

Inside

INFORMATION ABOUT SWEDISH MATCH FOR SHAREHOLDERS AND OTHER STAKEHOLDERS

#4 *october 2001*

Strong report despite recession

The third-quarter report confirmed the same stable and positive development as the earlier reports this year. Sales rose by 21 percent, operating income by 16 percent and earnings per share by 30 percent. All areas of the Group noted favorable results.

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Glowing earnings for matches

After several lean years, Match operations have returned to respectable profitability. During the first three quarters, income more than doubled and the operating margin reached its 10-percent target. A winning combination of radical restructuring and aggressive focus on product development has paid off.

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Mac Baren takes over pipe tobacco production

Mac Baren, a 150-year-old family-owned company, is taking over production of several Swedish Match pipe tobacco brands. The company has extensive experience and expertise in the pipe tobacco field. Borkum Riff, with sales in 60 countries, is one of the brands that will now be produced in Denmark.

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Tobacco litigations not Europe's cup of tea

In contrast to the US, few attempts are made to bring actions against tobacco companies in Europe, and to date none of them have been successful. In only one instance has a decision been made against the industry. A verdict was given against French company Seita in the Court of First Instance. Recently, however, the verdict was reversed by an Appeal Tribunal. In the US, legal actions have aroused major interest but damages have only been paid in one case.

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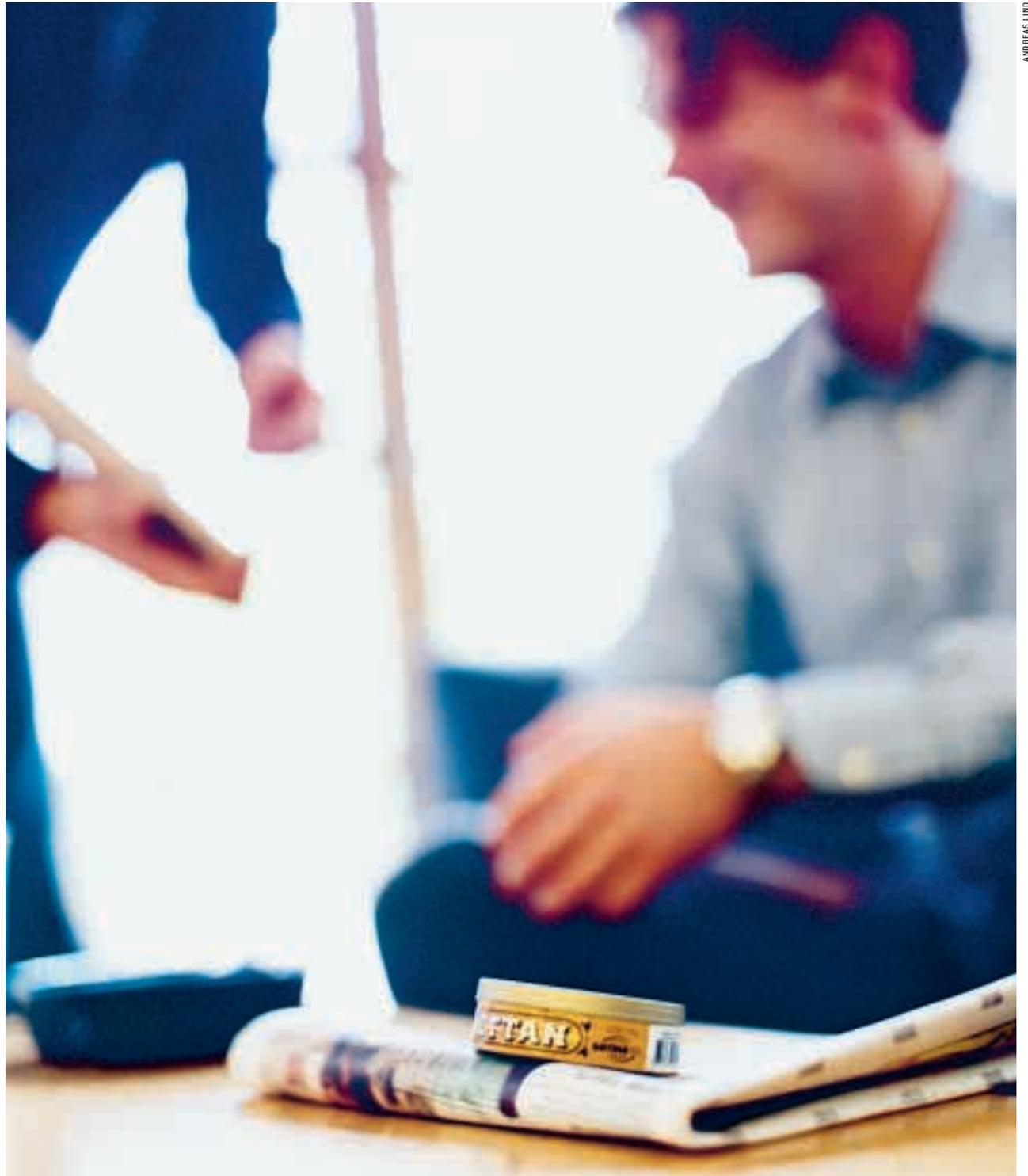
A Macanudo with coffee remains a high point



Swedish Match Board Chairman Bernt Magnusson lights up a cigar with his coffee and another after a hunting trip. Two occasions when a cigar is best enjoyed. And there's the chance of a third, since

Swedish Match is the only Board that allows members to enjoy a cigar or »snus« during its meetings.

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ANDREAS LINQ

Ettan ranks number one

Swedish snus is in a class of its own. This is confirmed by a recent US study in which Swedish snus was shown to contain a significantly lower proportion of tobacco-specific nitrosamines, TSNA, than American brands. The study showed that more than 20 years of determined quality work has produced results.

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Dear shareholders

THE EVENTS OF SEPTEMBER 11 in the US make a somber background to Swedish Match's interim report for the third quarter of 2001. Anxiety and uncertainty have increased throughout the world and the economic outlook has further deteriorated. The stock markets have reacted to the new mood of uncertainty with falls in share prices, while many companies have reported a weakening of demand.

It is my impression that Swedish Match has an unusual degree of resilience – even in times of uncertainty and economic slowdown. The company had a strong third quarter, with positive growth, a favorable earnings trend and a substantial increase in earnings per share.

It is pleasing to note that all of the Group's product areas are now performing strongly. Matches and Lighters, are now beginning to show favorable stability in terms of margins and profitability. This indicates that our major restructuring programs have achieved the desired effect.

All product areas report increased sales, contributing to a combined increase of 21 percent during the first nine months. Of this total gain, six percentage points represent organic growth, which shows that our strategy of concentrating on the high-growth niche areas within the market is the right one. For our spearhead product, snuff, the increase was an impressive 18 percent. Our growth figures are in stark contrast to the stagnation that characterizes the global tobacco industry.

The third quarter thus confirms that we are an increasingly streamlined Group with favorable growth in selected niches, in line with the strategy we adopted nearly three years ago. Key future-oriented measures are currently under way, particularly in the snuff product area, where the focus is on continued organic growth. We are also continuously evaluating various acquisition prospects.

Lennart Sundén, CEO

Swedish Match Inside is a magazine for Swedish Match shareholders. 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

STRONG AND STABLE DESPITE WEAK BUSINESS CLIMATE

Earnings exceed

Swedish Match continues to demonstrate its strength despite the worsening global economic situation. The third quarter brought a repeat of the same stable and positive trend established during the first two quarters. Earnings were slightly higher than stock market analysts had forecast. During the first nine months, sales increased by 21 percent, operating income by 16 percent and earnings per share by 30 percent. »No surprises. All units within the Group are performing well and we are satisfied. Now we are planning for a continued improvement in earnings next year,« comments CFO Sven Hindrikes.



Sven Hindrikes.

There might have been a certain amount of concern in anticipation of Swedish Match's third-quarter report, which was published on October 23. In the wake of the events of September 11 in New York, an increasingly pessimistic mood prevails in households throughout the world and the already gloomy economic forecasts have become even more somber.

The report came as a morale-booster, however, with continued positive figures for all units within the Group.

»Swedish Match has shown once again that our share is one of the most stable in the market, with a capacity to sustain its strength during an economic slowdown that few other companies can equal. A long-term and stable

increase in earnings is our hallmark,« notes Sven Hindrikes.

A BRIEF SUMMARY of developments during the first nine months shows that sales increased by 21 percent to SEK 10.1 billion. Of this amount, new acquisitions accounted for six percentage points, higher exchange rates for a similar gain, and organic growth for nine percentage points.

»It is worth noting that our positive organic growth has continued despite the general stagnation in the tobacco market, and that all our product areas report increased sales,« continues Hindrikes. »It appears that the tragic events in the US will have little effect on us, in contrast to many other companies.«

Operating income increased by 16

percent to SEK 1,608 M. The improvement was primarily attributable to cigars, matches, pipe tobacco and lighters. Earnings for snuff were somewhat lower – down 2 percent over the first nine months compared with the year-earlier period – which is in line with expectations. However, the operating margin for snuff strengthened slightly – by two percentage points – to 38.5 percent.

»Snuff has borne a considerable cost burden for product launches during the year,« Hindrikes points out. »For example, we are endeavoring to break into the premium segment in the US with the Sequoia brand, and this program is going according to plan.«

IT IS ALSO GRATIFYING that two former problem areas within the Group, Lighters and Matches, are now contributing strongly to earnings, with reported increases of 40 and 100 percent respectively during the first nine months of 2001. The restructuring of Lighters is now complete. The operating margin has been more than 10 per-



Matches sparkle again

Matches are once again turning in a glowing performance for Swedish Match. After a number of extremely difficult years, match operations have returned to respectable profitability.

During the first three quarters of 2001, earnings more than doubled and the operating margin exceeded the Group's target of 10 percent. The most recent quarterly report confirms that the turnaround is not a transitory phenomenon.

According to Graham Jones, President of the Match Division, the change of fortune is the result of a tough and laborious effort.

Swedish Match is the world's leading producer of matches. As the company's name implies, this is one of the Group's core areas, with its roots in Ivar Kreuger's match empire. Match production and sales organizations span the globe.

IN THE LATE 1990'S, problems began to multiply in many areas. The European business was under intense competitive pressure from Russian, Pakistani and other low-price importers. The operations purchased by the Group in India (Wimco) had turned out to be in worse

expectations

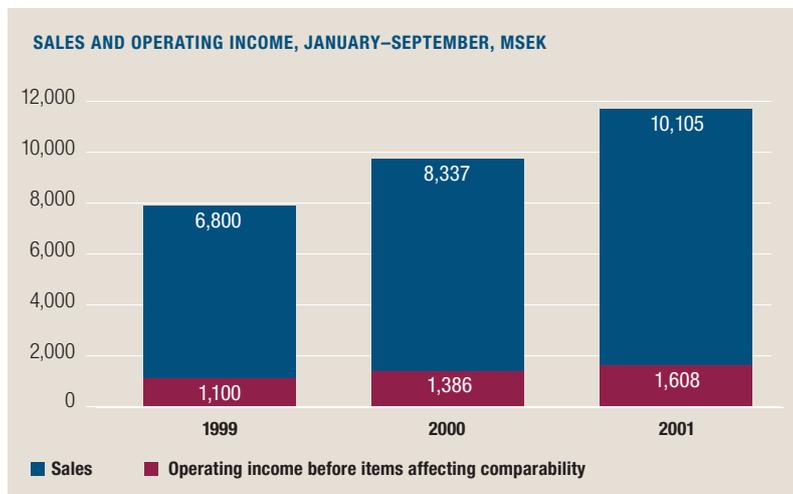
cent for six consecutive quarters, which must be seen as impressive for a largely engineered product. The same applies to the Matches product area, which achieved its target margin of 10 percent within three quarters.

»I would venture to say that we have achieved a successful turnaround, so that the trend now appears stable in these product areas also,« says Hindrikes.

Market shares are also showing a favorable trend. In the key US snuff market, volumes have increased by 11 percent during the year to date and the market share was slightly more than 8 percent. In the mature Nordic snuff market, sales volumes increased by 4 percent. In the sluggish chewing-tobacco market in the US, Swedish Match's share is increasing steadily and currently amounts to 42 percent.

THERE ARE NO MAJOR acquisitions to report for the third quarter. The integration of operations acquired previously is proceeding well and according to plan. During the third quarter, the Group also initiated restructuring of certain parts of the European operations for machine-produced cigars. The plant in Overpelt, Belgium, is to be closed and production transferred to the nearby plant in Houthalen. Some production will also be moved to Pandaan in Indonesia, at the same time as the General Cigar Connecticut office is being closed down as a rationalization measure.

»The costs for these measures during the third quarter amounted to approximately SEK 80 M, but we should see a positive effect on earnings during the second half of 2002, and beginning with the first quarter of 2003 we expect to see an annual positive impact on earnings amounting to SEK 50 M as a result of the measures,« says Hindrikes.



	SALES, SEK M			OPERATING INCOME, SEK M		
	Jan-Sep 2001	Jan-Sep 2000	Change %	Jan-Sep 2001	Jan-Sep 2000	Change %
Snuff	1,799	1,519	18	691	704	-2
Chew. tobacco	1,028	911	13	278	244	14
Cigars	2,586	1,847	40	362	243	49
Pipe tobacco/ Accessories	697	562	24	185	159	16
Matches	1,254	1,234	2	134	67	100
Lighters	613	519	18	74	53	40
Other	2,128	1,745	22	-116	-84	
Subtotal				1,608	1,386	16
Items affecting comparability				-80		
Total	10,105	8,337	21	1,528	1,386	10

To sum up: No surprises, but continued strong growth and a strong earnings trend in line with the expectations outlined by the management.

»We view the prospects for next year with optimism and are planning for a continued improvement in earnings,« concludes Sven Hindrikes. □

shape than expected, while at the same time economic instability in Brazil had weakened the South American market. In addition, problems had arisen in Bulgaria and Turkey, among other countries, and the Group's production of match machines at the Arenco plant in Kalmar, Sweden, had experienced a slackening of demand.

»Faced with problems on all fronts, we decided to implement a restructuring program,« relates Graham Jones.

The plans were approved in 1999 and largely implemented during the following year. Positive results have already been apparent this year.

The cornerstone of the program was a reduction of global capacity. Production at a number of facilities ceased, including plants in Belgium and India, while cutbacks and restructuring meas-

ures were implemented in Spain, Sweden, Bulgaria and Hungary. Jones singles out for special praise the turnaround in India under the management of Sieb Flapper and his team, and the European restructuring activities carried out by Risto Pentikainen, Lennart Jönis and their respective teams.



Graham Jones.

IN A NUMBER OF LOCATIONS, Swedish Match bought out former joint-venture partners in order to gain full control over operations.

A total of 600 jobs have disappeared, from production and other operations in Europe.

Jones emphasizes that while none of these measures were particularly pleasant to carry out, they were necessary for long-term survival.

The cutbacks were essential in order

to reduce costs. The match market is one of the most intensely competitive in the world, as well as being a mature market with little or no growth.

»In this industry, any company that does not keep its costs under control has no chance of surviving,« notes Jones. But cutting back on production is far from being the entire answer. In order to grow, Swedish Match must also go on the offensive. Matchboxes and other product formats have been given new, modern designs, and the range has been expanded with new products, such as extra-long matches and firestarters.

SWEDISH MATCH POSSESSES a particular strength in its well-known match brands, such as Solstickan, Swan Vestas and Three Stars, among others.

»We have plenty of exciting ideas in the pipeline,« says Graham Jones.

Analysts' questions

Swedish Match's interim report for the period January 1 to September 30 was published on October 24. Afterwards, Group management held a telephone conference with the media and leading players in the financial markets. A selection of the questions and answers is presented below.

MONIKA ELLING, ENSKILDA SECURITIES:

»My first question relates to the organic growth of 9 percent. Do you expect this growth rate to be maintained during the next two years? You report an operating margin of 38-40 percent for snuff. When do you anticipate achieving previous historic high levels? Finally, can we expect to see the pace of investment being maintained during the next few years?«

LENNART SUNDÉN, CEO:

»Naturally it is always difficult to anticipate future growth. But at the same time the current growth figures do not reflect any general departure from the trend, and the overall economic situation seems to be having a minimal impact. Sales in Europe show stable growth and the same applies to the US market for moist snuff, while sales of cigars are constantly improving. So there appears to be no reason to expect any radical changes in the future either.«

SVEN HINDRIKES, CFO:

»The main item behind the investment figures is the new snuff plant currently under construction in Gothenburg. We have also increased production capacity for Timber Wolf, among other brands. We estimate that the full-year investment volume for 2001 will be approximately SEK 550 M, and about the same for 2002. For 2003, however, total investments will decline substantially.

We expect the margin that snuff is currently achieving to be maintained during the next three to four quarters. On the other hand, it is difficult to predict what will happen during the fourth quarter of 2002. That will depend on possible new product launches and a number of other factors.«

VIRGINIA HÉÉRIBOUT, CDS IXIS SECURITIES:

»Were you in any way affected by the events of September 11 in the US, in terms of cigar sales for example?«

LENNART SUNDÉN:

»Yes, sales of premium cigars in the US sank to lower levels in the first two weeks after the events, but then recovered gradually to more or less the same level as before.«

PIETER VORSTER, CRÉDIT SUISSE FIRST BOSTON:

»One of the surprises in the nine-month report is in fact the favorable sales figures for cigars in the US, particularly for machine-made cigars. To what do you attribute this?«

LENNART SUNDÉN:

»Yes, it was a very encouraging trend, characterized by strong growth combined with strong earnings. During the first nine months of this year, volumes increased by an average of 10 percent – even more for small cigars. Earnings were also strengthened by the implementation of certain price increases.«

Ettan best in test

New American study highlights advantages of Swedish Match production methods for oral snuff.



Swedish snus in a class of its own

For more than 20 years, Swedish Match has focused on reducing the amounts of undesired components in its snus. »Our efforts have been successful. Internationally, Swedish snus is now in a class of its own,« says Dr. Inger Wahlberg, scientific advisor in Swedish Match North Europe Division.

Inger Wahlberg is part of the team that has spent years investigating the quality of snus, having held several positions in the Swedish Match Research Department. She holds a Ph.D. in chemistry and is considered a world authority in the area of tobacco chemistry, particularly the nitrosamines, on which the Massachusetts study focused.

While nitrosamines exist in trace amounts in several foodstuffs, tobacco contains special forms, known as TSNAs.

»We have studied this area for quite some time, and understood early that we had to target mechanisms in the entire production chain that lead to the formation of nitrosamines, from growing and curing of tobacco to production

and storage of products. The production plant built in the beginning of the 1980s was based on quality considerations that subsequently proved to be significant in terms of nitrosamines. Quality considerations also underlie the norms we currently adhere to within the framework of the GothiaTek standard,« Inger Wahlberg explains.

THE GOTHIA TEK® STANDARD, a proprietary concept developed by Swedish Match, is intended to ensure the highest possible standard in the raw material, the production process and the handling of the finished product. The purpose is to ensure that the final product remains below specific tolerance limits of undesired components. While most of these components are not limited in

Swedish food legislation Swedish Match has established its own requirements. Genetically modified crops, for example, are not acceptable according to the GothiaTek® standard.

»The basic principle is that we are very careful about the raw materials we purchase,« says Inger Wahlberg.

»Samples are taken continuously of every harvest and are sent by courier to Stockholm to be analyzed for nitrosamines as part of our early warning system. We also apply extremely strict limits for heavy metals, which are mainly absorbed from the soil and from fertilizers. At the same time as we urge growers to avoid excessive use of fertilizers, we are looking for new growing areas offering better conditions.«

American snuff can contain up to 40 times more tobacco-specific nitrosamines (TSNAs) than snus made in Sweden, according to a study carried out by the Massachusetts Department of Public Health in cooperation with the American Health Foundation. The study was made public in August this year.

SIX SNUFF BRANDS were examined in the study, which investigated the TSNA content and discussed the effects of different production processes. TSNAs are the most debated components of oral snuff. The brands studied included Swedish Match brands Ettan, produced in Sweden, and Timber Wolf, which is produced in the US for the American market. Both brands had a much lower TSNA content than any of the other brands.

The differences, the report notes, result from differences in the production processes: the methods used by Swedish Match to produce Swedish snus are based on the use of specifically selected types of tobacco as well as on a process of tobacco »pasteurization« during production of snus (see accompanying article).

The study also looked at what happened to the products during storage without refrigeration after two, four and six months. The study found that in certain American brands, the nitrosamine content increased substantially over time. On the other hand, no such increase was found in Ettan or Timber Wolf. According to the report, research also indicates that cold storage of finished products prevents new formation of TSNAs – which Swedish Match has taken into account in its handling of snus.

MASSACHUSETTS IS THE STATE that often takes the lead in regulating tobacco use, and new initiatives originating there generally attract considerable attention from other state governments. The current study has also been noted in the media – for example, in a large article in the respected Wall Street Journal.

That article points out that, although nitrosamines are considered carcinogenic, new epidemiological studies in Sweden have not found any link between the use of snus and cancer of

the oral cavity. According to the Wall Street Journal, researchers now speculate that this may in fact be due to the low nitrosamine content of Swedish-produced snus. □

This is GothiaTek®

GothiaTek® is a standard for Swedish snus that has been developed within Swedish Match based on decades of research and development. The purpose of the standard is to keep undesired components in the final product below specified limits. These components exist or are formed in nature and may occur in crops of various types.

In order to stay below these limits, it is essential that the production of snus follow **GothiaTek®** specifications at all stages of the process, from seed to can of snus. The following are some of the most important requirements.

RAW MATERIAL

The **GothiaTek®** standard stipulates that snus should be produced mainly from air-cured tobacco and must not contain gene-modified crops.

Special cultivation and curing methods have been developed within the framework of the **GothiaTek®** standard.

Since the chemical composition of the tobacco is crucial in determining whether the end products can meet specifications, a special »early warning system« has been developed. In accordance with this system, samples

are taken while the tobacco is still in the grower's barn and sent to Sweden for analysis. Tobacco with a chemical composition that do not meet specifications is not purchased.

The use of additives, such as flavors, is governed by the rules applicable in the countries where the end products are marketed. In Sweden, the Food Act applies. In certain cases Swedish Match applies its own, stricter requirements.

PRODUCTION

The tobacco is finely screened in a carefully controlled process so that foreign particles can be identified and removed.

Snus produced in accordance with the **GothiaTek®** standard must be heat-treated so that the greater part of the tobacco's natural bacterial flora is rendered harmless (pasteurized). The heat treatment process is performed in a closed system that excludes all external sources of bacteria or contaminants.

All processing is conducted under strict hygienic rules. Packaged snus is transferred immediately to cold-storage facilities.



RESEARCH AT SWEDISH MATCH has also generated keen awareness of the importance of the tobacco curing process. The drying (curing) of green tobacco is an extremely delicate process, since the tobacco must not be allowed to dry to the point that it crumbles. Incorrect curing, however, can result in the growth of bacteria in the tobacco leaves. The bacteria then form nitrite, which in turn reacts chemically with alkaloids to form nitrosamines. In an unfortunate combination of circumstances, the nitrosamine content can become very high. Fire-cured tobacco, which is used in certain tobacco products, contains other undesired components as well, such as benzopyrene.

Since the curing process is so important, for its Swedish snus Swedish Match now to a large extent relies on growers who cultivate and cure the tobacco in accordance with the company's specifications.

»We give highly detailed instructions specifying exactly how the leaves are to

be hung and how the ventilation is to be set up in the curing barns. Moreover, for our Swedish snus we have almost completely discontinued the use of fire-cured tobacco,« says Inger Wahlberg.

The production process as specified in the **GothiaTek®** standard is designed so that no nitrosamine formation occurs during this stage. Other production technologies involve fermentation of the tobacco, which can stimulate the growth of undesirable bacteria. Such bacterial growth can be restricted, however, as Swedish Match has demonstrated with its American snuff, which also has a considerably lower nitrosamine content than other snuff products in the US.

SNUSS MADE IN SWEDEN is not fermented, but rather heat-treated in a process resembling pasteurization. While it does not result in a completely sterile product, this process does kill most bacteria, which in turn makes the product more stable in storage. □



Inger Wahlberg at Swedish Match's research department has developed standards for Swedish snuff that minimize amounts of undesirable substances.

For Inger Wahlberg, witnessing the successful result of years of painstaking research and development work is enormously satisfying.

»At Swedish Match, we work on areas identified as problem areas by government authorities and scientists. We have also contributed to technological progress by consistently looking for new, better raw materials and by improving the production process. □

What the media are saying

»BEST INVESTOR ON THE STOCK MARKET«

Swedish financial daily, Dagens Industri, notes that Swedish Match's repurchasing of shares has resulted in an increase in value of SEK 0.5 billion.

»Dagens Industri's calculations show that, viewed as a capital investment, repurchasing has proved highly profitable. The absolute winner is Swedish Match, which has achieved an increase in value of half a billion kronor. And that's only the shares remaining following the company's cancellation of almost 40 percent of those repurchased.«

(DAGENS INDUSTRI, SEPTEMBER 10)

SNUFF DOES NOT AFFECT ALCOHOL TESTING

Occasionally, suspected drunk drivers claim that their alcohol tests have shown increased levels of alcohol because they had snuff in their mouths. A drunk driver in Norway was recently acquitted based on this defense. However, forensic chemists in Linköping, Sweden, tested the exhaled air of ten snuff users and confirmed that snuff does not affect alcohol testing.

(DAGENS NYHETER, JUNE 21)

TOBACCO PLANTS USED IN FIGHT AGAINST CANCER

The US biotechnology company, Large Scale Biology, is looking for ways to use tobacco plants in the search for a cure for cancer. Researchers are accustomed to refining and genetically manipulating the leafy and rapid-growing tobacco plant. Now it is to be put to use in cultivating human stem cells in the search for a vaccine against various forms of cancer.

(AFTONBLADET, AUGUST 5)

SNUSS GIVES HOPE TO KUNGÄLV

The construction of the new snus factory in Kungälv is proceeding according to plan. The beginning of 2002 will see final adjustments being made to the production process. During the winter, personnel will be trained. The first portion-packed sachets will leave the factory in the summer of 2003.

(GÖTEBORGS-POSTEN, AUGUST 21)

LONG LIFE WITH CIGARS

Cuban Juan Mulato, recently turned 117 years, has smoked cigars his entire life, reports Cuban television. Mulato immigrated to Cuba from Haiti at the beginning of the 20th century.

(SYDSENSKA DAGBLADET, SEPTEMBER 5)

ÅLAND ISLANDS EXPLAIN POSITION TO EU

The treatment of snuff in the Åland Islands interests the European Commission, which has asked Finland to what extent the Community's prohibition against snuff is being followed in the country. The county administration of the Åland Islands has explained to the Commission that the snuff directive has been interpreted as prohibiting new tobacco products but not snuff, which has been available in Åland for at least a hundred years.

(HUFVUDSTADSBLADET, SEPTEMBER 12)

NAMES & NEWS

New sales organization for Northern Europe

SWEDISH MATCH HAS had a new organization for sales and marketing in North Europe Division since September 1.

All sales in the North Europe Division – which consists of Scandinavia, Finland, Iceland and the Baltic States – are being brought together in a single organization under the management of Bengt Jönsson. The former division between Sweden and the rest of the Nordic Region accordingly no longer exists.

The new structure that is emerging in the retail trade, which is the primary channel for the sale of Swedish Match products to consumers, is one of the factors contributing to the change.

»Retailing is becoming increasingly internationally oriented,« Bengt Jönsson says. »It now views the Nordic Region as a single market. So it is natural for us to change our organization in order to increase our effectiveness.«

Swedish Match will in the future operate in a uniform manner throughout the Nordic Region, and this will ultimately contribute to increased sales for the Group.

The Nordic Region, which is one of the most important markets, accounts for slightly more than 30 percent of the Group's sales.

A single Nordic organization is being created in the same way for marketing, including brand name profiling. It is managed by Jan-Erik Knutsen.

The two Nordic managers report to Stefan Gelkner, President of the North Europe Division.

Dry snuff brands acquired

SWEDISH MATCH HAS ACQUIRED the smokeless tobacco brands of Premium Tobacco Traders. The purchase will enable Swedish Match to market dry snuff in Germany, Switzerland and France. Total annual sales of the brands, which include Singelton and Rummey's, amount to about SEK 30 M.

Gallaher purchases Austria Tabak

UK TOBACCO COMPANY GALLAHER is acquiring the Austrian state's holding in Austria Tabak for EUR 1.87 billion. The deal will make Gallaher the fourth largest tobacco company in Europe.

Austria Tabak closes down plant in Malmö

AUSTRIA TABAK IS CLOSING DOWN its plant in Malmö, due to reduced market shares in Sweden and the fact that the plant's productivity is insufficiently high compared with the company's three plants in Austria.

New appointments

JOHNNY GHOSAL has been appointed Vice President for Operations and Supply in the North America Division, effective August 1, 2001. Johnny Ghosal joins the division from his former position as technical manager at Austria Tabak Scandinavia AB. He succeeds Doug Pajak, who will be retiring effective February 1, 2002.



Mac Baren new production partner

When Danish company Mac Baren takes over production of a number of Swedish Match's pipe tobacco brands, the operations will be in the capable hands of a well-known family company with traditions dating back 150 years and an excellent reputation for quality.

Effective July 1, 2002, Mac Baren will be replacing Austria Tabak Scandinavia as the producer of several of Swedish Match's well-known pipe tobacco brands. The plant, which the Austrians took over from Swedish Match 1999, is to be closed down, and Austria Tabak plans to move its own cigarette production to Austria.

»Mac Baren's 150 years of experience in the pipe tobacco segment, combined with several generations of accumulated knowledge, provide us with a guarantee of being able to retain and strengthen the quality that is the hallmark of our products.«

THE AGREEMENT ONLY COVERS production. Both companies will retain their own marketing and sales organizations and will thus remain competitors in the pipe tobacco market.

For Swedish Match, one of the world's largest producers of pipe tobacco, with its own plants in the US



Mac Baren has been in the ownership of the Halberg family since its origins in the mid-19th century. Today, Mac Baren is Scandinavia's second largest manufacturer of pipe tobacco.

and South Africa, this product area accounted for 7 percent of consolidated net sales in 2000. Mac Baren, for its part, is Scandinavia's second largest producer of pipe tobacco.

The brands that Mac Baren will be producing for Swedish Match include Borkum Riff, which is sold in 60 countries and has strong market positions in Continental Europe and other parts of the world. Production of the Greve Hamilton brand, the largest in Sweden, as well as the Caravelle, Mellow Breeze and Blue Ridge brands, will also move to Denmark.

MAC BAREN, OWNED BY the Halberg family, has a long and exciting history. In the mid-1800s, a distant ancestor, Hans Nissen Halberg, was captain of a ship that transported chewing tobacco, snuff and pipe tobacco for smokers of long-stemmed pipes. Captain Halberg's son, however, had no love of the sea and instead chose to take over a tobacco producer in Svendborg, thereby laying the foundations of a family dynasty in the tobacco area.

The partnership with Mac Baren will also give Swedish Match close links to a market in which pipe smoking is firmly entrenched, since Denmark has the largest number of pipe smokers per capita in the world. □

Tobacco litigations not Europe's cup of tea

Lawsuits and legal processes are part of everyday life for companies with operations in the US. Naturally, the tobacco industry is no exception. In Europe, on the other hand, attempts to sue tobacco companies have been few and, to date, without success.

In only one case, known as the Gourlain case, in France, has a court ruled against the industry. But this ruling was recently overturned by a court of appeal.

During the past 45 years, thousands of legal actions have been brought against the tobacco industry in the US. In some cases, this has involved class action suits where a number of consumers have joined forces against a tobacco company, and, in some instances, states have sued the industry in order to obtain damages with which to finance increased medical care costs. Some 100 cases are currently

awaiting trial in US courts, and 99 percent of these cases involve cigarettes.

THE CASES HAVE ATTRACTED great attention in mass media and readers may get the impression that it is not only easy to sue tobacco companies in the US but also to win against them. However, this is not the case. On the contrary, the industry has won almost all individual cases to date. In a few cases, courts of first instance have ruled against the industry, but so far, no such verdict has survived appeal. Damages have only been paid in one single case.

The US legal system differs considerably from those of European countries and consequently, one should not assume that lawsuits of this type to any extent will be imitated in Europe. In Sweden, one of the most significant differences is the fact that we do not have a jury system. Furthermore, Swedish lawyers, unlike their US counterparts, cannot work on contingency fees. A third difference is that the plaintiff may not receive compensation in excess of the harm suffered, while in the US, it is possible and common to be awarded also punitive damages. In Sweden, if you lose a case, you normally must

pay the litigation costs, which is a major deterrent to initiate legal proceedings against anyone. There is thus a risk involved in bringing a lawsuit, which is not the case in the US.

THE FEW ATTEMPTS TO SUE the tobacco industry in Europe have so far been without success. In 1997, Swedish Match was sued in a cigarette case, but after various twists and turns, the suit was withdrawn and the case was dismissed.

Swedish Match has been sued a number of times in the US, but all such actions have been withdrawn or dismissed by the courts. To date, Swedish Match has not had to go through any product liability trial in the US.

Swedish Match is currently involved in two cases in the US. One of these is the consolidated West Virginia case, where the company is sued together with all other US tobacco companies. Trial is scheduled to take place next year.

In Minnesota, Swedish Match is sued, together with two other companies, in an individual case known as the Tuttle case, which is currently at the pre-trial stage. Trial is scheduled for the latter half of 2002. □

Swedish Match share is top performer

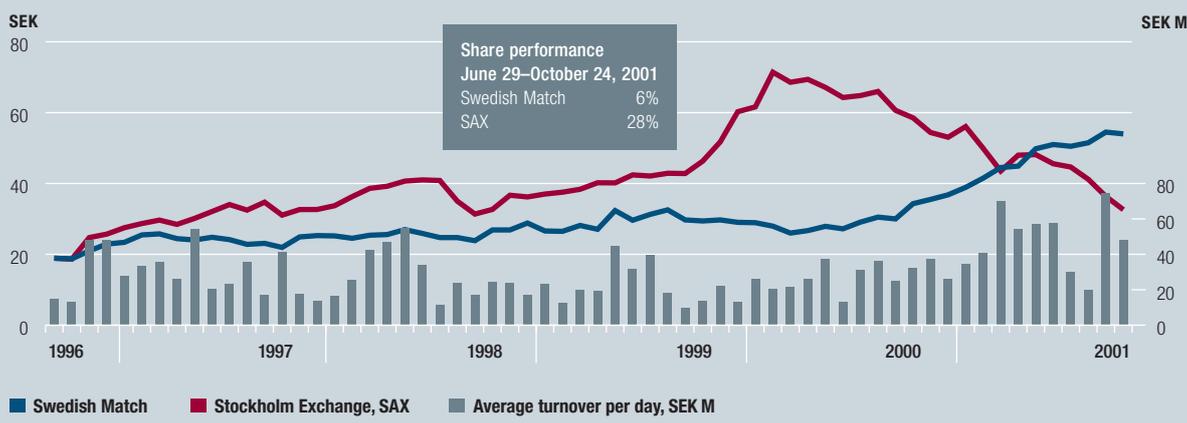
During the third quarter, the Swedish Match share consolidated the substantial price rise noted during the year to date. The share rose by nearly 8 percent during the quarter, from SEK 50 to SEK 54. During September the share recorded its new historic all-time high of SEK 55.

Since the beginning of the year, the Swedish Match share has risen by some 40 percent, while the Stockholm

Exchange as a whole has declined by 27 percent. The Swedish Match share thus shows the best price performance to date this year of all the most heavily traded shares on the Stockholm Exchange. The Nasdaq Exchange in the US, where Swedish Match's American Depositary Receipts are listed, has declined by 32 percent since the beginning of the year. However, the scope of trading in Swedish Match shares is neg-

ligible in New York, while by far the largest portion of the shares is traded on the Stockholm Exchange. The share turnover was low during the third quarter due to the summer slowdown, in parallel with the trend for the majority of Swedish shares. Turnover has increased during October, averaging one million shares per day (Swedish Match has slightly more than 357 million shares outstanding). □

SHARE PRICE AND TURNOVER DURING FIVE-YEAR PERIOD



TOTAL RETURN

Total return, %

Jan–Oct 22, 2001	48
2000	29
1999	4
1998	17
1997	15
May 15–Dec 31, 1996	10
Maj 15, 1996–Oct 22, 2001	272
(20% annual return)	

KEY RATIOS

Earnings per share, SEK

Oct 2000–Sep 2001	3.36
Jan–Dec 2000	2.76
July–Sep 2001	0.88
July–Sep 2000	0.73

Shareholders' equity per share, SEK

Sep 30, 2001	12.43
Sep 30, 2000	11.95

Comparison of brand-name companies

The Swedish Match share is normally compared with tobacco company shares. However, we thought it would be interesting, in this issue of Inside, to compare Swedish Match with a number of other international consumer-goods companies.

The selection comprises brand-oriented companies that, on a global basis, sell fast-moving consumer goods of a somewhat more exclusive and pleasure-oriented nature than pure staple products. Cigarettes and spirits are excluded. The companies include Coca-Cola, Cadbury Schweppes (beverages, etc.), Kraft Foods (coffee, chocolate), Interbrew (beer), L'Oréal (cosmetics), Estée Lauder (cosmetics), Gillette (shaving products, etc.) and Swedish Match.

Comparisons made using the index reflect the trend of the Swedish Match share compared with other possible investments, viewed from the perspective of an international investor.

The starting point for the »Good Life Index« is June 1996. Swedish Match was listed on the Stockholm Exchange on May 15 of the same year. As the index

shows, the Swedish Match share has performed well compared with the reference group, outperforming the index by 10 percent for the period as a whole. The Good Life Index in turn has outperformed the Morgan Stanley World Index by a further 23 percent! This is mainly

due to the surge in market prices during the latter part of the period. During 2001, Swedish Match has been the only company included in the index to post a rising share price. Over the entire five-year period, only L'Oréal has risen more.

The index is converted into SEK. □

SWEDISH MATCH AND SM GOOD LIFE INDEX, JUNE 30, 1996–OCTOBER 12, 2001



NAMES & NEWS



Arnold André's Vasco da Gama cigar is available in three different flavors – imparted by the different wrappers used: Cap de Cuba, Sumatra and Brasil. As an elegant finishing touch, each cigar is wrapped in a coil of cedarwood.

Arnold André – 150 years in the world of cigars

A FESTIVAL OF CULTURE featuring a Nobel prize-winner, a demonstration of cigar manufacture and lively Caribbean music provided an appropriate setting for the festivities in celebration of Arnold André's 150 years in the cigar business.

Arnold André is a partly-owned subsidiary of Swedish Match. The company was founded as early as 1817, but it was not until 1851 that it became established in Bünde, a small community in Westphalia, 150 kilometers south of Bremen, known as the »cigar town.«

Arnold André celebrated its 150-year jubilee with a cultural festival that provided guests with a full and varied program, including the chance to listen to a lecture and readings from his works by Derek Walcott, winner of the Nobel Prize for Literature in 1992, or to learn from master cigar-maker Luiz Lopez how to roll a good cigar.

Although Arnold André is a company rich in history, the theme of the jubilee was nonetheless the future. Without the commitment and craftsmanship of its 450 employees, it could never have become the successful company it is today. All the employees now have their sights set on the future.

Restructuring of cigar production

SWEDISH MATCH PLANS TO IMPLEMENT a comprehensive restructuring of its cigar operations during the autumn. Production activities of the wholly owned Swedish Match Cigars NV will be concentrated to the plant in Houthalen, Belgium, while production will be terminated at the nearby plant in Overpelt, Belgium. Approximately 140 employees will lose their jobs in conjunction with the structural changes, and negotiations are now in progress to determine how the closure will be implemented.

»The changes are part of continuous efforts to become more efficient and increase the Group's competitiveness,« says Peter Nilsson, head of the Continental Europe division. New investments will also be made at the plant in Houthalen, including the purchase of new machines.

»I am convinced that Houthalen will be one of the most competitive cigar production plants in Europe,« says Peter Nilsson.

Investments will also be focused on efforts to meet increasingly stringent product requirements imposed by EU laws and directives.

Some production will also be transferred to the plant in Pandaan, Indonesia, which is included in European operations for organizational purposes.

As a result of the structural changes, Swedish Match – the world's second largest cigar company – will continue manufacturing cigars in the US, the Dominican Republic, Honduras, Indonesia and Belgium. Minor structural changes will also be made within General Cigar, the American company in which Swedish Match holds a 64-percent ownership interest, including a decision to close the company's office in the state of Connecticut.

SWEDISH MATCH CHAIRMAN BERNT MAGNUSSON:

»A cigar with coffee and after hunting are two of life's greatest pleasures«



ABOUT BERNT MAGNUSSON

Age: Celebrated his 60th birthday recently.

Family: Wife Lotta and three grown daughters.

Residence: In the center of Stockholm.

Leisure-time activities: Hunting and tennis.

On his night table: History books – currently:

»Svensk Stormaktstid« (Sweden's Period as a Great Power), »Gustav II« and »Stalins Hämnd« (Stalin's Revenge).

Other positions: Chairman of Assi Domän AB and Dyno Nobel ASA; Vice Chairman of Net Insight and member of the Boards of Directors of Volvo Car Corp., Avesta Polarit and Nordea.

When Swedish Match Chairman Bernt Magnusson is asked when a cigar is most enjoyable, he doesn't hesitate to answer: »One of life's great pleasures is to smoke a good cigar and bite into a bit of chocolate after a fine meal. This may possibly compete with a cigar smoked around a campfire after a successful hunt.«

Bernt Magnusson's answer is based on long experience. He has enjoyed cigars for 35 years, most often one a day – neither more or fewer. For the most part, but not always, the cigars of course come from the Swedish Match collection. »A certain amount of monitoring of competitive cigars – Cuban ones, for example – is also part of the Chairman's job,« he notes.

One of the occasions when he smokes the products of other manufacturers is during meetings of the Gustav V Cigar Club. »There, we usually try out cigars,« he says, »and, unfortunately, I am not always successful in persuading my fellow club members to smoke only our cigars.«

Bernt Magnusson switches back and forth, choosing cigars from a large part of Swedish Match's selection. His choice is determined by the occasion. With coffee, he prefers a Macanudo, while a La Gloria Cubana is best for an evening stroll. After hunting he prefers a Garcia y Vega.

BERNT MAGNUSSON KEEPS an assortment of Swedish Match cigars in his humididor. He is extremely careful about the air humidity. »It should not be lower than 68 percent,« he says. »You obtain the best humidity with distilled water.«

The fact that Bernt Magnusson enjoys

the aroma of a cigar is perhaps not surprising. What is not equally clear is that many people who do not smoke cigars like the aroma, since it is associated with pleasant memories. »When I am smoking a cigar during a walk, people who are walking behind me even come up and tell me about a memory that the aroma from my cigar has called forth,« he says.

CIGARS ARE SMOKED at meetings of the Swedish Match Board of Directors. »It is probably the only board of directors' meeting in Sweden where members still smoke,« Bernt Magnusson says. »And this naturally contributes to the fellowship and solidarity of the Board.«

Swedish Match is less often involved these days in the heated debate over tobacco. »This is due largely to the fact that we are no longer making cigarettes. Our business is accepted even in circles that have a basically negative attitude toward tobacco. Cigars and pipe tobacco are clearly products for adults, and the use of snuff contributes to the reduction in cigarette smoking.«

»And moderate cigar smoking, in situations where we are considerate of our surroundings, is not viewed as improper – but rather as a custom reflecting refinement and even a certain amount of status.« □

SWEDISH MATCH IN BRIEF

Swedish Match is a unique company with a complete range of market leading snuff and chewing tobacco, cigars and pipe tobacco – tobacco's niche products – as well as matches and lighters. The Group's global operations generated sales of SEK 11,533 M in 140 countries in 2000. The Group has 13,672 employees. Swedish Match shares are listed on the Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

Smokeless Tobacco

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

MARKET POSITION

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

Chewing Tobacco: Market leader in North America



Cigars and Pipe Tobacco

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

MARKET POSITION

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

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



Matches and Lighters

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

MARKET POSITION

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

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



KEY FIGURES

SEK M	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 SEK 3,707 M in capital gain etc.

☆☆☆
SWEDISH MATCH