we are focusing on Inside reflects our ambition to provide you with pertinent, interesting information about Swedish Match Group operations, and related issues, on a regular basis.

The product you are holding in your hands is by no means a small one. Slightly more than 100,000 copies are being printed and the publication is being distributed, in Swedish and English, to all shareholders. It is issued four times a year in conjunction with our financial reporting. We hope in this way to be able to offer a good picture of the Group's financial development, our strategies and the position our products occupy in the marketplace.

Professional communication dealing with our financial development is of strategic value to Swedish Match. Our shares are among Sweden's most widely distributed securities. We are listed on the OM Stockholm Exchange and on the NASDAQ exchange in the United States, and the Group is analyzed regularly by some of the world's foremost banks and brokerage firms. As a result we have a responsibility to keep financial analysts and other interested parties informed about Swedish Match in the most professional manner possible within the frameworks and norms of the various marketplaces. This issue will show how this is being done.

I hope that you will appreciate the opportunity to read Inside and that you will share management's pleasure that the business is doing well and that the strategies we have adopted are proving successful. The trend of earnings is continuing to improve.

I and my associates in Swedish Match's management plan to continue the dialog with our shareholders through this publication and in other ways. We welcome questions and viewpoints from all of the readers of Inside.

Lennart Sundén CEO

Swedish Match Inside is a magazine for Swedish Match shareholders and other stakeholders. The print run is 100,000 copies of the Swedish version and 5,000 copies of the English version.

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☆☆☆
SWEDISH MATCH

SWEDISH MATCH 9 MONTHS 2000:

Profits reach

Swedish Match had a strong third quarter. "Operating income of SEK 500 M is one of the best results the Group has ever achieved for a single quarter", says CFO Sven Hindrikes with satisfaction.

Now the effects of the streamlining strategy that was presented at the beginning of last year are becoming increasingly apparent. The good result will benefit the shareholders of Swedish Match in several ways.



Sven Hindrikes is pleased with the earnings trend.

Acquisitions in the cigar segment combined with organic growth for snuff are the factors underlying the good result. The Dingler pipe tobacco company, acquired at the end of last year, has also developed very favorably.

Earnings per share for the third quarter amounted to SEK 0.75, compared with SEK 0.56 for the corresponding year-earlier period.

Combined with the results for the first two quarters, the third-quarter figure brings operating income for the first nine months of 2000 up to SEK 1,386 M, on sales of SEK 8,337 M. The operating margin amounts to 17 percent.

Sales increased by 22 percent and operating income by 7 percent during

the period. Excluding the results of divested operations, earnings increased by 34 percent.

"The figures are very gratifying and show a healthy stability in both sales and earnings," comments Sven Hindrikes.

SNUFF CONTINUES TO develop favorably, with a 26-percent increase in sales during the first nine months of the year. Snuff is the Group's real star performer, accounting for nearly 20 percent of Group sales and fully 50 percent of earnings.

"We are particularly pleased with the strong increase in volumes in Northern Europe - 8 percent for the year to date," says Hindrikes. "Such a high rate of increase clearly exceeds the historical trend of 5 percent per year. We have continued to gain market shares in the

US and the volume increase, in terms of the number of cans sold, amounts to 21 percent.

"Since we are investing more in product development this year, we expect the pace of growth to increase still further. A new snuff product, Catch Eucalyptus, was launched in Northern Europe at the beginning of the year, for example."

CHEWING TOBACCO IS also showing a healthy 13-percent increase in sales, due to the increasing strength of the dollar combined with higher invoicing in local currency. Swedish Match has a strong position in the US chewing tobacco market, spearheaded by Red Man, the leading brand.

The largest sales gain this year is claimed by cigars, with an impressive

PETER NILSSON, NEW PRESIDENT FOR CONTINENTAL EUROPE:

"Difficulties exists to be overcome"

"THE ONLY PROBLEM with advancing in your career is that it becomes more difficult to obtain correct information at an early stage," observes Peter Nilsson, President of Swedish Match's Continental Europe Division, into which the Lighter Division was recently incorporated. In all other respects, he is full of enthusiasm as he faces the challenge of a double top job.

"But I've noticed that the higher up the ladder you climb, the more energy you have to spend on simply remaining well informed. Earlier, I could just keep my ear to the ground and spend time exchanging ideas with colleagues. It's more difficult now. Any theories that I spin today are taken too seriously." By that he means that fewer people feel comfortable rejecting what he has to say. This, an increasingly common problem for senior executives, Nilsson

tackles with the same voracious appetite that he seems to have for everything else. His motto is that difficulties exist to be overcome. And the bigger the problem, the better.

IF HE WASN'T SO thoughtful, he might be seen as a somewhat impulsive person.

"Everything we do must be based on a true interpretation of reality," he says. So it is important to ensure that everyone realizes that employees with contrary views do not run the risk of any reprisals.

He certainly seems to have succeeded with this, at least in the Lighters division. At a recent management meeting, it was impressive to see how rapidly he took up counter-arguments. The discussions were to the point and without any emotionally charged undercurrents. Objectivity, the art of differentiating between facts and subjective notions,



"Both life and career are great adventures," says Peter Nilsson, new head of the Continental Europe Division.

appears to be another of his passions. And one that has served him well during his work in the Lighters Division.

The Division has been turned around during his time as President, from a loss-making business into profit. Naturally, the transformation has not been without a number of decisions that were unpleasant for those affected. Members of middle management have had to go. The French plant in Lyons has been closed.

"My conviction is that everyone must respect the analysis I made together with the management group; these measures were essential. On the other

record level

85-percent increase by volume. The rise is primarily attributable to the major acquisitions made by Swedish Match in the US, where the Group purchased both the machine-produced and premium cigar operations from General Cigar. Swedish Match is now the world's second-largest manufacturer of cigars.

Earnings for cigars rose by 60 percent during the first nine months of the year.

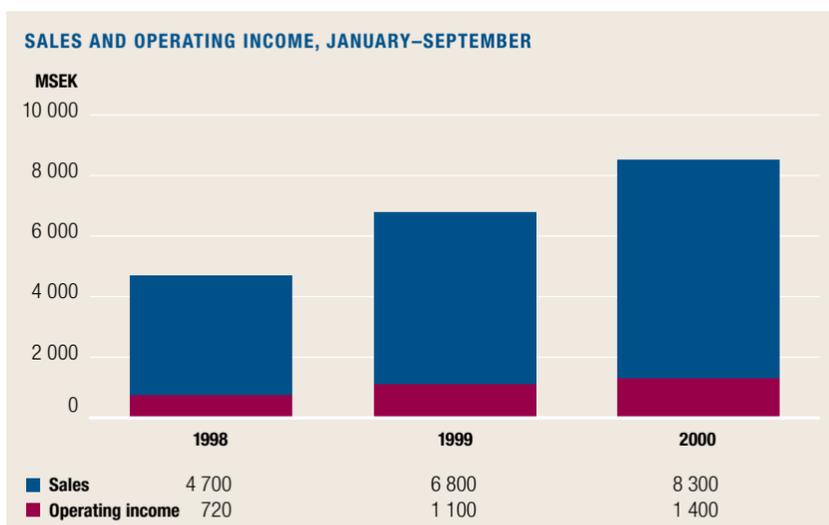
PIPE TOBACCO ALSO reported a strong increase in sales volumes – up by 170 percent – during the nine-month period, primarily due to the acquisition of the South African tobacco company Leonard Dingler last year. Earnings have also increased strongly for pipe tobacco.

Another source of satisfaction during the period was the continued improvement in the Lighter Division. What was previously a problem area is now reporting strongly increased earnings for the year to date.

THE ONLY AREA within the group that is not producing satisfactory results is matches. Extensive restructuring is in progress in this area, according to Sven Hindrikes.

Hindrikes views the future with optimism:

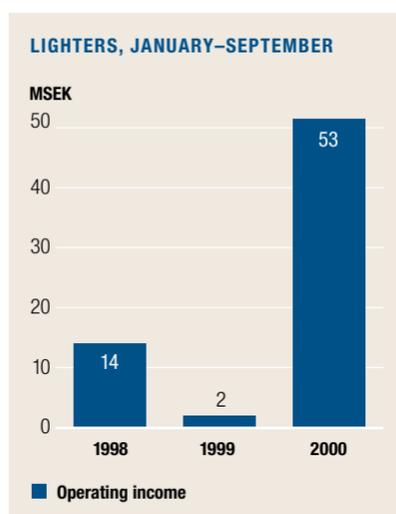
“With this report we have taken a big step toward realizing our financial objectives, which include a continuing improvement in earnings and an optimized balance sheet. The result will greatly benefit the shareholders,” concludes the Chief Financial Officer. (See also article on page 7.) □



	SALES MSEK			OPERATING INCOME MSEK		
	Jan–Sept 2000	Jan–Sept 1999	Change %	Jan–Sept 2000	Jan–Sept 1999	Change %
Snus&Snuff	1 519	1 208	26	704	607	16
Chewing tobacco	911	809	13	244	224	9
Cigars	1 847	1 001	85	243	151	61
Pipe Tobacco & Accessories	562	208	170	159	50	218
Matches	1 234	1 255	–2	67	93	–28
Lighters	519	508	2	53	2	
Other	1 745	1 140		(84)	(91)	
Subtotal	8 337	6 129		1 386	1 036	34
Divested business		729			255	
Items aff comp					4 102	
Total	8 337	6 858	22	1 386	5 393	–74

hand, I don't expect anyone to welcome such decisions. In fact, it's OK to dislike them.” Respect is important to Peter Nilsson. Winning the respect of colleagues is what drives him.

“It is also my weakness; I feel it if I don't gain their respect.”



The once problematic lighter division has been turned around during Peter Nilsson's time as President, from a loss-making business into profit. A good proof of this development is the division's profit the first nine months this year, SEK 53 M compared to only SEK 2 M the same period last year. The lighter division is now a part of the larger division for Continental Europe, with Nilsson as its new President.

ON THE OTHER HAND, he claims that he can cope with failure. That is part of life, of the adventure, as he sees it.

Peter Nilsson was born and raised in Gothenburg. His father is an organizational consultant and economist. His mother is a nurse.

As a young man, he was active but not particularly purposeful. His decisions to train as a reserve officer and to go to the Stockholm School of Economics and Business Administration were decided by pure chance or the influence of friends. But his military service as a commando with a brigade in northern Sweden was no coincidence. He was there because he wanted to do something difficult, to respond to a challenge, an adventure.

And that is how he continued. He has lived and worked in the US, Switzerland and the Netherlands for Swedish Match. Both he and his wife regard their relocations as an adventure.

Peter Nilsson's first job at Swedish Match was as product manager for the Blend brand of cigarettes. In this role, he was the brain behind the Blend ashtray. He persuaded the Pripps brewing group to distribute 11 million ashtrays as part of its own range of promotional items.

Eventually, Swedish Match assumed

this marketing responsibility, with wall clocks, signs and designer ashtrays. But it was the product manager who convinced everyone about the concept. Armed with a large case on wheels, he personally visited Stockholm's restaurants. The results achieved made an impression on corporate management and these promotional activities continued until Swedish Match sold the cigarette division.

Before joining Lighters, he found time to gain experience within both the snuff and cigar business areas. He has thus worked with virtually all of the Group's operations. □

FACTS ABOUT PETER NILSSON:

Name: Peter Nilsson.
Title: President of Continental Europe Division.
Age: 38.
Family: Wife and three children.
Resident: Eindhoven, Netherlands and Stocksund, outside Stockholm.
Leisure interests: Family and nature. Enjoys being outdoors as much as possible.

Analyst questions

Earnings for the first nine months of 2000 were in line with market expectations and somewhat better than the average of the forecasts compiled by the share analysts. The average earnings forecast was SEK 1,269 M after net financial items, while reported earnings amounted to SEK 1,277 M. Earnings before net financial items amounted to SEK 1,386 M.

During a telephone conference with analysts shortly after the nine-month report was published, Swedish Match management answered questions from analysts:

MICHAEL SMITH, MORGAN STANLEY:

“I would like to know how the legal situation looks in the US. Do you have any active lawsuits under way at present, or any that will come before the courts during the next few years?”

BO AULIN, CHIEF LEGAL COUNSEL:

“Yes, there are two cases in which we are named as defendant and where we might have to go to trial during the next few years. First in line is a case in West Virginia, directed at virtually all tobacco companies in the US, involving more than 1,000 damages claimants, all represented by a single law firm. The case is almost entirely concerned with cigarettes and we are affected only concerning a few claims. We are peripherally involved, so to speak, and we do not yet know whether we will be involved in the legal proceedings in the end. We expect to find out during the coming year, but apart from that, there is nothing coming up during 2001 as far as we can see now. Another case is pending in Minnesota but that is even further down the road; it may reach the courts during 2002.”

IAN SCOTT, CSFB:

“I would like to know what is behind the margins trend for snuff. I would also like to know more about General Cigar's contribution to earnings.”

LENNART SUNDÉN:

“Margins were high during the third quarter of last year. They are at more normal levels this year. Regarding your other question, that is something we are not prepared to reveal, but it is naturally included in the total.”

JOHAN STÅHL, CARNEGIE:

“How are sales of pipe tobacco affected by large individual deliveries? Is it correct to assume that the average quarterly figure is less than SEK 200 M? I also wonder if the legal costs related to the purchase of National Tobacco's chewing-tobacco operations will continue to be charged against profits in the future.”

LENNART SUNDÉN:

“Yes, it is the case that large individual deliveries are sometimes made to our major customers in Europe, and these can produce misleading figures in the short term. Several such deliveries occurred during September, but it may turn out that nothing on the same scale happens during October.”

SVEN HINDRIKES, CFO:

“As far as the costs for legal proceedings are concerned, we have already tried to anticipate them. No additional legal expenses should arise during the fourth quarter.”

JONATHAN FELL, MERRILL LYNCH:

“One of your competitors, US Tobacco, has spoken of snuff inventories continuing to grow. They have also announced reduced expenditure on advertising and marketing. What is your assessment?”

LENNART SUNDÉN:

“I would rather not speak about competitors' plans. But it's true that advertising and marketing are currently at a high level and this is a large expense item.”



Swedish Match scrutinized in New York

The Swedish Match share is quoted on the Nasdaq Stock Exchange in the US. Analysts all over the world follow the company and its share. Their job is to pick the best buys on the stock market.

There are not so many of them. Around 30 – including both men and women – who can exert major influence on the price of the Swedish Match share. Some are active in Stockholm, but most of them are in London or New York. Naturally, we are referring to the financial analysts, the research personnel from major banks, stockbroker firms and investment houses, who closely follow the Swedish Match share.

When Swedish Match arranged a Capital Markets Day in New York at the end of August, they were of course in attendance. We hosted analysts from Merrill Lynch, Morgan Stanley, Paribas, Carnegie, Enskilda, Swedbank and a handful of others.

THEY COULD BE described as the financial world's intelligence agents. Their goal is to assemble as much publicly available information as possible about a company, or sector, from which to eventually draw their conclusions. Does the company have the right strategy? Is management doing a good job? Is the share undervalued? Is it the right time to buy, or should one wait for a while? These are the questions that the analyst has to answer. And those who ask them are the banks' and stockbrokers' clients, the potential investors, whose buy or sell orders are the leverage that, in practice, controls the share price for a company. Major demand for a share pushes the price up, while substantial sales reduce it. Simple relationships, yet they continue to steer events in the world of finance. And the recommendations of the analysts, to buy or sell, are of major importance for the price of a share.

Analysts piece information together in the same way as intelligence agents or spies. The difference, of course, is that the analysts work with open sources, meaning that the information they assemble about a company and its markets is generally available. Company reports are one of the sources they use. The analysts' own assessments of a complete sector and conversations with competitors are other sources.

"Our goal is to predict what will hap-



pen in the future," says Martin Feldman, tobacco industry analyst at Salomon Smith Barney in New York. He is ranked first among America's tobacco analysts and took part in the Capital Markets Day and in the following study trip arranged by Swedish Match to the cigar plants in the Dominican Republic.

HIS ABILITY TO PREDICT which companies may be ripe for acquisition and other structural changes in the industry are a specialty that has given him a very solid reputation on Wall Street.

Salomon Smith Barney is one of the largest banking firms in the US and Martin Feldman focuses exclusively on tobacco shares. He has a legal background and finds this useful in his work.

"You have to love law if you are going to follow tobacco shares as an analyst," he says, referring to the many legal processes in which the American tobacco industry is involved. In a European perspective, the situation is slightly different. The law is also important in

this area, but the focus is mainly on legislation issues, rather than on individual claims, as in the US.

"Legal claims are not a material issue for Swedish Match," says Michael Smith, analyst at Morgan Stanley Dean Witter. Based in London, he analyzes the European tobacco companies for his firm, which employs half a dozen people to monitor this particular industry on a worldwide basis. In total, there are six listed European tobacco company shares, of which Swedish Match is one.

MICHAEL SMITH, who also attended the Swedish Match Capital Markets Day in New York, considers that it is relatively easy to value tobacco companies. They have predictable earnings capacity and are relatively insensitive to interest



"You have to love law if you are going to follow tobacco shares as an analyst."

MARTIN FELDMAN,
SALOMON SMITH BARNEY



Nat Sherman – the legendary cigar shop

The exclusive Nat Sherman store in Manhattan is a must for all cigar lovers. Browse around and enjoy the special atmosphere.

If you are interested in cigars and happen to be in New York, you can't afford to miss Nat Sherman, one of the finest cigar stores in the world.

This Mecca for cigar and tobacco lovers is centrally located in the middle of Manhattan, on Fifth and 42nd Street. It

is an experience to just step inside this elegant and enjoyable store, with its reserved charm that is in such contrast to the hectic tempo of the surrounding streets. One floor up, you will find the impressive humidor, with its fantastic selection of the company's own and other cigars. Naturally, Swedish Match's best cigars are available, such as Macanudo and Partagas from General Cigars. The more exclusive Swedish Match cigars can cost around USD 5–10 per cigar at Sherman's, comparable to a glass of good-quality wine at one of the bars in the neighborhood. Today, these cigars – just

like Nat Sherman's own – are produced mainly in the Dominican Republic.

NAT SHERMAN FOUNDED the company in 1930 and the third generation of the family is running it today. Sherman successfully obtained a license to distribute Cuban cigars from the original Government and small quantities of pre-Castro Cuban cigars can still be found today in the humidor, but are used primarily as donations to charity auctions. As everyone knows Cuban cigars brought in after the prevailing trade embargo cannot be sold in the United States.

rates, economic fluctuations and other macroeconomic factors.

“Generally, tobacco company shares are undervalued. They are quality investments, which pay high dividend,” he says.

In 1999, there was an exaggerated bull-market boom in IT and telecom shares. A correction has now been made. “Tobacco shares have done better than technology shares this year,” he points out, and considers there is still good upside potential.

Michael Smith recently analyzed Swedish Match and made a clear “strong buy” recommendation.

It can be difficult for analysts to assess when the time has come to exit a complete sector, such as IT, and invest in engineering or retail trade shares. Such a recommendation requires a great deal of know-how and intuition. Perhaps that is why an increasing number of women are becoming financial analysts.

Monika Elling and Cecilia Parsmann follow Swedish Match at Enskilda Securities in Stockholm.

THEY WORK TOGETHER and monitor companies within the retailing and service sectors, so they alternate their analyses of Swedish Match with research into such companies as Hennes & Mauritz, Securitas, Proffice and Axfood.

Cecilia and Monika also attended the Capital Markets Day in New York and believe that it is of major importance to become personally acquainted with the companies they analyze.

Cecilia and Monika emphasize the importance of making a thorough, fundamental analysis that can then be



Cecilia Parsmann (left) and Monika Elling (right) follow Swedish Match for Enskilda Securities. “To become a good analyst you have to stick your neck out sometimes”, they say.

updated if and when new information becomes available. (See box).

To become a good analyst, you have to be prepared to stick your neck out and make your own evaluations of the facts.

The chicken-hearted approach is to choose a middle way, relying on what has been said by colleagues in the sector. But this doesn’t help our clients,” says Monika Elling.

Naturally, analysts can get it wrong. But this more often than not relates to timing rather than the basic analysis. A company can be right, but the share may be wrong. Even if a company has

favorable prospects, the stock market may already have taken this into account by driving up the price of its stock. This means it is not the right time to buy that particular share.

That’s why it is important to read through the complete analysis, not just the bottom line: buy, or sell. The value of an analysis lies in the integral stage-by-stage process by which it has been built up. “Clients understand that the reasoning underlying my recommendation is the most important feature of my analysis, not the buy or sell recommendation in itself,” says Martin Feldman. □

MAKE YOUR OWN ANALYSIS

Would you like to make your own analysis of Swedish Match, or another company? These are the basics needed by Enskilda Securities when it wants to analyze a company.

- 1 Assess the overall sector trend. In Swedish Match’s case, for example: will consumption of tobacco products increase or decrease? What political decisions, legislation and/or regulations will affect the sector in future?
- 2 Assess the company. Establish its long-term strategy and how this is developing compared with competitors. Future earnings and sales are also key figures, but try to also get a general “feel” for the company.
- 3 Make conclusions based on the earlier stages of the analysis. Will the company you are following be a winner or a loser?
- 4 Compare your assessment with the valuation assigned the company by the market. Maybe the company is a winner in its sector, but the share price has already been driven up to an excessively high level. Based on your own evaluations, as compared with those of the market, assign a buy or sell recommendation to the share. The key is to find a really undervalued share that the market has not yet identified.
- 5 Update your analysis continuously. Each time the company publishes a quarterly report or other important information about, for example, a company acquisition, go back to the earlier stages of your analysis and check whether your original assessment has been affected.
- 6 Monitor your company closely. Don’t satisfy yourself with the information that it publishes; try to meet with members of its executive management, preferably the CEO, personally.



This autumn has been a turbulent time for share prices. Tobacco shares have generally performed better than high-tech shares this year.

Over the years, Nat Sherman has been honored to serve a whole range of distinguished customers. Framed letters ordering products from the company



adorn the walls of the upper floor. They have been received from such celebrities as Humphrey Bogart, Frank Sinatra, Sammy Davis Jr., Jerry Lewis and John Wayne. At Nat Sherman’s you will easily find a present to give a tobacco-loving friend, no matter whether you are interested in smokes, books or related merchandise. In this latter department, you can choose from a range of accessories that includes cutters, matches, lighters and even CD. □

NAT SHERMAN

Address: 500 Fifth Avenue/42nd Street, NY
Website: www.natsherman.com



In addition to cigars Nat Sherman carries a range of accessories, including silver-plated lighters.



The Nasdaq Stock Exchange is a rising star among the world’s exchanges. Many of the most important growth stocks are listed on Nasdaq. But many of them have lost a lot of their value this summer and autumn.

Nasdaq as famous as Wall Street

In addition to the OM Stockholm Exchange, the Swedish Match share is also quoted on Nasdaq in the US. The listing there is in the form of an American Depository Receipt (ADR). The company’s Nasdaq listing derives from the fact that Volvo was already listed on this network when Swedish Match was spun off by the auto company to its shareholders in 1996.

In recent years, Nasdaq has been a comet in the US stock market heavens. Many of the leading growth companies in the so-called New Economy are listed on Nasdaq (for example, Cisco, Intel, Microsoft and Ericsson). But like Swedish Match, the majority are active in sectors outside the IT or telecom fields. More companies are listed on Nasdaq than on the New York Stock Exchange on Wall Street, but the combined market value of the companies listed on Nasdaq is only half that of those on the NYSE for the moment. The complicated Nasdaq name is an acronym of the National Association of Securities Dealers (NASD), the principals, plus AQ, for Automated Quotations.

The Nasdaq visitors center in New York is located in the middle of Manhattan, in Times Square. There, a huge electronic sign communicates the message that this is the site of the world’s hottest securities exchange. There’s nothing wrong with Nasdaq’s PR exposure. To assure itself of vital space in the business press and on TV, Nasdaq makes part of its premises available free to the news departments of Reuters and leading TV channels. Nasdaq is investing heavily to become the leading securities exchange in the world, with Internet trading as its foremost tool. There is clear rivalry between newcomer Nasdaq, which was started in 1971, and the 100-year-old NYSE. Nasdaq has welcomed companies that are still in their infancy and which are perhaps unprofitable and need fresh new capital. This liberal outlook has led to a rush of new listed companies each year.

Of those Swedish companies with a New York listing, most, or about ten, are quoted on Nasdaq. Some of the larger companies, such as AstraZeneca, Pharmacia and Scania, have elected to go on the NYSE.

The volume of trading in Swedish Match ADRs on Nasdaq is rather modest. Of the company’s around 400 million shares, just 3 million are currently listed as ADRs on Nasdaq.

Daily trading involves only a few thousand shares, compared with nearly a million per day on the OM Stockholm Exchange.

“It is still advantageous to be quoted on Nasdaq”, says Emmet Harrison, responsible for investor relations at Swedish Match’s head office.

“Our Nasdaq listing makes us visible in the world’s largest capital market. Furthermore, many American investors require that a share is listed in the US before they can consider investing in it”.

The Nasdaq listing provides what is virtually a seal of quality, despite the listing criteria really being quite similar to those applied by the OM Stockholm Exchange.

KATHY WILLENS/PRESSSENS BILD

STUART RAMSON/PRESSSENS BILD

New snus plant

The continued emphasis on snus is also behind the decision to build a new snus production plant in the Gothenburg region at a cost of about SEK 500 M. When it is in full operation, the plant will require about 120 employees. Swedish Match is currently evaluating possible locations and plans to start production in 2003. The plant will be one of the largest investments in western Sweden during the next few years.

Grovsnus to be relaunched

During 1998, Swedish Match's brand names for snus aimed at the Nordic market were examined in brand analysis. As a result of the analysis, the Ettan, General and Catch brands have been relaunched, with new graphical images and packaging designs. Next in line is the Grovsnus brand, which will be relaunched in a similar manner in February 2001.



New appointments



ANNA NEIÅS has been appointed as marketing manager for snus in the North Europe Division. Anna has been a Swedish Match employee since 1993 and has worked as product manager for General, among other brands.



MAGNUS HEIMBURG has been Swedish Match's finance manager since August 11. He previously held the position of global cash manager in the corporate finance department. Magnus reports to Chief Financial Officer Sven Hindrikes.



FRANS VOGELS has been appointed President of General Cigar International and Vice President of General Cigar Holdings. Frans is responsible for the international expansion of General Cigar's brands, product planning for the Group's international cigar range and coordination of brand strategies.



LARS LINDQVIST has been appointed President of Swedish Match South Africa Pty Ltd. In his new position, Lars is responsible for all of Swedish Match's operations in Southern Africa. Lars was previously head of business development in the Overseas Division, where he will continue to be a member of the management group.

Swedish Match profitable

Swedish business weekly *Veckans Affärer*, in its ranking of Sweden's 500 largest companies (no. 38, September 11), highlights Swedish Match as one of the most profitable companies. With a 56-percent profit margin and a 39-percent return on total capital, Swedish Match places fifth in the rankings. The prominent placing is mainly due to the fact that the capital gain (SEK 4.1 billion) on the sale of the company's cigarette operations is included in operating income for 1999. If this figure is excluded, Swedish Match's profit margin is 18 percent.

GothiaTek – new quality standard



Stefan Gelkner.

In 1985, when Stefan Gelkner became head of snus operations in Sweden, he had a vision: "Our smokeless products shall be perceived by consumers and society as an accepted alternative to cigarettes that does not cause greater health risks than food products in general." Today we are close to achieving our vision. With GothiaTek, Swedish Match is signifying that nearly 30 years of research and development have created a distinct product category. The GothiaTek symbol that will begin appearing on cans of snus in November stands for a unique standard of quality.

"It has been a long and difficult journey to develop the standard that we are naming GothiaTek, which designates a new product category – Swedish snus – with a unique quality standard," says Stefan Gelkner, head of the North Europe Division. "At the time of my appointment, we already had many years of highly sophisticated development work behind us.

"We began by carrying out extensive research work on tobacco to identify those substances that can constitute a health risk to develop methods for reducing or eliminating them. Today, extensive Swedish studies have shown that there is nothing to indicate that Swedish snus increases the risk of cancer. To ensure that we obtained exactly the raw material we wanted, we went so far as to devel-



op new methods in addition to the conventional ones, including guidelines to growers in various parts of the world regarding tobacco varieties and cultivation, harvesting and storage techniques."

At the same time, Swedish Match developed unique processing and production methods at its plant in Gothenburg, which now operates for 22 hours a day. The plant, inaugurated in 1982, represented a significant step forward, with production technology unmatched anywhere else in the world. The snus is pasteurized to neutralize bacteria, and food-processing hygiene standards are applied throughout the chain – all the way to the refrigerated storage cabinets where the product awaits the consumer. The entire process is computer-controlled, and the product remains untouched by human hand until the moment when the consumer inserts it under his lip.

Swedish Match has invested heavily in snus during the past 25 years, spending an estimated SEK 500 M on research, development and production methods. When Stefan Gelkner took over as head of snus operations, earnings for the

product area were approximately SEK 65 M. Today, snus products generate an operating income of about SEK 900 M on sales of SEK 1.6 billion.

As part of the GothiaTek program, the Group is investing an additional SEK 50 M in new packaging designs and information aimed at consumers and retailers. As well as providing a guarantee of quality and reliability for the consumer, GothiaTek will signify the international launch of Swedish snus as a product category.

"A parallel could be made with the famous Gore-Tex material, a so-called 'ingredient brand.' GothiaTek signifies a product standard that reflects unmatched overall quality," concludes Stefan Gelkner. □

FOUR STEPS TO QUALITY

The Swedish Match quality standard behind the product category Swedish snus can be summarized in four points:

- Checking and selection of raw materials.
- Unique proprietary technology using computer-controlled processes.
- Hygiene at food-processing levels throughout the processing chain.
- Total quality control from tobacco seed to retail outlet.

The product is totally untouched by human hand throughout the production process.

"Snus ban to be lifted"

IT IS REASONABLE to suppose that it is only a matter of time before the EU lifts its controversial ban on the sale of snus. This was the conclusion reached by Bo Aulin, General Council of Swedish Match, following recent developments concerning the issue.

The background is that the EU is in the process of amending a directive relating to the warning texts on packagings containing tobacco products. The previous formulation – to the effect that snus causes cancer – will now be toned down considerably to say that snus can be harmful to health and is addictive. This is a step toward a new attitude to snus.

"We anticipate that the next stage will be the total removal of the ban on snus," says Bo Aulin. He believes that this could well happen by 2004.

Interest in snus is increasing, since it is regarded as a considerably more healthy alternative to smoking. In an interview for the Swedish Broadcasting Corporation's *Newsdesk* program, Göran Boëthius, Chairman of the organization Doctors against Tobacco, conceded that snus is gaining ground.

At the same time, he warns against taking an unduly casual view of snus, pointing out that young people could be tempted to begin using it. □

European Court lifts advertising ban

The European Court of Justice in Luxembourg has annulled an EU directive from 1998 imposing a ban on tobacco advertising. Germany and several British tobacco companies appealed a decision by the EU Council of Ministers aimed at phasing out all tobacco advertising in the EU. The Council of Ministers has claimed that the ban is needed to secure the internal market. The Court, however, states that the purpose in reality is to improve public health, which is something the European Union lacks authority to regulate.

In addition, the proposed ban conflicts with the constitution and basic law in several member states. Germany's appeal against the European Commission's decision has now been upheld by the Court of Justice.

"This course of events shows that legal considerations prevail within the EU, so that politicians cannot set themselves above the limitations that govern their exercise of power," says Bo Aulin, General Coun-



Bo Aulin.

cel of Swedish Match. He welcomes the Court's decision, not least for reasons of principle.

As a direct consequence of the Court's ruling, the Swedish Government will now be compelled to withdraw its proposal for a ban on so-called indirect advertising of tobacco products – through the marketing of other products, such as clothing and shoes, for example, and sponsoring. □

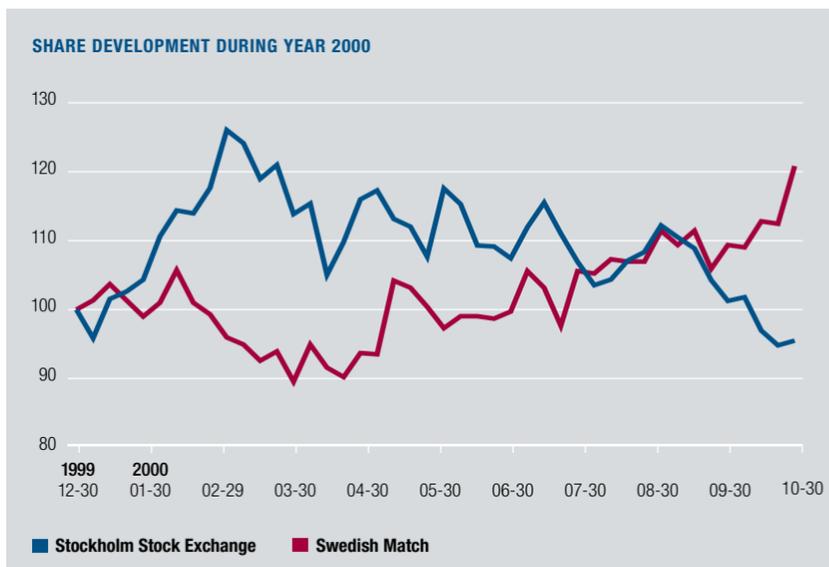
THE SWEDISH MATCH SHARE

Swedish Match defies market decline

The last quarter was an unsettled period on the stock market. Since Swedish Match submitted its six-month report on July 25, the OM Stockholm Exchange's General Index has fallen by more than 15 percent. While no sector has remained entirely unscathed, concern has primarily focused on the publicly quoted IT and telecom companies – precisely the sectors that previously showed the most spectacular rises. The trend-setting Nasdaq exchange in the US, on which both Swedish Match and many of the leading “growth companies” are listed, fell by nearly 25 percent during the past quarter.

The Swedish Match share has shown considerable stability during this volatile period. Since July 25, the share price has risen by about SEK 2, or 7 percent (up to October 18, 2000).

One explanation could be that consumer-oriented companies such as Swedish Match are viewed as “safe havens” during unsettled periods. Companies with stable cash flows and a sound underlying profit-generating



This figure shows the development of the Swedish Match share compared to an index of the Stockholm Stock Exchange (SIX Return Index). The graphs are return adjusted, i.e. including dividends and redemptions.

capacity provide a counterbalance to companies whose valuation is based mainly on future expectations.

As the articles on this page and pages

4–5 show, many analysts take a positive view of Swedish Match. □

New share buyback slims finances

Swedish Match is now implementing and broadening the program for buying back its own shares.

“We are adapting our capital structure to our needs”, says Chief Financial Officer Sven Hindriks. “We are getting into a situation where we have more cash than we need, so we are streamlining the balance sheet”. Part of the surplus liquidity arose last year when we sold the cigarette operations to Austria Tabak for SEK 4.8 billion, resulting in a capital gain of SEK 4.1 billion after tax.

Swedish Match is returning money to its shareholders in three different ways:

- Via a cash dividend of SEK 1.25 per share
- Via redemption of its own shares, with a redemption right corresponding to a value of about SEK 0.50 per share
- Via a buyback of Group shares.

UP TO AND INCLUDING September, the company had returned approximately SEK 2.2 billion to the stock market by these means. Of this amount, redemptions accounted for about SEK 1.1 billion, the share buyback program for some SEK 600 M and the dividend for SEK 539 M. The share buybacks have an indirect effect: as the number of shares outstanding decreases, the financial key ratios, such as earnings per share, improve, since earnings are spread over fewer shares. A higher EPS figure, combined with an unchanged price-earnings ratio, ought to have a positive impact on the share price, all other factors being equal, explains Sven Hindriks.

“The overall aim is to achieve a bet-

ter capital structure”, continues Hindriks. By slimming down its cash reserves, the Group can more easily achieve its financial objectives: an equity/assets ratio of not more than 30 percent and a net debt/equity ratio corresponding to shareholders' equity.

“Given our financial objectives, we are in a position at the end of the third quarter to increase our indebtedness by SEK 3 billion. To this can be added a positive cash flow of about SEK 450 M in the third quarter. We plan to use this financial capacity for a combination of investments, acquisitions and further share buybacks – all with the aim of improving earnings per share”.

A share buyback is the opposite of a new share issue. While new share issues have been permitted since the introduction of the limited-liability company, it was only this year that a law was introduced in Sweden that enables exchange-

listed Swedish companies to buy back their own shares in the stock market. This means of rapidly adapting a company's capital structure to its long-term financial objectives has existed for some years in a number of other countries. The new legislation is particularly welcome in view of Swedish Match's strong balance sheet.

“If, at some time in the future, we happen to need more money than we actually generate, we will turn to the shareholders and ask them for money. It's as simple as that”, concludes Sven Hindriks. □

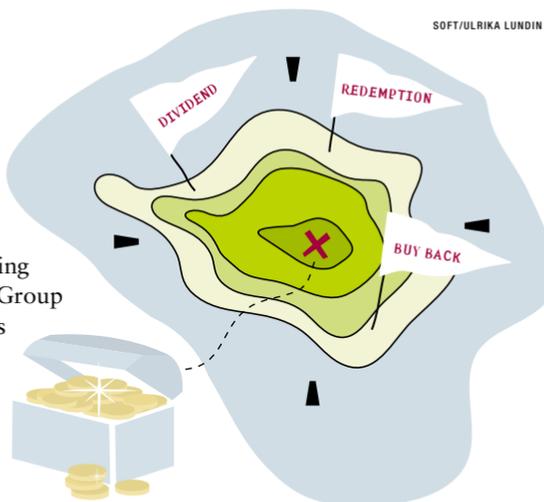
FACTS ABOUT THE BUYBACK PROGRAM:

At a Special General Meeting on October 27, a decision was made to give the board a mandate to buy back up to 10 percent of the company's shares. To date, Swedish Match has repurchased approximately 5 percent of the share capital, in line with the decision made at the Annual General Meeting this spring.

Of the shares already bought back, totaling approximately 20 million, slightly more than 17 million are to be canceled in accordance with the decision made at the Special General Meeting. The remaining shares will

be retained by the company, in part as security for the ongoing warrants program.

This will leave some 383 million shares outstanding in Swedish Match. The new mandate stipulates that not more than 10 percent of these – or about 38 million shares – can be bought back by the company on the stock market. This corresponds to a value of approximately SEK 1.1 billion at the current share price. The buybacks are being conducted in accordance with the new Swedish law that became effective this spring.



Cricket lighters on the Net

Cricket lighters are the first product launched by Swedish Match with e-commerce in mind. Since September it has been possible to purchase the popular lighters from a dedicated website (www.cricketlighters.com). The service is primarily aimed at retailers.

So far, the e-commerce site is only accessible in the US. The project has been developed extremely rapidly, from the concept stage in spring to the launch a couple of weeks ago.

“Buy Swedish Match”

The Swedish Match share is undervalued, according to American investment bankers Morgan Stanley Dean Witter (MSDW). In an analysis made during the past summer, the bank assigned the share a target price of SEK 40. The recommendation was “Strong buy.” Following the release of the six-month earnings, MSDW upgraded the earnings forecast for 2001 by 4 percent.

“Swedish Match is a firm favorite of ours among European tobacco shares,” says analyst Michael Smith. Without exception, all tobacco shares have enjoyed a strong 2000, but Swedish Match has not been part of the upturn. That is why it is such a good buy now, according to this analyst.

Several other stockbrokers have also made positive analyses of Swedish Match lately, all with buy or strong-buy recommendations.

New tobacco-free products

Swedish Match and the publicly quoted US company Gum Tech International have reached agreement on the detailed framework for their joint-venture company for production and marketing of tobacco-free products. Swedish Match is to invest USD 10 M in the joint company and will control 51 percent of the shares. Gum Tech will contribute its know-how in the area of chewing-gum and similar products. Johan Wallin from Swedish Match will head the company.

“We will be able to offer alternative products for smokers, who sometimes cannot, or do not wish to, smoke,” says President Lennart Sundén.

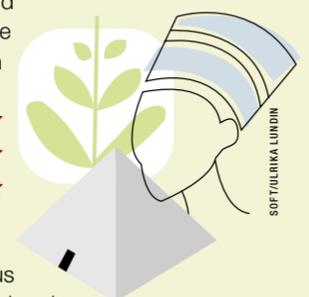
The new products are expected to reach the market in 2001.

Tobacco found in Pharaoh

Scientists have found tobacco leaves in the stomach of Pharaoh Ramses II of Egypt.

It is the oldest evidence of tobacco use in the Old World –

well before Columbus brought it with him when he returned to Europe at the end of the fifteenth century!





“Snus, with an extended range of flavors, appeals to the people who are currently in the process of transforming Sweden into a leader in the New Global Economy.”

ULF SVENSSON, SWEDISH MATCH

Snus more popular than smoking in the New Economy

Swedish snus has changed its image and become an increasingly popular alternative to cigarettes, a new survey shows. In modern IT-companies, snus is moving ahead.

In modern IT companies, the employees tend to use snus instead of smoking. This was the finding of a recent survey conducted by the communications consulting firm Hallvarsson & Halvarsson at the request of Swedish Match Inside. The survey of the tobacco habits of male employees of IT companies revealed that snus is more popular than cigarettes by a considerable margin within this group, 21 percent being snus users, while only 14 percent smoke. Among women employees of IT companies, smokers still predominate. In total (men plus women), snus emerges as the winner by 15 percent to 14 percent.

“The figures are interesting”, says survey leader Gabriel Thulin. “They confirm that snus is a socially acceptable form of indulgence in a highly distinct/high-profile occupational group, whose members tend to be young and dynamic, and to a large extent symbolize the new Sweden, with its IT success stories and entrepreneurial spirit. Could this be the mysterious X factor that explains the Swedish IT miracle?”, he wonders with a smile.

FOR GENERATIONS, snus has been associated with rural life, outdoor use, manual labor, hunting, fishing and other manly

pursuits. Now the little pouches are seen among brokers’ desks, computer screens and the office landscape of the Internet companies – and increasingly they are tucked under lipstick-decorated upper lips.

“Snus is quite simply a product for rational, self-assured modern consumers”, says Ulf Svensson, head of communications for the North Europe division at Swedish Match. As a general rule, 53 percent of snus users are former smokers who have realized the advantages offered by Swedish snus.

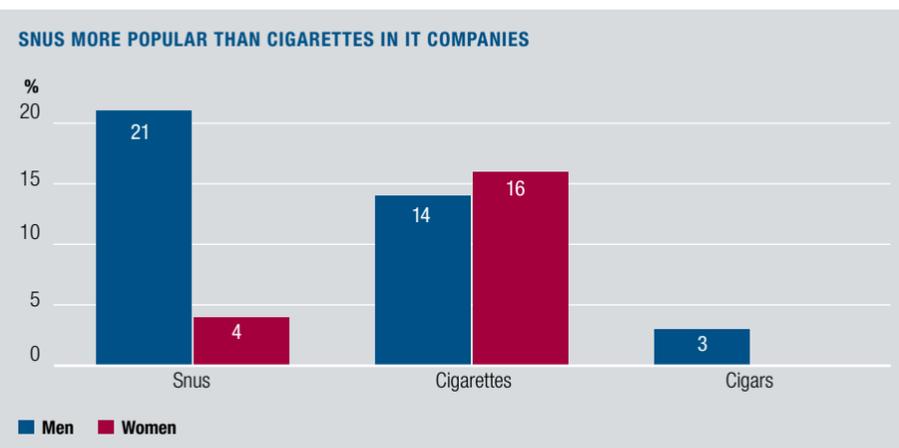
The survey is relevant from a scientific viewpoint. The interviews were conducted during July and August by Eyeball Research at the request of Hallvarsson & Halvarsson. The target group comprised 213 companies within the so-called “New Economy” that were listed in the June issue of Veckans Affärer in the business weekly’s survey of Swedish IS/IT companies. The questionnaire was answered by 152 persons who work at computer terminals for most of their working day. The companies included such well-known Swedish IT and Internet consultants as WM-data, Icon Medialab, Framfab, Mind and Cybercom. The response rate – 75 percent – was extremely high.

AN ANALYSIS OF THE ANSWERS shows that snus has now moved into the top position as far as tobacco usage in the IT sector is

concerned. More people use snus than smoke – 15 percent to 14 percent. There is still a predominance of male snus users. Of the men questioned, 21 percent use snus, compared with only 4 percent of women. It follows that a larger proportion of women than men are smokers – 16 percent compared with 14 percent. A total of 68 percent do not use tobacco in any form. Men abstain to a greater extent than women – 76 percent to 65 percent.

“The survey strengthens our understanding of the trends that we have been studying and encouraging for several years,” says Ulf Svensson. “Through innovative product development, we have succeeded in matching, to a large extent, the changes in patterns of consumption. Portion-packaged snus, with an extended range of flavors, appeals to the self-assured urban elite – the people who are currently in the process of transforming Sweden into a leader in the New Global Economy”.

HALLVARSSON & HALVARSSON’S survey also shows that smoking is forbidden in a very high proportion of workplaces in the New Economy. In five out of six workplaces, smoking is not allowed. Every sixth workplace provides a special smoking area. These developments go hand in hand with the trend toward an increasing number of snus users. □



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 140 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: Market leader in the Nordic region and South Africa. Third largest player in North America.
Chewing tobacco: Market 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	1999	1998
Net sales	9 420	8 194
Operating income	5 396	1 381
Operating income before depreciation	5 777	1 713
Net income	4 656	726
Income per share after tax, SEK	10:79	1:59
Dividend per share, SEK	1:25	1:10
Return on shareholder’s equity, %	115,0	28,3

☆☆☆
SWEDISH MATCH