SWEDISH MATCH

NASDAQ: SWMAY OM Stockholm Exchange: SWMA

Report on Operations full year 2000

- **Sales increased 22 percent to 11,533 MSEK (9,420)**
- **Operating income, before items affecting comparability, increased 32 percent to 1,886 MSEK (1,434)**
- **Income before taxes and before items affecting comparability increased to 1,710 MSEK (1,318)**
- **EPS increased 23 percent to 2.78 SEK (2.26)**
- **Total shares outstanding at year end amount to 375.1 million (431.4)**
- **The Board proposes an increased dividend to SEK 1.35 (1.25)**

Swedish Match sales for the year increased by 22 percent, to 11,533 MSEK (9,420) of which acquisitions accounted for 16 percentage points. In the fourth quarter, sales increased to 3,196 MSEK (2,562) an increase of 25 percent, of which acquisitions accounted for 14 percentage points.

The focus in 2000 has been to:

- create growth and strengthen Swedish Match market position through acquisitions
- lay the foundation for increased organic growth through investments in business and product development
- optimize the balance sheet structure through share repurchasing programs.

Sales and operating income increased significantly for the product areas of smokeless products (snuff, snus, and chewing tobacco) and brown tobacco (cigars and pipe tobacco).

During the year Swedish Match has reduced the total number of outstanding shares by 13 percent, to 375.1 million.

Through acquisitions made over the past two years, and through organic growth, the Company has improved its market positions and experienced continued operating income growth in brown tobacco and smokeless products. In lights (lighters and matches), the Company achieved an improved operating margin for lighters. The restructuring program with matches in Europe continues.

The Company's primary drivers for organic growth are its snuff businesses in North America and North Europe. Both markets reached new record numbers regarding both sales and income.

Operating income for year 2000 increased in all product areas except for matches.

Operating income for the year, before items affecting comparability and divested business, increased to 1,886 MSEK (1,434), or 32 percent. EPS increased to 2.78 SEK (2.26) or 23 percent.

For the fourth quarter, operating income before items affecting comparability increased to 500 MSEK (398), or 26 percent.

Summary of Consolidated Income Statement

	October - December		Full year	Full year
MSEK	2000	1999	2000	1999
Sales	**3 196**	**2 562**	**11 533**	**9 420**
Operating income before divested business	**500**	**398**	**1 886**	**1 434**
Divested business	-	-	-	255
Operating income	**500**	**3**	**1 886**	**1 689**
Net income for the period	**302**	**-186**	**1 153**	**4 656**

Summary of EBITDA

	October - December		Full year	Full year
MSEK	2000	1999	2000	1999
EBITDA excluding divested business	**644**	**507**	**2 429**	**1 803**

Sales by product area

	October - December		Change	Full year	Full year	Change
MSEK	2000	1999	%	2000	1999	%
Snuff	552	480	15	2 071	1 688	23
Chewing Tobacco	316	259	22	1 227	1 068	15
Cigars	843	437	93	2 690	1 438	87
Pipe Tobacco & Accessories	200	212	-6	762	420	81
Matches	478	418	14	1 712	1 673	2
Lighters	201	154	31	720	662	9
Other operations	606	602		2 351	1 742	
Subtotal	**3 196**	**2 562**	**25**	**11 533**	**8 691**	**33**
Divested business	-	-	-	-	729	-
Total	**3 196**	**2 562**	**25**	**11 533**	**9 420**	**22**

Operating Income by product area

MSEK	October - December 2000	1999	Change %	Full year 2000	1999	Change %
Snuff	250	221	13	954	828	15
Chewing Tobacco	87	73	19	331	297	11
Cigars	104	55	89	347	206	68
Pipe Tobacco & Accessories	54	59	-8	213	109	95
Matches	23	14	64	90	107	-16
Lighters	21	12	75	74	14	429
Other operations	-39	-36		-123	-127	
Subtotal	**500**	**398**	**26**	**1 886**	**1 434**	**32**
Divested business	-	-	**-**	-	255	**-**
Items affecting comparability	-	-395	-	-	3 707	-
Total	**500**	**3**		**1 886**	**5 396**	

Smokeless Tobacco

Swedish Match has a broad presence in smokeless tobacco (Snuff and Chewing Tobacco), with significant market positions in the Nordic countries, the US, and South Africa.

Snuff

The Company has a strong presence in the Nordic markets, the US, and South Africa. In the Nordic markets, which is the Group's biggest market for snuff, Swedish Match brands such as General, Ettan, and Catch are leading drivers of volume growth. In the US, Timberwolf moist snuff has the largest share of the fast growing value priced segment. Sales for the year amounted to 2,071 MSEK (1,688), an increase of 23 percent.

Sales improved in both major markets. In North Europe, volume grew by 8 percent, which is higher than the average 5 percent growth experienced in recent years. Stronger volume growth can be attributed to increased marketing activity, new product launches, and a continued growing consumer base, as consumers switch from cigarettes to snuff. In the US, volume grew by 19 percent. Swedish Match continued to improve its market position in the growing US market. Year-to-date market share in the US increased to about 8 percent, compared with roughly 6 percent year ago.

For the fourth quarter, total snuff sales were up 15 percent versus fourth quarter year ago, while operating income was up 13 percent. As a result, with continued volume growth for snuff in North Europe, especially for portion packed products, the Company announced in September that it would build a new factory.

Chewing Tobacco

Chewing tobacco is sold primarily in the North American market. Swedish Match sells the number one brand of chewing tobacco in the US - Red Man, as well as Southern Pride, a fast growing value brand. The Chewing Tobacco segment is characterised by a moderate

decline in volume (average of 4 percent per year). Sales increased 15 percent during the year, while operating income increased 11 percent. Sales and operating income improvement are a result of price increases, positive currency effect, as well as an improved sales force efficiency and synergies from an increased sales force due to the acquisition of General Cigar's mass market business.

Sales for the year amounted to 1,227 MSEK (1,068). Sales in the fourth quarter increased to MSEK 316 (259). Operating income for the year improved to 331 MSEK (297). Operating income in the fourth quarter grew to 87 MSEK (73).

Cigars and Pipe Tobacco

Along with smokeless tobacco, cigars and pipe tobacco has been identified as one of the growth opportunities for Swedish Match. Acquisitions, which have been made in this area over the past year, provide a significant portion of sales and operating income growth.

Cigars

Swedish Match is one of the largest producers of cigars and cigarillos in the world, and has a strong presence on both the European and North American markets. In both markets, the company offers a full range of products. Swedish Match, through its 64 percent holding of General Cigar, is now the largest player in the US premium cigar market, with, its Macanudo, Partagas, and Punch brands among others, having a 25 percent share of the market. In Europe, its La Paz, Willem II, Justus van Maurik, and other brands enjoy wide appeal.

Sales for the year amounted to 2,690 MSEK (1,438), an increase of 87 percent, with growth coming primarily for acquired businesses. Fourth quarter sales reached 843 MSEK (437).

Operating income reached 347 MSEK (206), an increase of 68 percent, due mainly to acquisitions. For the fourth quarter, operating income reached 104 MSEK (55).

Pipe Tobacco and Accessories

Swedish Match is one of the world's largest manufacturers of pipe tobacco, with such well known brands as Borkum Riff, Half and Half, and Boxer. The main markets for Swedish Match pipe tobacco are Europe, North America, and South Africa. The pipe tobacco market is characterised by declining volume in Europe and North America.

Sales for the year amounted to 762 MSEK (420), an increase of 81 percent, with growth coming from South African acquisitions. Sales for the fourth quarter amounted to 200 MSEK (212). Operating income rose to 213 MSEK (109) for the year, and was 54 MSEK (59) for the fourth quarter.

Following the close of the report period Swedish Match announced an agreement to acquire the South African pipe tobacco business of British American Tobacco (BAT). This acquisition will significantly strengthen the Company's market position in South Africa. The acquisition includes a production facility as well as tobacco inventory and brands and will be consolidated from February 1, 2001. Annual sales amount to approximately 200 MSEK.

Lights

Swedish Match is a global producer and marketer of matches and lighters. These products are sold in over 140 countries.

Matches

Swedish Match maintains a broad portfolio of well-known brands. These brands are mostly local, and have leading positions in their home countries. Major brands include Swan, Red Heads, Feudor, Solstickan, and many others. The match category is characterised by a number of small local competitors. The Match Operation in Europe is undergoing a major restructuring, with the aim to improve operating margin to 10 percent.

Sales for the year amounted to 1,712 MSEK (1,673). Operating income declined 16 percent to 90 MSEK (107). For the fourth quarter, sales reached 478 MSEK (418) and operating income increased to 23 MSEK (14).

Lighters

Swedish Match is the third largest manufacturer of disposable lighters in the world. The Company's main brand is Cricket. The world market for lighters is characterised by flat volumes.

Swedish Match sales volumes increased during the year. Following a significant restructuring of the Lighter business in 1999, which included the closure of one of its factories, Swedish Match achieved significant improvements in its operating margins in 2000. Sales for the year reached 720 MSEK (662), and operating income improved to 74 MSEK (14). For the fourth quarter, sales were 201 MSEK (154) and operating income was 21 MSEK (12).

Other Operations

Other operations include, among other things, the distribution of tobacco products on the Swedish market as well as corporate overheads and costs for business development. For the year, net expenses for other operations were -123 MSEK (-127).

Financing and net financial expense

At the end of the year, the Group had a net debt of 2,739 MSEK, as compared with a net cash position of 1,267 MSEK on December 31, 1999. Significant uses of cash were the acquisition of 64 percent of General Cigar, dividend, redemption and repurchase of shares.

Cash and bank balances, including short term investments, amounted to 2,960 MSEK at the end of the period, compared with 7,296 MSEK at the beginning of the year. The liquid funds are primarily invested in short-term interest bearing securities.

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

Taxes

Total tax for 2000 amounted to 547 MSEK (638) corresponding to a 32 percent of income before taxes. The total tax for 2001 is estimated to stay at 32 percent.

Profit per share

Profit per share before items affecting comparability increased to 2.78 SEK (2.26), an increase of 23 percent. Profit per share during the fourth quarter increased to 0.78 SEK (0.47). EBITA per share before items affecting comparability increased to 3.35 SEK (2.57), an increase of 30 percent. During the fourth quarter the corresponding profit per share amounted to 0.96 SEK (0.60).

The Board of Directors have agreed to propose at the annual shareholders' meeting to distribute a dividend of 1.35 SEK per share (1.25) or 506 MSEK (539) in total calculated on the number of outstanding shares at year-end.

Investments

The Group's direct investments in tangible fixed assets amounted to 331 MSEK (452). In addition, 1,660 MSEK (51) was invested in acquisitions of subsidiary companies during the period. Total depreciation and amortization amounted to 543 MSEK (381), of which depreciation on tangible assets amounted to 262 MSEK (222) and amortization of intangibles amounted to 281 MSEK (159).

During the fourth quarter, total depreciation and amortization amounted to 144 MSEK (109), of which depreciation on tangible assets amounted to 62 MSEK (51) and amortization of intangibles amounted to 82 MSEK (58).

Acquisitions

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

In May, Swedish Match and Gum Tech International Inc. signed a definitive agreement for a joint venture to develop, manufacture, market, and distribute non-tobacco nicotine products.

In the second quarter the acquisition of Brasant Enterprises (PTY) Ltd in South Africa was announced. Brasant is a leading South African Tobacco distributor for Tobacco Speciality, Convenience and Hotel/Restaurant classes of trade.

In May, the Company completed its transaction with General Cigar Holdings Inc. whereby Swedish Match acquired 64 percent of the outstanding shares of General Cigar, and the Cullman family owns the remaining 36 percent.

In July, the outstanding minority (5 percent) in Swedish Match Cigars B.V. was acquired from Arnold André.

In July, Swedish Match acquired an additional 22 percent of the outstanding shares of Wimco Ltd, bringing total share ownership for Swedish Match up to 74 percent of the company.

In January 2001, after the close of the period a small sales company for advertising products in Belgium was acquired.

Tobacco tax

During the past 12 months, total tobacco tax and value-added tax on tobacco tax paid by Swedish Match in Sweden amounted to 9,662 MSEK (9,016).

Average number of Group employees

The average number of employees in the Group during the year was 13,672, compared with 11,797 for the full year 1999.

Share structure

After share redemption, issue of new shares and increase of the par value of the shares during the second quarter, the registered number of shares of the Company is 403,946,391 with a par value per share of 2.40 SEK.

Following an authorisation by the Annual General Meeting on April 27 to a share buy-back program of up to 5 percent of the outstanding shares (which was increased to a 10 percent authorisation at an extraordinary meeting with the shareholders on October 27), the Company has, as of December 31, 2000 bought 28,799,500 shares, equivalent to 7.13 percent of the shares of the Company. The average price of the shares repurchased is 31.39 SEK. At the extraordinary shareholders' meeting it was further resolved that the share capital be reduced by cancelling 17,350,210 of the shares repurchased. An application to reduce share capital has been made.

The total number of shares outstanding as of December 31, 2000 after the repurchase of shares is 375,146,891.

Options program

During the first half of the year, as a part of a bonus program for Senior Management, 2,791,283 call options were issued. The call options can be exercised from March 13, 2003 until March 14, 2005. Every option entitles the holder to buy 1,02 shares at a price of 34.70 SEK per share.

The issued call options does not lead to any dilution of the profit per share for the year 2000.

Additional information

The Annual General Meeting will be held in Stockholm on April 24, 2001. The 2000 Annual Report is expected to be released and distributed mid March, 2001. The interim report covering operations during the first three months of 2001 will be released on April 24.

Stockholm, February 8, 2001

Board of Directors

Key data

	2000	1999
Operating margin, %*	16.4	17.9
Return on operating capital, %*	23.3	30.6
Return on shareholders´equity, %	21.8	115.0
Net debt/equity ratio, %	52.1	Positive
Equity/assets ratio, %	32.3	36.6
Investments in tangible assets, MSEK	331	452
EBITDA (before items affecting comparability)	2 429	2 070
EBITDA (after items affecting comparability)	2 429	5 777
Average number of employees	13 672	11 797
*Share data***		
Earnings per share after tax***		
Before items affecting comparability, SEK	2.78	2.26
After items affecting comparability, SEK	2.78	10.56
Adjusted earnings per share		
Before items affecting comparability and amortization, SEK****	3.35	2.57
Shareholders´equity per share, SEK	12.36	13.77
Number of shares outstanding at end of period	375 146 891	431 339 663
Average number of shares outstanding during period	410 177 322	431 339 663

* Before items affecting comparability

** Earnings per share for the periods before June 30, 2000 have been adjusted for the bonus element of the redemption of shares

*** Earnings per share for the fourth quarter was 0,78 SEK (0,47) based on an average number of shares of 380,963,880 (431,339,663)

**** Reported net income adjusted for items affecting comparability and amortization (net of taxes) divided by the average no. of shares outstanding

Consolidated Income Statement in summary

	October - December		Change	Full year	Full year	Change
MSEK	2000	1999	%	2000	1999	%
Sales, including tobacco tax	5 336	4 403	21	19 831	16 953	17
Less tobacco tax	-2 140	-1 841	16	-8 298	-7 533	10
Sales	**3 196**	**2 562**	**25**	**11 533**	**9 420**	**22**
Cost of goods sold	-1 832	-1 443	27	-6 647	-5 138	29
Gross profit	**1 364**	**1 119**	**22**	**4 886**	**4 282**	**14**
Sales and administrative expenses	-779	-690	13	-2 736	-2 477	10
Amortization, intangible assets	-82	-58	41	-281	-159	77
Shares in earnings of associated co.	-3	27		17	43	-60
	500	**398**	**26**	**1 886**	**1 689**	**12**
Items affecting comparability	-	-395		-	3 707	
Operating income	**500**	**3**	**-**	**1 886**	**5 396**	**-65**
Net interest expense	-67	-38	76	-175	-131	34
Other financial items, net	0	-15		-1	15	
Net financial items	-67	-53	27	-176	-116	52
Income before taxes and minority interests	**433**	**-50**	**-**	**1 710**	**5 280**	**-68**
Taxes	-126	-149	-15	-547	-638	-14
Minority interests	-5	13		-10	14	
Net income for the period	**302**	**-186**		**1 153**	**4 656**	

Consolidated Balance Sheet in summary

MSEK	**Dec 31,2000**	**Dec 31, 1999**
Intangible fixed assets	4 288	3 268
Tangible fixed assets	2 576	1 866
Financial fixed assets	605	432
Current operating assets	5 852	3 808
Liquid Funds	2 960	7 296
Total assets	**16 281**	**16 670**
Shareholders´equity	4 635	5 940
Minority interests	620	162
Provisions	1 867	1 195
Long-term loans	4 638	5 093
Other long-term liabilties	207	210
Short-term loans	1 061	936
Other current liabilities	3 253	3 134
Total shareholders´equity, provisions and liabilities	**16 281**	**16 670**
Operating capital	9 821	6 352
Net debt	2 739	-1 267

Consolidated Cash Flow Statement in summary

MSEK	**2000**	**1999**
Cash flow from operations before changes in Working Capital	**1 714**	**1 302**
Cash flow from changes of Working Capital	-769	27
Cash flow from operations	**945**	**1 329**
Investments		
Investments in property, plant and equipment	-331	-452
Sale of cigarette operations	-	4 798
Sale of property, plant and equipment	83	83
Investments in intangibles	-11	-2 488
Investments in consolidated companies	-1 660	-51
Changes in financial receivables etc.	-48	115
Cash flow from investments	**-1 967**	**2 005**
Financing		
Changes in loans, etc.	-713	1 655
Dividends	-539	-474
New share issue	66	-
Capital redemption	-1 062	-
Repurchases of shares	-905	-
Other	-120	-
Cash flow from financing	**-3 273**	**1 181**
Cash flow for the period	**-4 295**	**4 515**
Liquid funds at the beginning of the period	7 296	2 876
Translation difference attributable to liquid funds	-41	-95
Liquid funds at the end of the period	**2 960**	**7 296**

Quarterly data

MSEK	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00	Q3/00	Q4/00
Sales, including tobacco tax	4 041	3 838	4 167	4 545	4 403	4 188	5 045	5 262	5 336
Less tobacco tax	-1 884	-1 716	-1 849	-2 127	-1 841	-1 794	-2 174	-2 190	-2 140
Sales	**2 157**	**2 122**	**2 318**	**2 418**	**2 562**	**2 394**	**2 871**	**3 072**	**3 196**
Cost of goods sold	-1 048	-1 076	-1 206	-1 413	-1 443	-1 385	-1 654	-1 776	-1 832
Gross profit	**1 109**	**1 046**	**1 112**	**1 005**	**1 119**	**1 009**	**1 217**	**1 296**	**1 364**
Sales and administrative expenses	-694	-586	-634	-567	-690	-547	-688	-722	-779
Amortization, intangible assets	-21	-23	-36	-42	-58	-55	-66	-78	-82
Shares in earnings of associated co.	2	3	2	11	27	8	8	4	-3
	396	**440**	**444**	**407**	**398**	**415**	**471**	**500**	**500**
Items affecting comparability	-60	-	-	4 102	-395	-	-	-	-
Operating income	**336**	**440**	**444**	**4 509**	**3**	**415**	**471**	**500**	**500**
Net interest expense	-26	-24	-45	-24	-38	-10	-41	-57	-67
Other financial items, net	-6	13	5	12	-15	-5	-3	7	0
Net financial items	-32	-11	-40	-12	-53	-15	-44	-50	-67
Income after financial items	**304**	**429**	**404**	**4497**	**-50**	**400**	**427**	**450**	**433**
Income taxes	-158	-143	-145	-201	-149	-137	-136	-148	-126
Minority interests	2	4	-6	3	13	1	-3	-3	-5
Net income for the period	**148**	**290**	**253**	**4299**	**-186**	**264**	**288**	**299**	**302**

Sales by product area

MSEK	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00	Q3/00	Q4/00
Snuff	366	376	402	430	480	459	531	529	552
Chewing Tobacco	256	261	278	270	259	282	318	311	316
Cigars	260	224	370	407	437	405	646	796	843
Pipe Tobacco & Accessories	58	55	53	100	212	173	184	205	200
Matches	433	448	401	406	418	391	414	429	478
Lighters	178	165	173	170	154	175	169	175	201
Other operations	229	243	262	635	602	509	609	627	606
Subtotal	**1 780**	**1 772**	**1 939**	**2 418**	**2 562**	**2 394**	**2 871**	**3 072**	**3 196**
Divested business	377	350	379	-	-	-	-	-	-
Total	**2 157**	**2 122**	**2 318**	**2 418**	**2 562**	**2 394**	**2 871**	**3 072**	**3 196**

Operating income by product area

MSEK	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00	Q3/00	Q4/00
Snuff	158	193	178	236	221	209	241	254	250
Chewing Tobacco	78	75	71	78	73	89	83	72	87
Cigars	22	39	57	55	55	52	87	104	104
Pipe Tobacco & Accessories	9	17	11	22	59	49	52	58	54
Matches	41	29	34	30	14	25	18	24	23
Lighters	4	2	-8	8	12	16	19	18	21
Other operations	-29	-42	-27	-22	-36	-25	-29	-30	-39
Subtotal	**283**	**313**	**316**	**407**	**398**	**415**	**471**	**500**	**500**
Divested business	113	127	128	-	-	-	-	-	
Items affecting comparability	-60	-	-	4 102	-395	-	-	-	-
Total	**336**	**440**	**444**	**4 509**	**3**	**415**	**471**	**500**	**500**

Operating margin by product area

Percent	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00	Q3/00	Q4/00
Snuff	43.2	51.3	44.3	54.9	46.0	45.5	45.4	48.0	45.3
Chewing Tobacco	30.5	28.7	25.5	28.9	28.2	31.6	26.1	23.2	27.5
Cigars	8.5	17.4	15.4	13.5	12.6	12.8	13.5	13.1	12.3
Pipe Tobacco & Accessories	15.5	30.9	20.8	22.0	27.8	28.3	28.3	28.3	27.0
Matches	9.5	6.5	8.5	7.4	3.3	6.4	4.3	5.6	4.8
Lighters	2.2	1.2	-4.6	4.7	7.8	9.1	11.2	10.3	10.4
Group	**15.9**	**17.7**	**16.3**	**16.8**	**15.5**	**17.3**	**16.4**	**16.3**	**15.6**

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The Swedish Match share is listed on the OM Stockholm Exchange (SWMA) and NASDAQ (SWMAY).

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