

ANNUAL REPORT 1997



SWEDISH MATCH 1997

- *Income after net financial items rose to SEK 1,558 million (1,530).*
- *Consolidated sales in 1997 amounted to SEK 7,465 million (7,416).*
- *Increases in Swedish tobacco taxes during the year total 63 per cent. Taxed cigarettes sales in Sweden declined by 27 per cent.*
- *Sales by Snuff Division rose 20 per cent to SEK 1,079 million and operating income by 21 per cent to SEK 522 million. Market share in the US rose from 2.3 per cent to 3.2 per cent.*
- *Smokeless tobacco's share of operating income increased to 51 per cent (41). Cigarette Division's share fell to 29 per cent (41).*
- *Interests in production companies in Turkey, Finland, Bulgaria and India were acquired during the year. In addition, a distribution company in Sweden was acquired.*
- *Income per share was SEK 2.25 (2.39).*
- *Proposed dividend per share for 1997 SEK 1.10 (1.10), corresponding to SEK 510 million.*
- *Share redemption for approximately SEK 1,200 million proposed by the Board.*

KEY FIGURES		
<i>SEK M unless otherwise stated</i>	1997	1996
Sales	7,465	7,416
Operating income before items affecting comparability	1,586	1,723
Operating income	1,586	1,600
Income after net financial items	1,558	1,530
Profit for the year	1,045	1,109
Return on shareholders equity, %	39.5	57.3
Income/share after tax before items affecting comparability, SEK	2.25	2.59
Income/share after tax after items affecting comparability, SEK	2.25	2.39
Dividend per share, SEK	1.10 ^{*)}	1.10

^{*)} Board proposal

Figures in this Annual Report regarding 1995 and earlier are calculated pro forma. Definitions, page 71.



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www.globalteam.org

SWEDISH MATCH

SHAREHOLDER information

THE ANNUAL GENERAL MEETING

The Annual General Meeting will be held in the Globe Arena Annex (accessible through entry gate 4) in Stockholm at 4:30 p.m. on Wednesday, April 29, 1998. To be entitled to participate in the meeting, shareholders must be listed in the Shareholders' Register compiled on April 17 and notify Swedish Match of their intention to participate.

LISTING IN SHAREHOLDERS' REGISTER

The Swedish Match Shareholders' Register is maintained by Värdepapperscentralen VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in the owner's name. Shareholders whose shares are held in trust must temporarily re-register the shares in their own name so that the shares are owner-registered not later than April 17, 1998.

NOTIFICATION TO ATTEND MEETING

Notification of intent to participate in the Annual General Meeting will be accepted starting on April 1, 1998 and may be submitted as follows:

- via telephone +46 8 658 02 00
- via telefax +46 8 658 63 64
- by mail Swedish Match AB
Legal Affairs
SE-118 85 Stockholm

When notifying the Company, please state your:

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

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4:00 p.m., Friday, April 24, 1998, the expiration date for such notifications. The Board of Directors has proposed May 5, 1998 as the record date for dividend entitlement. If approved, dividends are expected to be distributed by VPC AB on May 12, 1998.

NOMINATING COMMITTEE

At the 1997 Annual General Meeting, a nominating committee was organized to propose candidates for election to the Board of Directors and as auditors and deputy auditors. Representatives chosen for the committee were Bo Eklöf, Försäkringsbolaget SPP, Björn Franzon, 4th Pension Insurance Fund, and Bernt Magnusson, Chairman of the Board of Swedish Match AB.

FINANCIAL REPORTS

Interim Report for first quarter 1998	April 29, 1998
Interim Report for first half 1998.....	August 10, 1998
Interim Report for nine months 1998.....	October 26, 1998
Report on Operations 1998	February 1999
Annual Report 1998.....	March 1999
Form 20-F 1997.....	June 1998
Form 20-F 1998.....	June 1999

All financial reports may be ordered from: Swedish Match, Investor Relations, SE-118 85 Stockholm.
Telephone: +46 8 658 01 71 Telefax: +46 8 658 62 32 E-mail: investorrelations@swedishmatch.se
Information from Swedish Match is available on the Internet : www.swedishmatch.se

PRESIDENT'S STATEMENT

Focus on the shareholders

As President and CEO of a comparatively young, listed company, with highly dispersed ownership, I find it natural and important to focus on building trust in our business operations, in the marketplace as well as within the company. This we can achieve:

- *by pursuing a growth strategy that builds trust in the marketplace and is thus reflected in long-term profit growth and in the valuation of the company's shares,*
- *by adopting a shareholders program that creates confidence in our ambition to transfer the results of our work to the shareholders and to facilitate a correct valuation of the company,*
- *by conducting our business in a trust-building, responsible and business-like manner in the highly controversial tobacco business, within the framework set by the society.*



GROWTH STRATEGY

In the true sense of the word, Swedish Match is a global consumer products company. This means that our activities are based on building strong brands that are market-leaders within their niches in many markets worldwide.

What distinguishes us from many other consumer product companies with similar ambitions is that we operate in the highly taxed and regulated tobacco sector. Moreover, the reality we have to face is that in some of our product areas, the market is declining.

How is it then that we can claim confidence in our growth ambitions?

By taking a closer look at our business, you will find that the total market for some of our major product categories is actually expanding. In other sectors our global market shares are already increasing but still small enough to permit further growth regardless of the overall market trend. A further opportunity is developing new products, or adapting existing products, to current or new geographical markets and in that way attract new consumer groups. The growth potential we thus foresee will be realized through a combination of organic growth and complementary acquisitions.

The external conditions for growth thus exist. We have also created the internal conditions. The new matrix organization provides the product divisions access to a global distribution resource. More specifically this means that we count on being able to continue increasing our market shares for snuff and cigars in the vast US market. Similarly, we expect to strengthen our market positions for lighters in certain Asian markets and for matches outside Europe and South America where we are already very strong.

Matches, lighters and parts of the cigar range will be introduced on completely new markets in Asia and Eastern Europe. This also applies to a certain extent to cigarettes, which are otherwise mainly concentrated to the declining Swedish market. Volumes that is likely to be lost in Sweden might to a certain extent be compensated for through continued successful operations, particularly in Eastern Europe.

When it comes to product development one should not expect any revolutionary new products. On the other hand, it has become apparent that adjustments to local requirements can generate additional sales in new markets. In a similar fashion, product adaptations can attract new customer groups in an existing market. One example of this is the new mini-pouches of snuff that has become an increasingly more attractive alternative, primarily for female smokers.

With regard to acquisitions, 1997 was a very active year. In total, we acquired shares in four manufacturing companies adding annual sales totaling approximately SEK 600 million. In addition, we acquired a distributor with an invoicing of SEK 100 million in annual sales. In total, acquisition investments amounted to about SEK 500 million.

The Match Division was strengthened with partly owned units in Turkey, Bulgaria and India. An important acquisition was also made for cigars in Finland. We are counting on our acquisitions, primarily within Match Division, to provide business opportunities for other products in these new markets. The acquisitions made are fully within the framework of the growth strategy I described in last year's annual report.

As a whole, our growth strategy means that we are expecting to be able to achieve a long-term annual sales growth of around 5-6 per cent on average at the current low rate of inflation. About half of this growth can be expected to derive from company acquisitions.

SWEDISH MATCH SHAREHOLDERS' PROGRAM

Swedish Match has a very strong financial position. The Group's profitability, strong cash flow and substantial liquidity mean, taking into account the expected growth, that Swedish Match has a considerable dividend capacity.

As a matter of principle we consider it desirable that funds not vital for the expansion and consolidation of the Group be transferred to the shareholders. The Board has therefore proposed an extensive program for transferring surplus funds to the company's owners. This program mainly involves supplementing our dividend policy with successive direct transfers, such as a share redemption. The previously stated dividend policy remains valid, which means that 40-50 per cent of the Group net profit will be distributed to the shareholders.

In view of our growth targets specified above, and the Group's financial position, my opinion is that considerable sums over and above the dividend will be paid to the shareholders during the next few years. It is not certain in what form this will occur, but in 1998 a share redemption is to be proposed amounting to approximately SEK 1 200 million. In this context, it can also be mentioned that the Board of Directors has decided to contribute to some 20 managers within the Group being offered to acquire call options on shares in Swedish Match AB.

RESPONSIBLE AND BUSINESSLIKE

As I mentioned initially, what separates Swedish Match from other consumer product companies with similar ambitions is that we are also operating in the tobacco business and naturally that influences our operations and our working conditions.

Tobacco is contentious and controversial and always has been. However, in recent years the public debate and discussion has become increasingly more intense and the pitch gradually higher. This polarization is something that we can only regret. We do not seek it. What we seek is co-operation and respect for the viewpoints of different parties.

One area where all of us ought to be able to act together is tobacco consumption among adolescents, since all agree that it should be prevented as far as possible. Our opinion in this matter is evident. Under 18 - no tobacco! We are prepared to actively support prevention of the use of tobacco among adolescents in all markets where we pursue our business. In co-operation with the retail community, we have been pursuing programs for several years in our major markets in Sweden and the US, aiming at preventing the sale of tobacco to anyone under the age of 18.



However, just as clear as our standpoint is with regard to the use of tobacco by adolescents, we are equally determined to defend the rights of adults to freely decide if they wish to use tobacco or not, as well as the right of our retail customers to sell tobacco products to adult consumers.

Tobacco products are legal products and this means that the community, although reluctantly in some quarters, does accept the use of tobacco. This makes it necessary to be prepared to assume responsibility for the way in which these products are handled. At Swedish Match, we are not only prepared to assume this responsibility. We are doing just that.

The tobacco business in Sweden, which today is managed by Swedish Match, was managed in essentially the same way by the Swedish state as recently as ten years ago. The fact that it now constitutes a substantial part of the business conducted by Swedish Match is due to the government and parliament of Sweden determining that the handling of these products should be entrusted to privately owned companies in free competition and according to businesslike principles. It may be worth keeping this background in mind.

A TURBULENT YEAR...

In 1997, rather turbulent external events had substantial influence on Swedish Match. The major tax raises in Sweden and the preliminary settlement between the five American tobacco companies and a number of states in the US are examples of such events.

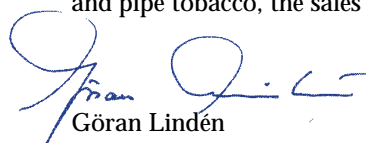
There were also major changes internally. On January 1, 1997 Swedish Match was reorganized. From in principle having been a holding company of four essentially independent groups of companies, with different geographical and historical platforms, the business was turned into a joint company structure with global product divisions and regional sales organizations for all products. What in fact took place was a merger of these four groups of companies, and actually of a couple of additional, independently operating units. The year 1997 was characterized by efforts aimed at making the new organization function smoothly and effectively. Personally, I am impressed by the way and the speed with which the employees of Swedish Match has adapted to the new situation.

...A STABLE DEVELOPMENT

Despite all these changes, Swedish Match succeeded comparatively well in maintaining a stable development. Consolidated sales were approximately unchanged, SEK 7,465 million. Income after net financial items rose to SEK 1,558 million (1,530), while operating income before items affecting comparability declined 8 per cent, or SEK 137 million, to SEK 1,586 million, which corresponds to an operating margin of 21 per cent (23). Hidden behind what appears to be nearly static sales and earnings trends are major changes. The significance of cigarettes has declined markedly, while smokeless tobacco, snuff and chewing tobacco, have increased sharply in importance. Accordingly, smokeless tobacco accounts for more than half of consolidated earnings. The decline in operating income should be viewed against the background of the Cigarette Division having suffered badly from the tax hikes which resulted in a reduction of the operating income by as much as SEK 252 million.

Profitability was maintained at a good level, with a return on equity of 39.5 per cent. The earnings per share amounted to SEK 2.25, of which the Board recommends that SEK 1.10 be paid as a dividend to the shareholders.

In last year's annual report I made the assessment that the conditions were favorable for continued long-term improvements in operating income. There is no reason to change that forecast. Swedish Match will continue capturing market shares in countries where we are already doing business and will continue to grow by entering new markets. Along with our operation in the matches and lighters sectors, we will become a player of significance in the world market as far as the "brown tobacco" is concerned, i.e. cigars, snuff, chewing tobacco and pipe tobacco, the sales of which are strongly upward in certain market segments.



Göran Lindén

President and Chief Executive Officer



THE GROUP'S

Capital structure

In February 1998, the Board of Directors and management of Swedish Match concluded an extensive analysis of the Company's long-term financial situation and structure. The analysis has resulted in the further development of existing financial goals, the addition of new financial goals and that the Board of Directors has issued a new program statement for the transfer of surplus funds to the shareholders, a shareholders' program.

FINANCIAL OBJECTIVES

Average return requirement on acquisitions and new investments

Acquisitions and expansion investments aimed at organic growth in existing operations must provide a return of at least 10 per cent after tax on invested shareholders' equity. The requirement pertains to investments in Swedish kronor at current inflation and interest levels. The return requirement for individual investments and acquisitions varies depending on the type of investment, product area and geographic market. Based on specific conditions, each major separate investment is assigned an individual risk premium.

Debt/equity and interest coverage ratio

The goal is that the debt/equity ratio should not exceed 100 per cent long term. With the prevailing balance sheet structure, this corresponds to an equity/asset ratio of about 30 per cent. Interest coverage should, at current levels, not be less than 10.

SHAREHOLDERS' PROGRAM

The Board has made the following program statement for transfer of surplus funds to the shareholders:

Under the condition that the goals set for the Groups' financial risk-taking are fulfilled, the Board will, in addition to the ordinary dividend, consider transfer in a proper manner of the surplus funds, which are considered not to be necessary for the Group's expansion and consolidation, to the shareholders. The form for the transfer will be determined at any given time based on a combined assessment of available methods and the total effects for the Swedish Match Group and its shareholders.

Dividend policy

The Company's dividend policy to date remains valid. Accordingly, Swedish Match intends to distribute long-term 40-50 per cent of the Group's net income. The size and timing of the dividend depends on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors which must be considered.

THE SWEDISH MATCH

Share

Swedish Match share is listed on the Stockholm Stock Exchange, and on Nasdaq since May 15, 1996. By the end of 1997, the total market capitalization value of Swedish Match amounted to SEK 12,284 million. During that year, the highest price paid, SEK 29, was recorded on March 6 and 7, and the lowest price paid, SEK 21.50, was recorded on October 28. The regular lot is 1,000 shares.

TURNOVER

During 1997 there was a total turnover of about 308 million shares of Swedish Match on the Stockholm Stock Exchange, with an average daily turnover of about 1.2 million shares. The turnover rate, or the liquidity of the share on the Stockholm Stock Exchange, amounted to 67 per cent during the year, to be compared with the entire market average of 66 per cent. On Nasdaq, Swedish Match is listed in the form of ADR's (American Depositary Receipt). The depot bank is Citibank N.A. Each ADR corresponds to ten shares. At year-end 1997, about 550,000 ADR's were outstanding, corresponding to 5.5 million shares.

SHARE CAPITAL

Swedish Match AB's share capital amounted to SEK 927.1 million, distributed among 463,558,252 shares, each with a par value of SEK 2. Each share corresponds to one vote. Share capital has remained unchanged since introduction on the stock market.

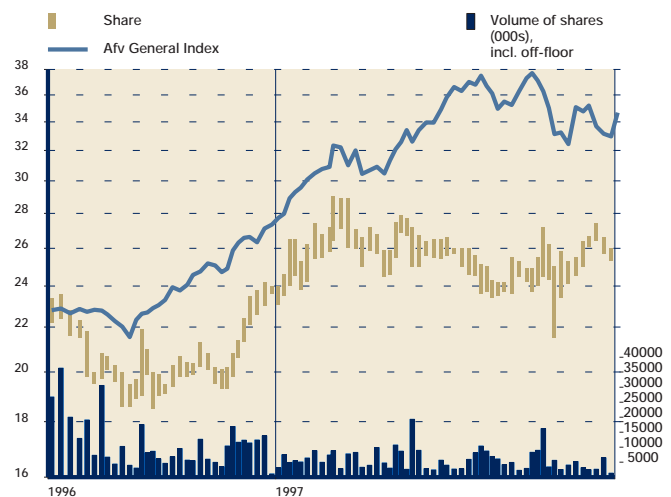
FOREIGN INVESTORS

During 1997, foreign investors increased their ownership of Swedish Match shares to 47.8 per cent (37.5) of share capital. The largest proportion of foreign owners was in the United States and Great Britain.

DIVIDEND

Swedish Match's dividend policy is to pay dividends equivalent to 40-50 per cent of Group net income, based on a long-term prospective approach. The Board of Directors has decided to propose that the Annual General Meeting distribute SEK 1.10 (1.10) per share to the shareholders. The proposed annual dividend corresponds to 49 per cent of net income.

HIGHEST AND LOWEST SHARE PRICE PER WEEK AND TURNOVER



(c) SIX Findata

REDEMPTION OF SHARES

Within the framework of the shareholder program and considering Swedish Match's strong financial position and substantial transfer capacity, the Board of Swedish Match has decided, in addition to the ordinary dividend for fiscal year 1997, to propose the redemption of Swedish Match shares to the Annual General Meeting on April 29, 1998. Through the redemption, capital which is no longer required in operations is transferred to the shareholders. This reduces shareholders' equity and the number of shares. The redemption will be proposed in an amount in the range of SEK 1,200 million.

Detailed information on the exact terms and conditions will be provided in mid-April, but not later than April 22, 1998. An Extraordinary General Meeting is planned to be held on or about July 7, after which the redemption amount is expected to be paid at the end of July.

SWEDISH MATCH AB SHARE DISTRIBUTION, DECEMBER 31, 1997

Size of holdings	Number of owners	Number of shares	Share of capital, %
1 - 500	116,605	15,297,961	3.3
501 - 1,000	13,033	10,072,408	2.2
1,001 - 2,000	6,987	10,424,679	2.2
2,001 - 5,000	4,107	13,342,864	2.9
5,001 - 10,000	1,154	8,799,920	1.9
10,001 - 20,000	435	6,537,138	1.4
20,001 - 50,000	229	7,184,325	1.5
50,001 - 100,000	104	7,685,693	1.7
100 001 -	205	384,213,264	82.9
Total	142,859	463,558,252	100.00
of which			
foreign nominees		197,145,251	42.5
other registrered outside Sweden		24,354,899	5.3
registered outside Sweden total	3,049	221,500,150	47.8

The company does not have access to information about the shareholdings registered through foreign nominees. The items could contain large single holdings.

SWEDISH MATCH AB LARGEST SHAREHOLDERS, DECEMBER 31, 1997

Owner	Number of shares	Voting rights and capital, %
Föreningsparbankernas aktiefonder	57,146,600	12.3
Fidelity fonder	36,300,000	7.8
Allmänna Pensionsfonden fjärde fondstyrelsen	22,958,990	5.0
Försäkringsbolaget SPP	21,278,217	4.6
Ratos	13,735,000	3.0
Ivy International Fund	9,000,000	1.9
AMF Pensionsförsäkring AB	7,300,000	1.6
KP Pension & Försäkring	5,895,225	1.3
Industri tjänstemannaförbundet	4,000,000	0.9
SHB:s Livförsäkring AB	3,267,000	0.7

PER-SHARE DATA¹⁾

	1993 ²⁾	1994 ²⁾	1995 ²⁾	1996	1997
Income per share after full tax					
before items affecting comparability, SEK	1.90	2.20	1.89	2.59	2.25
after items affecting comparability, SEK	1.82	2.42	2.37	2.39	2.25
Dividend, SEK	-	-	-	1.10	1.10 ²⁾
Market price at year-end, SEK	-	-	-	24.00	26.50
Shareholders equity per share, SEK	3.79	3.80	3.36	4.99	6.41
P/E-ratio after tax	-	-	-	10.0	11.8
EBIT-multiple	-	-	-	7.0	8.1
Price/equity	-	-	-	4.8	4.1
Direct return, %	-	-	-	4.6	4.2
Average number of shares			463,558,252	463,558,252	
Number of shareholders				167,062	142,859

¹⁾ Calculated on number of shares in 1997 ²⁾ Proposed by the Board of Directors

THE GROUP'S Business operations

COMPREHENSIVE MARKET STRATEGY AND ORGANIZATION

Swedish Match is pursuing its business in the fast-moving consumer products sector. Within this product range there are products characterized by very strong brand loyalty among consumers (e.g. cigarettes), but also products whose trademarks as such are of lesser importance to the consumer (e.g. lighters). A joint characteristic of products in these categories is that the consumer demands a very high degree of accessibility in the products irrespective of where he/she is. In order to gain success in the marketplace, the distribution system becomes a key factor along with the marketing.

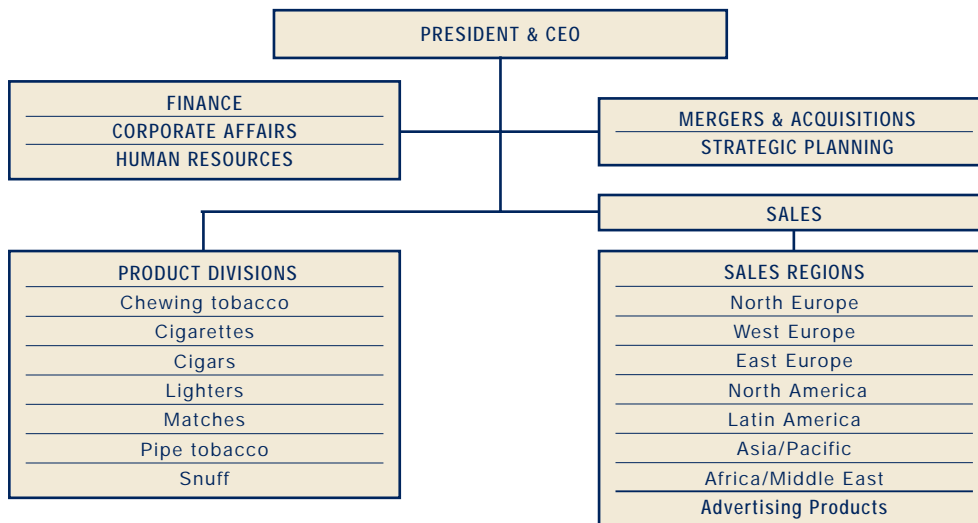
In order to increase the effectiveness of its global marketing and to create the preconditions required for the realization of its offensive growth strategy, Swedish Match on January 1, 1997 began work within a new organizational structure. From having been a holding company consisting of four essentially independent divisions of different geographical and historical backgrounds, the operations took shape within the framework of a joint corporate structure. This consists of seven global product divisions which are marketing their products through seven sales regions. These sales regions are pursuing their sales operations in consumer markets throughout the world. In addition there is a global unit engaged in selling advertising products. The fields of responsibility of the product divisions include product development, manufacturing, market strategies and brand management. The sales regions are responsible, within a defined geographical region, for all marketing and selling of products emanating from the divisions present in the region. The responsibilities also include the tasks of collecting knowledge of the markets and to actively create conditions for growth within the region.

As can be seen from the matrix (below) the sales of the Group's products are as yet comparatively strictly concentrated to a number of main markets. Primarily the Lighter and Match Divisions have a global spread. In other words, the potential for the introduction of several of the products in entirely new markets is great since the necessary distribution and marketing organization is already established there.

It is also against this background that Swedish Match's acquisitions strategy should be perceived. The acquisitions during the year of partly owned match factories in Turkey, Bul-

Sales per Region and Division

SEK M	North Europe	West Europe	East Europe	North America	Latin America	Asia/Pacific	Africa/Middle East	Adv. Products	Not allocated	Total	%
Chewing Tobacco	-	-	-	1,149	-	-	-	-	-	1,149	15
Cigarettes	1,423	117	2	-	-	3	1	-	-	1,546	21
Cigars	65	543	-	19	2	20	5	-	37	691	9
Lighters	27	204	150	109	61	112	21	106	44	834	11
Matches	61	438	35	-	397	17	49	187	115	1,299	17
Pipe Tobacco	26	40	2	88	1	6	3	-	-	166	2
Snuff	914	7	-	158	-	-	-	-	-	1,079	15
Group-wide	-	-	-	-	-	-	-	-	701	701	10
Total	2,516	1,349	189	1,523	461	158	79	293	897	7,465	100
%	34	18	3	20	6	2	1	4	12	100	



garia and India imply not only a reinforcement of the Match Division but also the creating of new distribution channels for the products.

That is precisely what constitutes the core of the Group's ambitious growth strategy, to selectively and successfully introduce increasingly more of the Group's products on new and growing markets and to do this by means of strong local distribution and sales organizations.

RESTRICTIONS AND RISKS

As can be seen from the matrix, a dominant 70 per cent, of Swedish Match's turnover is made up of Europe and the US. In these markets, the business in the tobacco segment is subject to a great number of restrictions and excise duties. The major risks to the future activities are probably that the number of restrictions will be increased or that new or higher taxes will be introduced.

Last summer a preliminary agreement was concluded in the US, the "Global Settlement", between five major tobacco companies, Philip Morris and R. J. Reynolds amongst others, and 39 states which have filed suits against these companies.

In exchange for these suits being withdrawn and certain limitations regarding future suits involving product liability, the five companies agreed to make payments which during the next 25 years amount to nearly USD 370 billion. In accordance with the agreement, the five companies have accepted new restrictions on production, marketing and distribution of cigarettes and smokeless tobacco products sold in the US (the agreement does not cover pipe tobacco and cigars). The proposed settlement is conditional upon these conditions being included in new legislation.

The Global Settlement has been widely debated and criticized. At the time of writing it is not clear whether and to what extent legislation implementing the proposed settlement or any parts thereof, will be enacted. It is impossible at this time, therefore, to predict what effects the Settlement will have on the business activities of Swedish Match in the US.

Within the European Union, further marketing restrictions for tobacco products are being prepared, most of which already are in force in many European countries, including Sweden.

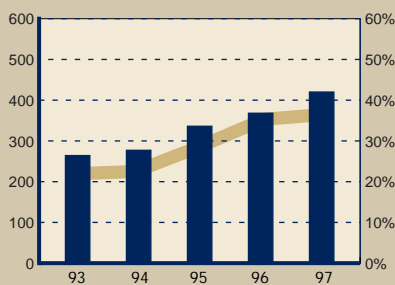
As yet, the scope of the Group's business activity in Eastern Europe and Asia/Pacific region is relatively limited. During 1997, this area accounted for approximately 5 per cent of the sales. Within this area, the major risks are probably of political/economic nature, such as exchange rate fluctuations which, however, are not likely to have an adverse effect on the Group's income.



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997

■ Operating income before items affecting comparability, SEK M

— Operating margin, %



KEY FIGURES

SEK M unless otherwise stated

	1993	1994	1995	1996	1997
Sales	1,208	1,233	1,173	1,043	1,149
Operating income before items affecting comparability	264	277	336	368	420
Operating margin, %	21.9	22.5	28.6	35.3	36.6

CAPITAL EXPENDITURES AND PERSONNEL

SEK M unless otherwise stated

	1997
Capital expenditures in tangible fixed assets	24
Average number of employees	525



Chewing tobacco

Swedish Match is market leader in the chewing tobacco business in the US. In 1997, sales rose 10 per cent to SEK 1,149 million (1,043) and operating income increased to SEK 420 million (368). The operating margin increased to 37 per cent (35).

The Chewing Tobacco Division conducts operations exclusively in the North American market, primarily in the US. The Red Man family of brands is the largest chewing tobacco brand in the US, with a market share of approx. 33 per cent. Other well-known Swedish Match brands are Granger Select and the market leader in the low-price segment, J.D.'s Blend. In total, the Division holds a market share of approx. 45 per cent.

The Division is headquartered in Richmond, Virginia. Production is carried out in Owensboro, Kentucky.

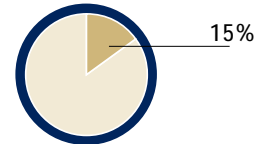
FISCAL 1997

The total sales of the Division amounted to SEK 1,149 million (1,043), a 10 per cent increase compared with 1996. The growth in sales is attributable primarily to price increases and the stronger US dollar. Operating income increased to SEK 420 million (368), up 14 per cent, and the operating margin rose to 37 per cent (35). Expressed in US dollars, sales fell 3 per cent compared with 1996, while operating profit remained unchanged. During the 1990s the chewing tobacco market in the US has declined by 2-3 per cent annually. The market decline in 1997 seems to be slightly bigger partly due to an increasing switch to snuff.

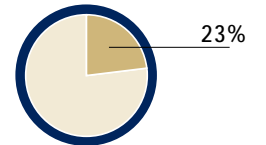
The brand-promoting market activities continued, including sponsoring of NASCAR-racing with Red Man branded pickup trucks. The audiences of these events are primarily adults and are consumers of chewing tobacco or fit the profile of the chewing tobacco consumer.

In reaction to the Global Settlement, some retailers have already made changes in product exposure in their shops by moving tobacco products behind counters or placing them closer to the check-out counters which reduces the total display space. Currently, the greatest challenge for the Division and the North American Sales Region is to deal with the changes initiated in the retail sector in response to the Global Settlement.

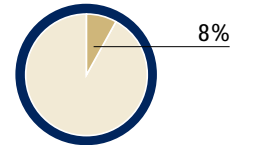
SHARE OF GROUP SALES



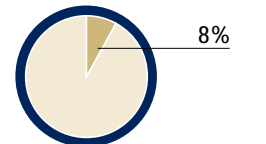
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION



■ North America 100%



CHEWING TOBACCO MARKET

The use of chewing tobacco is an old custom in the US. Today, chewing tobacco is perceived as a traditional product related primarily to various outdoor occupations such as farming and construction or such leisure activities as hunting and fishing.

The sales of chewing tobacco is regionally concentrated to the southeastern US where South Carolina and Georgia account for approx. 20 per cent of the total volume. Chewing tobacco buyers are comparatively price sensitive. This results in an intense price competition on the market between the various pricing segments. This condition is also testing the strenght of the brand loyalty.

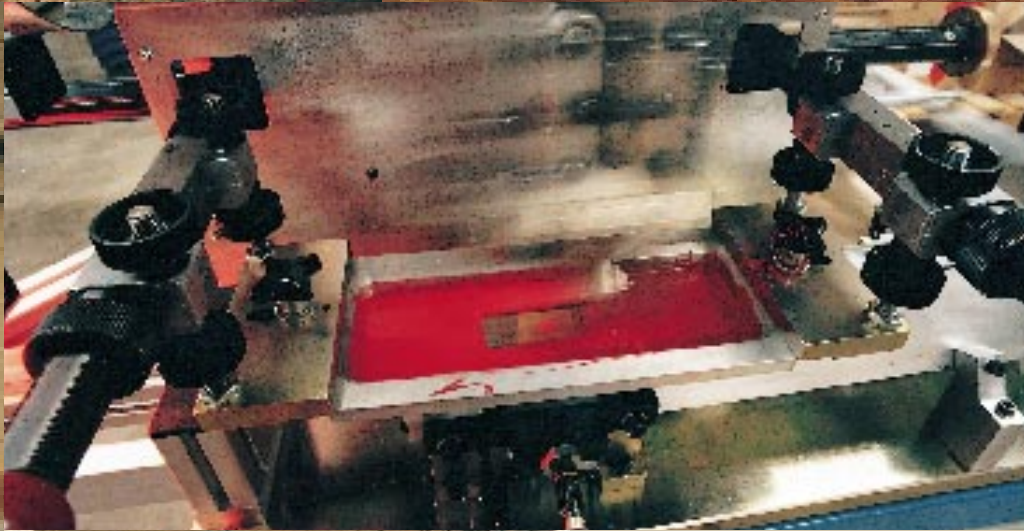
The chewing tobacco industry in the US is dominated by four major manufacturers. Swedish Match's main competitor is Conwood, with a share of the US market of approx. 28 per cent.

There are restrictions against tobacco advertising in the US as in many other countries. For example, radio and TV advertising is forbidden. Further restrictions are being discussed in response to the proposed Global Settlement.

FUTURE STRATEGY

In the established chewing tobacco market in the US, the Division is concentrating on strengthening its position as the market leader. Since the total market is declining and there are few new consumers coming to the category, the greatest possibility of sales growth lies in capturing market shares from the competition. Brand-building measures combined with continuous product development, will be important means in the efforts of the Division to achieve these goals.

The monitoring of price differences between premium and low-price products will continue. Strategic price adjustments will constantly be part of the endeavor to prevent low-price manufacturers from capturing market shares at the expense of the premium products.

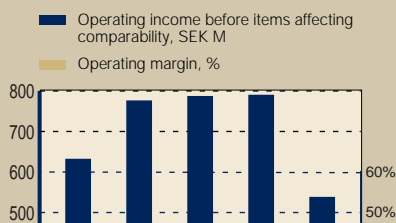


IMPORTANT BRANDS

Red Man
Red Man Golden Blend
Red Man Select
Granger Select
J.D.'s Blend



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997



KEY FIGURES

SEK M unless otherwise stated	1993	1994	1995	1996	1997
Sales	1,633	1,934	1,941	1,983	1,546 ¹⁾
Operating income before items affecting comparability	631	775	786	789	537 ²⁾
Operating margin, %	38.6	40.1	40.5	39.8	34.7

CAPITAL EXPENDITURES AND PERSONNEL

SEK M unless otherwise stated	1997
Capital expenditures in tangible fixed assets	30
Average number of employees	609

1) After May 1, 1997, external invoicing of Prince cigarettes is reported under Group-wide operations. Subcontracted production remains within the Cigarette division. The change results in SEK 121 M of total Prince sales during May-December of SEK 340 M being reported in the Cigarette Division and SEK 219 M under Group-wide operations.
 2) Most of the contribution from sales of Prince cigarettes is reported under the Cigarette Division.



Cigarettes

The Cigarette Division accounts for 21 per cent of total Group sales and contributes with 29 per cent of operating income. Sales in 1997 amounted to SEK 1,546 million (1,983), down 22 per cent. The decline in sales is mainly due to exceptional tax increases in Sweden. Concurrently, operating income declined by SEK 252 million to SEK 537 million (789), which resulted in a decrease in operating margin from slightly less than 40 to 35 per cent.

During 1997, the Cigarette Division produced 6.3 billion cigarettes. Swedish Match holds a market-leading position in Sweden (approx. 50 per cent market share) with brands such as Blend, John Silver and Right. Blend is the leading Swedish Match brand, with a 32 per cent share of the Swedish cigarette market. The Division also manufactures roll-your-own tobacco, a segment in which John Silver holds a market share in Sweden of 54 per cent. In Estonia, Swedish Match is market leader with the Rumba brand, holding a market share of 35 per cent. The brand is manufactured in Sweden. The Division also markets cigarette paper and filters for roll-your-own use on the English market.

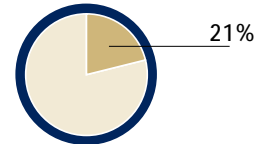
The head office of the Cigarette Division is in Stockholm. Currently, cigarette production is located exclusively in Malmö. Roll-your-own tobacco and filter cigarillos are also produced there.

FISCAL 1997

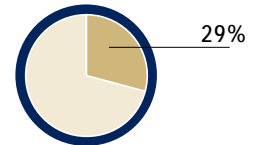
The total sales of the Division in 1997 amounted to SEK 1,546 million (1,983), down 22 per cent. The decline is due primarily to a substantial loss of volume in the Swedish market, which accounts for approximately 80 per cent of the total sales of the Division. In contrast, favorable increases were reported in the tax-free segment, in Estonia and in cigarette paper and filter sales in Great Britain. Compared with 1996, SEK 160 million of the sales decline is attributable to a lower price level for deliveries of Prince cigarettes from the Division to Tobaksvaruimporten (external invoicing is carried out from Tobaksvaruimporten which is reported under Group-wide). As a result of hoarding prior to the tax increase in Sweden on January 1, 1997, estimated sales of SEK 75 million were posted earlier in 1996.

The Division's operating income amounted to SEK 537 million (789). The effect on earnings of the volume decline could only be offset by one

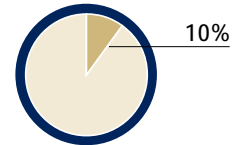
SHARE OF GROUP SALES



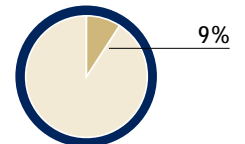
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



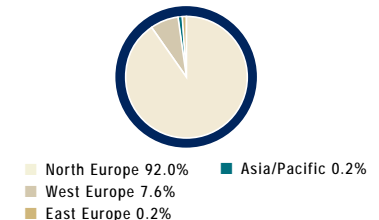
SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION





third through price increases. Earnings have been charged with expenses related to the re-introduction of the new Blend brand, as well as measures to confront the stiffening competitive situation on the Swedish market. However, profit improvements were reported in the tax-free segment, Estonia and Great Britain. Compared with 1996, the new Prince agreement affected the Division's operating income adversely by SEK 60 million. However, an additional SEK 16 million was reported for distribution compensation, under Group-wide operations. The effect of hoarding on operating income toward year-end 1996 have been estimated at approximately SEK 45 million.

The regular deliveries to the Swedish cigarette market declined during 1997 by 27 per cent resulting in total market of 6.0 (8.3) billion cigarettes. The volume drop was primarily related to two major tax increases on tobacco, one on January 1 and the other on August 1, totaling 62.8 per cent. As shown in the accompanying table, the price of a package of cigarettes increased during 1997 from SEK 31.00 to SEK 44.50. In addition, the tax hike on January 1, 1997 triggered extensive hoarding toward the end of 1996, with a negative effect in 1997 corresponding to about 6 per cent of the annual volume. Everything indicates that the decline in Swedish cigarette consumption is considerably less than the above 27 per cent through a considerable increase of smuggling, border trade, mail-order and tax-free sales. Due to smaller deliveries, the tobacco tax on cigarettes charged during 1997 by Swedish Match decreased by 0.6 per cent to SEK 6,343 million, despite an average tax increase in 1997 of approximately 40 per cent. The Division's market share in Sweden remained unchanged at 50 per cent.

Swedish Match and the Danish tobacco company Skandinavisk Tobakskompagni A/S (STK) were compelled by the EU Commission, to renegotiate the multi-year license agreement on manufacture, marketing and selling of the Prince cigarette brand in the Swedish market. The new Prince agreement became effective on May 1, 1997. Swedish Match is responsible for the manufacture and distribution of Prince, whereas the STK company has taken over marketing and sales through a Swedish subsidiary. The agreement, which is effective until the end of year 2001, also applies to the roll-your-own tobacco brand Escort.

During the year an extensive program was undertaken to survey and analyze the preferences and behavior of the consumers in Sweden and selected markets in other countries. Among other effects, this program resulted in the development and launching of a new series of regular-size Blend cigarettes, with an "international taste" in a packet of modern design. The first variant of the new Blend family (Blend Kings) was launched in selected sales outlets in December. The consumer reaction was positive. The relaunch of the Blend family will be undertaken full-scale during the first six months of 1998. During the year, John Silver Lights was also introduced on the Swedish market.

In December 1997 an agreement was reached between Swedish Match and R.J. Reynolds by which Swedish Match acquired the licence to market and distribute R.J. Reynolds' products on the Swedish market starting January 1, 1998, the most important product being the cigarette brand

Camel. R.J. Reynolds' market share in Sweden amounts to approx. 2 per cent.

CIGARETTE MARKET

The global consumption of cigarettes amounts to approx. 6,000 billion cigarettes which is twice as many cigarettes as in 1970. This means that the total market has increased by 3 per cent annually during the past 25 years, a trend which is expected to continue. The proportion of smokers has not changed to any mentionable extent. The number of smokers corresponds to the population growth and today amounts to approx. 1,150 million.

In the Western World, the trend is negative and smoking is dropping by 2-3 per cent per year. On the other hand, smoking is increasing in the developing countries, primarily in Asia and Eastern Europe. Asia is expected to account for more than half of the global cigarette consumption at the turn of the century.

Cigarette consumption is characterized by a high degree of brand awareness. Few other products have such brand-loyal consumers. The cigarette industry is characterized by very great economies of scale with regard to production, distribution and marketing. Production is fully automated and an ordinary cigarette machine, for instance at the Malmö plant, produces 7,000 cigarettes per minute. The cigarette industry has reached a high maturity level. Today, against the background of the stringent restrictions on marketing, in principle it is impossible in many countries to introduce new cigarette brands. As a result, global tobacco companies are gaining increasingly more dominant positions with established trademarks and resources for undertaking international campaigns.

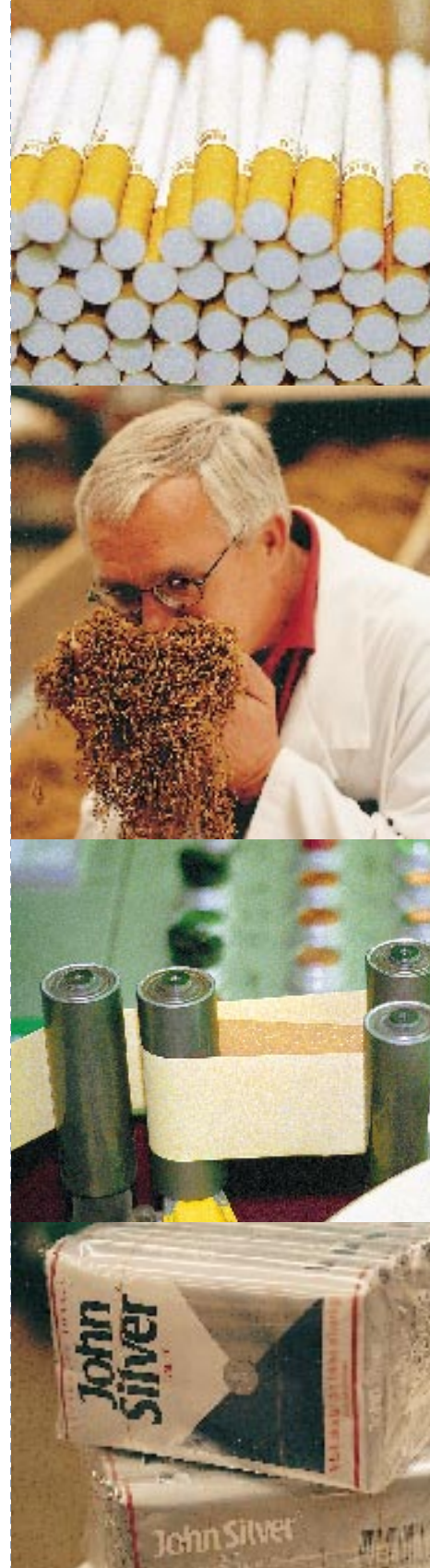
Swedish Match's Cigarette Division has been exposed to intensive international competition for many years. At the same time, domestic marketing restrictions and taxation in Sweden have become more stringent.

FUTURE STRATEGY

The main strategy of the Division is to maintain and strengthen its positions in Sweden and the Baltic states. This makes brand policy and product development important factors. The reprofiling of John Silver and Blend exemplifies this.

Moreover, long-term profitability requires higher volumes through increased internationalization. Geographic expansion is intended to take place selectively in countries in Eastern Europe and Asia.

BLEND GUL (fixed highest price), SEK	on Jan.1, 1996	on Jan.1, 1997	on Aug.1, 1997
Sales price Swedish Match	4.38	4.76	5.28
Retail margin	5.11	5.25	5.40
Excise tax	15.31	19.19	24.92
VAT	6.20	7.30	8.90
Price to consumer	31.00	36.50	44.50

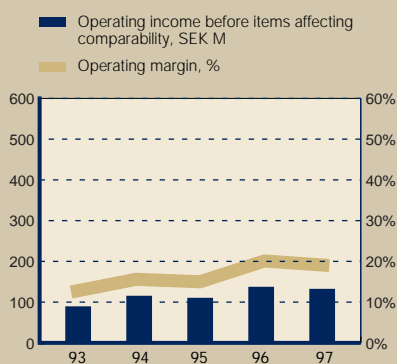


IMPORTANT BRANDS

- Blend
- John Silver
- Right
- Point
- Rumba
- Leek



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997



KEY FIGURES

<i>SEK M unless otherwise stated</i>	1993	1994	1995	1996	1997
Sales	705	729	729	678	691
Operating income before items affecting comparability ¹⁾	88	114	109	136	131
Operating margin, %	12.5	15.6	15.0	20.1	19.0

CAPITAL EXPENDITURES AND PERSONNEL

<i>SEK M unless otherwise stated</i>	1997
Capital expenditures in tangible fixed assets	81
Average number of employees	1,369

¹⁾ Swedish Match's 40 per cent holding in Arnold André is reported in accordance with the equity method



Cigars

Swedish Match is one of the largest cigar manufacturers in the world, with annual production of slightly more than one billion cigars and a world market share of approx. 7 per cent. Sale in 1997 rose 2 per cent to SEK 691 million (678), while operating income declined to SEK 131 million (136). The operating margin was 19 per cent (20).

Cigar Division manufactures more than 20 cigar brands which are marketed in more than 90 countries worldwide. Including the output of the partly-owned German company Arnold André, the production amounts to approx. 1 billion cigars annually. The largest markets are Western and Northern Europe but other markets, such as the US and the Far East, offer high potential. The Division's total market share in Europe is approx. 16 per cent. In Sweden, the Division accounts for about 80 per cent of the total cigar sales. In the newly exploited US market, its share is as yet less than 1 per cent.

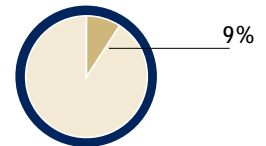
The oldest and best-known brand is La Paz, which was introduced in 1814. Other successful brands are Willem II, Clubmaster, Justus van Maurik, De Heeren van Ruysdael and the hand-made Montague cigar which has also been launched in the US. Bellman, Cortez and Frans Suell are brands sold in Sweden. The product assortment comprises all types of cigars/cigarillos, ranging from hand-made premium cigars to low-price cigars. Consequently, the Division covers the entire cigar market with regard to quality as well as price.

The head office was moved to a newly constructed building in Valkenswaard, the Netherlands. The Division's production plants are located in Valkenswaard (the Netherlands), Houthalen and Overpelt (Belgium), Pietarsaari (Finland) and Pandaan (Indonesia). The German company, Arnold André with production plants in Bünde and Königslutter (Germany), is 40 per cent owned by Swedish Match. The company Lareka in Valkenswaard (The Netherlands), with operations consisting of reconditioning of machines for the tobacco industry, is also part of the Division.

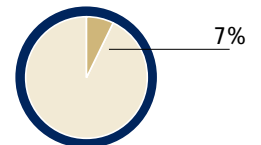
FISCAL 1997

The division's sales amounted to SEK 691 million (678), a marginal increase compared with a year earlier, while operating income declined to SEK 131 million (136). The decline is attributable mainly to a certain decrease in volume in the Netherlands as well as costs incurred in the

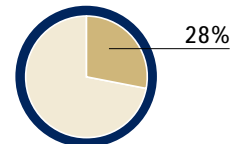
SHARE OF GROUP SALES



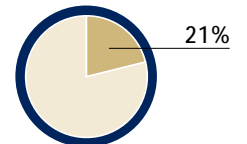
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



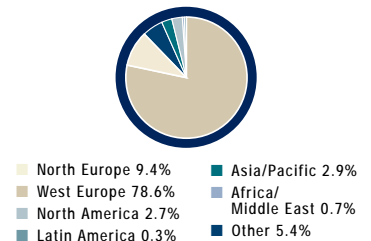
SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION





introduction of new products and investing in the US market. The operating margin declined to 19 per cent (20).

A continued introduction of cigars including test sales campaigns and initial market investments was undertaken in the USA, resulting in a certain volume increase but at the same time having an adverse impact on earnings of the Division. An entirely new type of premium cigar, so-called longfillers, is being marketed in the US under the Montague brand name. These are hand-rolled cigars made from prime-grade tobacco. The product is manufactured by the Division's plant in Indonesia where production capacity was increased substantially pending the market introduction in the US. However, there were product specification changes which resulted in a postponement of the sales debut in the US. During the year, a total of about one million Montague longfiller cigars were manufactured. In addition to hand-rolled cigars, the plant in Indonesia also manufactures semi-finished products for the European factories. As a result, the financial crisis in Asia will have a favorable effect on the operating income of the Division.

Restructuring in the wholesale sector in the Netherlands resulted in overall lower stocking in the retail chain which temporarily affected sales adversely. In the French and Spanish markets, sales volume increased and the level of earnings was improved.

Production in Härnösand, Sweden was shutdown during 1997 and shifted to Belgium. In late November, Swedish Match acquired the cigar manufacture of R.J. Reynolds in Finland, with an annual production volume of 50 million cigars, the equivalent of SEK 80 million, and a 63 per cent share of the Finnish market. R.J. Reynolds will continue to be responsible for sales and distribution on behalf of Swedish Match. In Finland, co-determination negotiations with employee representatives were concluded, resulting in the shutdown of the Jakobstad factory in September 1998 and transfer of production to Belgium.

CIGAR MARKET

Each year, more than 14.6 billion cigars are sold globally, representing a total sales value of SEK 40 billion. Of this amount, 6 billion cigars are sold in Europe (42 per cent) whereas the American market accounts for nearly five billion cigars (33 per cent). The price level in Europe is higher than in the US. However, as a result of the demand for more expensive high-quality cigars in the US market, the average price level is approaching the European level. Combined with an overall market growth, this makes the US market highly interesting to global players in the cigar industry. There is also a trend in European market toward an increase in consumption, primarily of high-price cigars.

The number of players on this market is large, including a multitude of local small companies operating along with the major manufacturers. About ten major companies account for approximately 70 per cent of production, with a large number of small enterprises accounting for the

balance. In order to exploit the economies of scale offered by automated plants for cigar production, a number of mergers of companies have occurred during 1997. This development is expected to continue.

FUTURE STRATEGY

The aim of the Division is to consolidate its position as one of the world's largest cigar manufacturers, to continue concentrating on Europe as its main market and to selectively make acquisitions in existing and new markets.

The company will also establish a presence in new markets. An attractive new market is the US where the Division started up its sales activity in 1997, where the market potential is regarded as very substantial. Some countries in Asia, with rising standard of living, are also markets offering major development opportunities.

The Division is actively promoting its trademark. In response to intensified competition, new products carrying the Division's well-known brand names are being introduced. This increases consumer awareness of the new products as well as brand-name families.

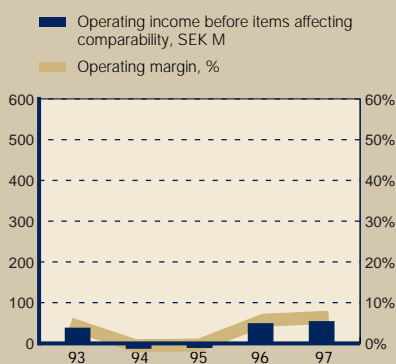


IMPORTANT BRANDS

Montague
Willem II
La Paz
De Herren van Ruysdael
Frans Suell
Hofnar



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997



KEY FIGURES

<i>SEK M unless otherwise stated</i>	1993	1994	1995	1996	1997
Sales	791	796	835	846	834
Operating income before items affecting comparability	37	-5	-3	48	53
Operating margin, %	4.7	-0.6	-0.4	5.7	6.4

CAPITAL EXPENDITURES AND PERSONNEL

<i>SEK M unless otherwise stated</i>	1997
Capital expenditures in tangible fixed assets	60
Average number of employees	876



Lighters

Swedish Match is the world's third largest manufacturer of disposable lighters. Its most important markets are Western and Eastern Europe, the US and parts of Asia. Sales in 1997 were largely unchanged at SEK 834 million (846). Operating income amounted to SEK 53 million (48), corresponding to a slightly increased operating margin. Despite the improvement in profitability, it is not yet regarded as satisfactory.

Together with the Match Division, the Lighter Division is the most globally oriented division in the Group. The dominating product is the Cricket disposable lighter. According to consumer studies the Cricket lighter is a symbol of quality, good design and "trendiness." Other lighter brands in the Division are Feudor and Poppell. These lighters are produced at highly automated factories on three continents. The Lighter Division is also active in the advertising products business, producing specially designed lighters for large consumer and industrial products companies.

The leading competitive products within the Division's operations are the French Bic and the Japanese Tokai. Measured by value, Swedish Match estimates its share of the world market at approximately 14 per cent.

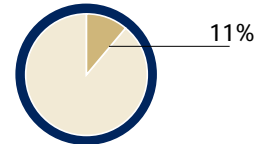
The head office of the Division is in Nyon (Switzerland). Production plants are located in Lyon (France), Assen (the Netherlands), Manila (Philippines), Manaus and São João del Rei (Brazil). There are two partly owned companies in Vietnam and Malaysia with assembly plants for semi-finished products.

FISCAL 1997

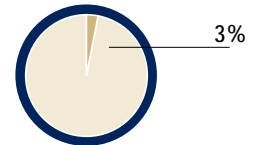
Division sales amounted to SEK 834 million (846), a decline of 1 per cent compared with the preceding year. Operating income rose to SEK 53 million (48), which resulted in a somewhat improved profit margin, 6.4 per cent (5.7). Delivery volumes fell by 3.5 per cent mainly due to lower sales in the American market. Both sales and earnings were affected positively by currency trends. The year's earnings include a cost totalling SEK 10 million for the rationalization of the factory in Manila (the Philippines).

Cost savings were realized due, among other factors, to a substantial reduction of stock keeping-units (less than half of the number in 1994) and a higher degree of automation in production.

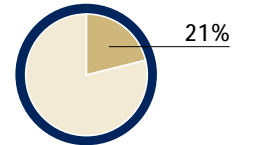
SHARE OF GROUP SALES



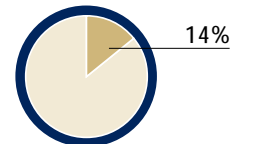
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



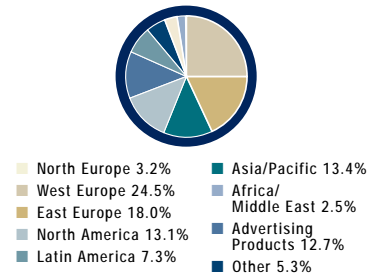
SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION





During 1997 Swedish Match introduced the new Cricket Pocket Electronic lighter in France which was favorably received. This is the first Cricket brand in the small lighter segment representing approx. 15 per cent of all lighters sold on the world market.

In the US, the Division lost volume and market shares due to an influx of competitive child-resistant lighters. Swedish Match will launch a new child-resistant system on the market during the first half of 1998 and is expected to contribute toward strengthening of positions in the US market. The favorable sales trend continues in Eastern Europe, particularly in Russia. The financial crisis in Asia has resulted in depressed prices and reduced volumes in the region. Accordingly, the Division has reprioritized certain expansion projects. A 55 per cent interest in the Japanese competitor Tokai, which after suspension of payments in 1994 has been in trusteeship, was acquired in 1997 by a Japanese gas company. The market consequences of this ownership change still remain to be seen.

LIGHTER MARKET

The world market for disposable lighters amounts to approximately 3.7 billion units per year and is growing annually by 1-2 per cent in volume. In many developing countries where the number of smokers as well as the income per capita are increasing, the growth rate is substantially higher. In Western Europe and the US, where the market for lighters largely follows the trend of tobacco smoking, the market is weakening.

The world market is dominated by the three large players, Bic, Tokai and Swedish Match. Altogether, these three players produce 2 billion lighters, corresponding to approx. 50 per cent of the estimated world market share.

Based on an annual sales total of approximately 400 million lighters, Swedish Match's market share is approximately 11 per cent by volume and 14 per cent by value. The Cricket lighter is in the premium segment and its most important markets include Western Europe, the US, Russia, Malaysia and Japan. In many of the new and growing markets, for example Eastern Europe, Swedish Match is the market leader. In Russia, Swedish Match holds a market share of approximately 40 per cent, more than its two largest competitors combined.

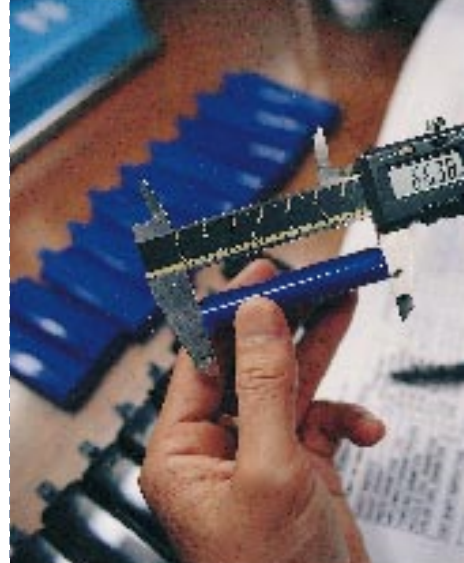
The brand loyalty among the lighter consumers is lower than among many other product categories. This makes good access and exposure in shops particularly important. Consequently, a cost-effective global distribution and sales staff is an competitive factor.

FUTURE STRATEGY

The Lighter Division strives to maintain its position as one of the leading manufacturers of disposable lighters. The Divisions also strives at maintaining its position as a global quality leader. A key element in this effort is to further strengthen the Cricket brand, with emphasis on both quality and attractive design.

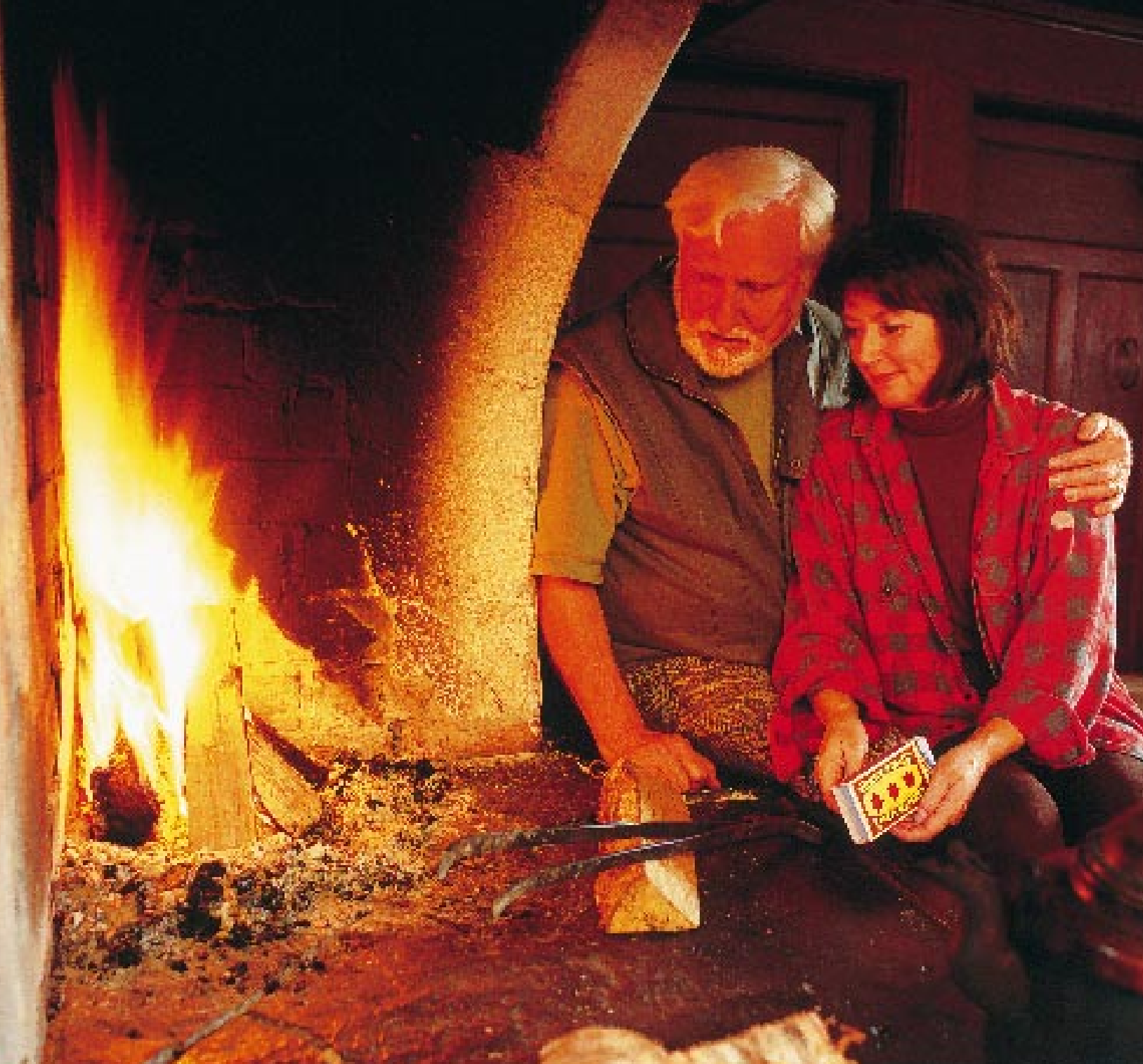
New market investments are concentrated to the most expansive regions, primarily in Eastern Europe and Asia. The introduction of lighters in new geographic markets as well as strategic acquisitions is an important part of the development. Strategic acquisitions leads to capitalization on economies of scale in production as well as in marketing and distribution.

Swedish Match is the world's only manufacturer of lighters that has been awarded the ISO 9002 quality certification for all its fully owned lighter production units worldwide which ensures consistency and control in production. The objective is to gain the lead over all the other manufacturers through continuous development and improvement of the products and the production process.

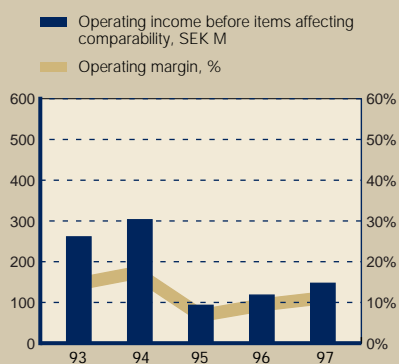


IMPORTANT BRANDS

Cricket
Feudor
Poppell



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997



KEY FIGURES

<i>SEK M unless otherwise stated</i>	1993	1994	1995	1996	1997
Sales	1,825	1,754	1,358	1,241	1,299
Operating income before items affecting comparability	261	303	93	118	147
Operating margin, %	14.3	17.3	6.8	9.5	11.3

CAPITAL EXPENDITURES AND PERSONNEL

<i>SEK M unless otherwise stated</i>	1997
Capital expenditures in tangible fixed assets	61
Average number of employees	2,370



Matches

Swedish Match is the world's only global manufacturer of matches, with a share of the world market of 7-8 per cent by sales value. The Match Division increased sales to SEK 1,299 million (1,241) in 1997 and improved operating income by SEK 29 million to SEK 147 million (118). As a result, operating margin increased by nearly 2 percentage points to slightly more than 11 per cent.

The Match Division produces and sells a complete range of matches to customers in about 140 countries. Each country has its own well-known brands and variants of matches such as Swan Vestas in the UK and Fiat Lux in Brazil.

The division has its head office in Nyon (Switzerland). Match factories are located in Tidaholm and Vetlanda (Sweden), Curitiba, Pirai and São Laurenço (Brazil), Valencia (Spain), Szeged (Hungary) and Geraardsbergen (Belgium). As of 1998 there are also part-owned factories in Turkey, Bulgaria and India.

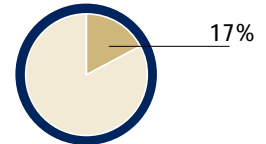
The Division also owns the manufacturer of match-making machinery, Arenco, with plants in Kalmar (Sweden) and Shanghai (China). Arenco provides the entire division with the highly automated machine equipment and also sells this equipment in external markets.

FISCAL 1997

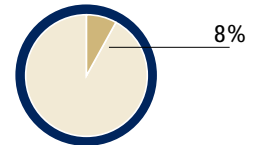
Sales increased by 5 per cent during 1997 to SEK 1,299 million (1,241). Lower volumes in the European match market and low sales of machinery from Arenco were more than offset by increased prices and a favorable currency effects. Operating income improved by 25 per cent to SEK 147 million. In addition to the factors referred to above, production rationalization measures, primarily in Brazil, affected operating income favorably. The Brazilian market, which is important to Swedish Match, is now stabilizing and margins are improving as a result.

In December, Swedish Match acquired, through a majority holding in two investment companies in Singapore, approx. 39 per cent of the Indian match manufacturer Wimco Ltd. This company is one of the world's largest match manufacturers and also has one of the best developed distribution networks for consumer products in India. Annual sales amount to approx. SEK 375 million. The primary purpose of the acquisition is to open the large Indian market to the Swedish Match products in cooperation with partners having local knowledge and experience.

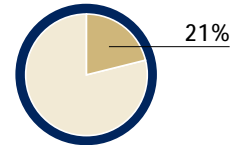
SHARE OF GROUP SALES



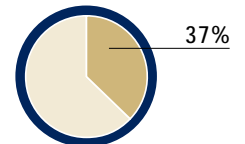
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



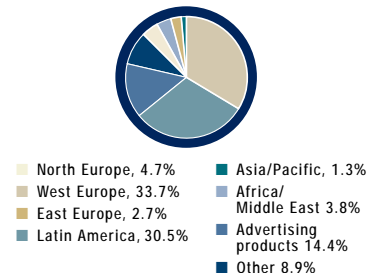
SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION





In late 1997 Swedish Match also acquired 58 per cent of the shares in PLAM Bulgarski Kibrit JSCo which is Bulgaria's only match manufacturer with annual sales of SEK 35 million. Half of the volume of matches produced is exported to the neighboring countries. This acquisition is also expected to open up the interesting Balkan markets to several Swedish Match products.

During the autumn, Swedish Match concluded a joint-venture agreement with the Turkish KAV Orman Sanayii A.S. for the development of its business in Turkey and other countries in the region. The agreement involves the formation of a new company 60 per cent owned by Swedish Match. KAV contributes its existing match business, with sales amounting to SEK 100 million, and currently holds a 45-50 per cent share of the Turkish market.

MATCH MARKET

Out of the approximately 6,000 billion matches consumed worldwide each year, the Asia/Pacific region accounts for 70 per cent and Western Europe for less than 2 per cent. The first-mentioned region, however, accounts for only 20 per cent of the world market in terms of value, whereas the corresponding figure for Western Europe is approximately 7 per cent. The Brazilian match market volume is approximately equal to that of Western Europe.

The major part of the global match industry is highly local. The Match Division, although an international operator, holds only 3 per cent of the world market in terms of number of matches sold, corresponding to 7-8 per cent of sales value.

The main markets of Match Division are Western Europe and Brazil where the Division's sales amount to SEK 550 million and SEK 330 million, respectively. The shares of these markets held by Swedish Match are 60 per cent and 54 per cent, respectively. Match Division's third most important market is Africa/Middle East, with a sales total of SEK 65 million in 1997. East European markets are supplied by exports primarily from the Division's factory in Hungary. The Division's presence in Asia/Pacific is currently very limited, although its recent entry into India serves to address this situation.

Advertising matches with sales totaling approx. SEK 190 million, represent an important share of the Division's business.

The consumption of matches is strongly related to the level of economic development. The higher the standard of living, the fewer matches are consumed per capita, although of higher quality and at higher prices. The long-term trend in the West indicates declining consumption expressed in numbers of matches. Accordingly, about 95 per cent of the cigarette smokers in the West use lighters. Matches are used mostly for other purposes than in the developing countries where electrification and the use of lighters have not yet become conveniences available to all. The match consumption in these countries is still increasing concurrently with population growth.

FUTURE STRATEGY

Swedish Match is the world's only integrated match manufacturer and aims at securing and additionally strengthening its global position. Its product strategy is continued focusing on the quality segment of the global match market and trademark positioning.

The market is global and exposed to price pressure exerted by manufacturers of low-quality matches. As a result, a competitive cost structure is a decisive precondition for profitability in the match market. The Group focuses continually on rationalizing production, developing more efficient production technology and by improving its product range.

In the fully developed match markets, Swedish Match concentrates on defending and strengthening its leading market position. Consequently, it is of strategic importance to be able to offer a complete product line, including volume matches, and to counter price competition in already established markets.

Overcapacity and declining demand in Swedish Match's existing markets in the Western world makes expansion in the growth regions in Asia and Eastern Europe an important strategy component. China and India combined consume more than half of the world's total match volume. Accordingly, Swedish Match has decided to pursue an acquisition and expansion strategy. The purchase of Wimco in India, PLAM Bulgarski Kibrit in Bulgaria and the Turkish match business are examples of acquisitions which also provide the Group with new distribution channels, particularly for other products. One of the Division's important future tasks will be to selectively open up distribution channels in new markets for many of the Group's other products.

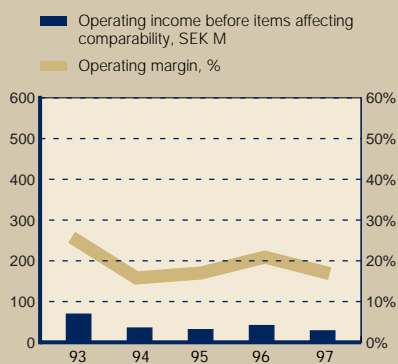


IMPORTANT BRANDS

Three Stars
 Solstickan
 Swan Vestas
 England's Glory
 Swallow
 Union Match
 Fiat Lux



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997



KEY FIGURES

<i>SEK M unless otherwise stated</i>	1993	1994	1995	1996	1997
Sales	269	222	182	196	166
Operating income before items affecting comparability	69	35	31	41	28
Operating margin, %	25.7	15.8	17.0	20.9	16.9

CAPITAL EXPENDITURES AND PERSONNEL

<i>SEK M unless otherwise stated</i>	1997
Capital expenditures in tangible fixed assets	-
Average number of employees	105



Pipe tobacco

The Swedish Match Pipe Tobacco Division is one of the world's largest manufacturers of pipe tobacco, holding a world market share of some 10 per cent by volume. Sales fell 15 per cent to SEK 166 million (196) and the operating income declined by SEK 13 million to 28 million (41). The operating margin was 17 per cent (21).

Pipe Tobacco Division's largest brands are Borkum Riff, Half and Half and Velvet. Borkum Riff holds a global market share of 6 per cent and is one of the world's few truly global brands for pipe tobacco. Borkum Riff accounts for about 60 per cent of Division sales. Half and Half is the largest brand of the Division in the US, with an 8 per cent share of total American pipe tobacco sales.

The Division's main markets are North America and Western Europe (excluding the Nordic countries), with volumes of 56 and 21 per cent, respectively, of total sales of the Division. Sale in the Nordic region amounted to 15 per cent. The Division's total market share in North America amounts to about 19 per cent, in Western Europe to approximately 3 per cent and in the Nordic countries to about 17 per cent.

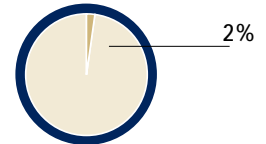
The head office of the Division is located in Richmond, Virginia. Currently, the Division has no factories of its own. Its products are manufactured in the Cigarette Division's factory in Malmö, Sweden and by Chewing Tobacco Division's factory in Owensboro, Kentucky.

FISCAL 1997

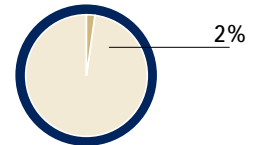
The market for pipe tobacco experienced a downward trend. Total sales of the Division declined to SEK 166 million from SEK 196 million a year earlier. Operating income fell to SEK 28 million (41) and the operating margin to 17 per cent (21).

The decline in sales value and operating income is attributable mainly to weakening main markets and shift of certain deliveries from 1997 to late 1996. In Sweden, the Arvika factory was closed and production transferred to the Malmö plant. In the US, the right to market Borkum Riff on the American market was acquired from US Tobacco (UST). This is expected to result in higher sales and improved earnings as of 1998. The agreement with UST dates back to the time before Swedish Match began its own operation in the US.

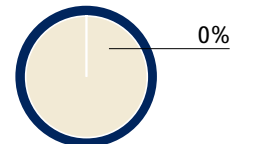
SHARE OF GROUP SALES



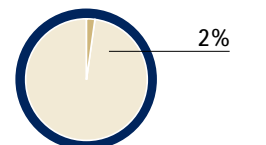
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



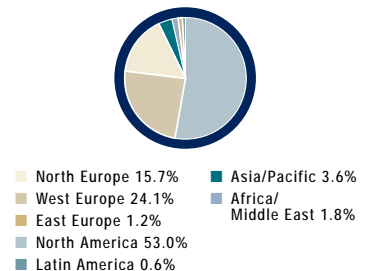
SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION





THE PIPE TOBACCO MARKET

The world market for pipe tobacco has been characterized by a gradual decline for a number of years: 6-8 per cent in volume and 3-4 per cent in terms of sales value annually during the past decade. The global sales value of pipe tobacco, which in 1997 was slightly more than SEK 2 billion, has declined by approximately SEK 0.5 billion since 1992. The market is expected to decline further in the years immediately ahead.

The growing interest in cigar smoking in the US may offer a possibility to reduce the downward trend for pipe tobacco. Historically, cigar and pipe tobacco sales are strongly correlated. The new cigar stores in the US will probably need to broaden their product assortment which could result in an increased exposure of pipe tobacco in these stores. The volume increase of the sales of pipes in the US may also be interpreted as sign of a pending upturn of pipe tobacco sales.

The US accounts for 37 per cent, while Denmark, France, Germany and Great Britain account for one third of the global consumption of pipe tobacco. The Danes are the largest per capita pipe tobacco consumers globally. Pipe smoking is also prevalent in other parts of the world, such as South Africa, Australia and Japan.

The pipe tobacco industry is characterized by declining sales and production overcapacity. In principle, all pipe tobacco manufacturers are applying a "milking strategy" with high sales prices and limited marketing efforts.

FUTURE STRATEGY

The Pipe Tobacco Division has decided to invest in an aggressive strategy to achieve growth. This can be accomplished through organic growth as well as strategic acquisitions. Swedish Match differs from most of its competitors by investing offensively in a segment in which most other players are adopting a wait-and-see attitude.

The US market will be further developed, for example through the introduction of new products. Today, the Pipe Tobacco Division does not hold any significant positions in Germany, France and Great Britain. In these markets pipe tobacco is well-established and consumers have specific taste and type preferences. It should be possible to increase the Division's market shares in the years ahead through targeted marketing efforts.

In general, the Pipe Tobacco Division intends to continue the global exploitation of Borkum Riff and to market this brand in a more aggressive fashion.



IMPORTANT BRANDS

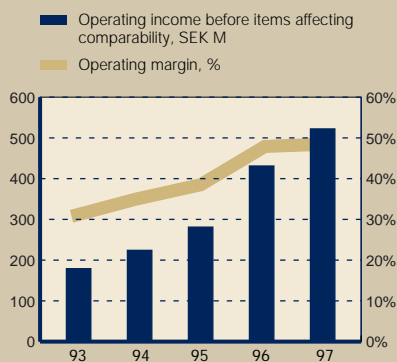
Borkum Riff

Half & Half

Hamiltons Blandning



OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND OPERATING MARGIN 1993-1997



KEY FIGURES

<i>SEK M unless otherwise stated</i>	1993	1994	1995	1996	1997
Sales	581	640	729	900	1,079
Operating income before items affecting comparability	179	224	281	431	522
Operating margin, %	30.8	35.0	38.5	47.9	48.4

CAPITAL EXPENDITURES AND PERSONNEL

<i>SEK M unless otherwise stated</i>	1997
Capital expenditures in tangible fixed assets	19
Average number of employees	407

Snuff

Snuff is Swedish Match's fastest growing product segment. With restrictions on tobacco smoking, smokeless alternatives are gaining a greater market potential. The Division's main markets are Sweden, including tax-free (82 per cent of total sales) and the US (15 per cent). Sales in 1997 amounted to SEK 1,079 million (900), a 20 per cent increase. Operating income for the year was SEK 522 million (431), corresponding to an operating margin of 48 per cent (48).

Swedish Match's Snuff Division dominates the Swedish and Norwegian markets with its well-known brands Generalsnus, Ettan and Grovsnus. In Sweden, snuff accounts for 27.6 per cent of the total tobacco consumption.

The Snuff Division's head office and factory are located in Gothenburg, Sweden. The production for the American market takes place at the Chewing Tobacco Division's factory in Owensboro, Kentucky.

FISCAL 1997

The Division's strong growth continued during 1997. Total sales increased by 20 per cent to SEK 1,079 million (900). Higher volumes in the US, as well as price increases in Sweden, contributed to the sales increase.

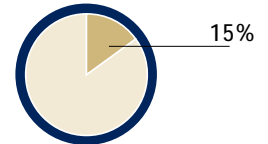
Compared with a year earlier, operating income improved by 21 per cent to SEK 522 million (431). On average, sales growth has been 17 per cent annually during the past five years, during which the operating margin rose from 30 per cent to 48 per cent. The improved operating margin was not only attributable to the sales growth, but also to price hikes and the gradually restructured product mix, with an increased proportion of portion-packed snuff in Sweden.

The two tax increases in Sweden during 1997, in January and August, had a negative impact on domestic sales in terms of volume, but this was compensated by a 60 per cent increase in tax-free sales. As shown in the table on page 39, the consumer price of a box of Generalsnus increased by SEK 6 to SEK 21.50 in eight months. Excise tax and VAT today account for nearly 50 per cent of the price to consumer. Concurrent with the tax increases, Swedish Match also increased its prices.

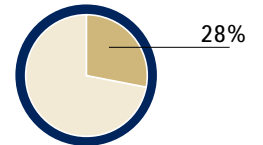
In total, the sales in Sweden and in the tax-free market amounted to SEK 886 million (765). Portion-packed snuff, measured in cans rose to



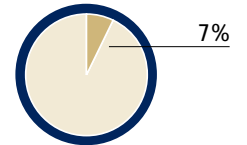
SHARE OF GROUP SALES



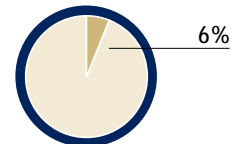
SHARE OF GROUP OPERATING INCOME BEFORE ITEMS AFFECTING COMPARABILITY AND GROUP CENTRAL ITEMS



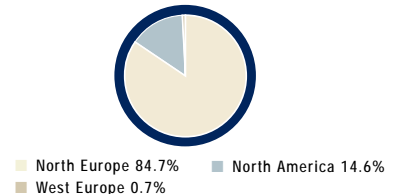
SHARE OF GROUP CAPITAL EXPENDITURE



SHARE OF GROUP EMPLOYEES



SALES BY REGION





close to 40 per cent (36) of total sales. The US market posted sales amounting to SEK 158 million (103). Market share increased during the year from 2.3 per cent to 3.2 per cent.

In August, market-leading US Tobacco launched a low-price campaign forcing Swedish Match to cut the price of its main product, Timber Wolf, from USD 1.10 to USD 0.70 per box. A price increase from USD 0.70 to USD 0.90 was undertaken by US Tobacco at year-end.

SNUFF MARKET

Against the background of increased regulation of tobacco smoking, the smokeless tobacco alternative has gained increasingly more ground. In Sweden, snuff is a product with old traditions which in recent years has gradually gained higher social acceptance, particularly through the introduction of portion packaging. Snuff is expected to continue growing. A changed attitude to snuff in other markets may open entirely new opportunities, such as within the EU where snuff is currently prohibited. Sweden is exempt by agreement. The Swedish market (including the tax-free segment) amounts to 150 million boxes, with Swedish Match as the only major operator.

It is also interesting to note that tobacco is used in many parts of the world in a manner similar to snuffing. Very large quantities of smokeless tobacco for oral use is consumed in countries such as India, Pakistan and major parts of Africa.

Swedish Match's sales operation in the North American market has been very successful in recent years. The total market in the US is estimated at 850 million boxes annually which is almost six times as much as in Sweden. Since the introduction of Swedish Match's present product range some three years ago, the sales have increased continuously and today Swedish Match holds a market share of 3 per cent, in certain states up to approx. 10 per cent.

The dominating company is US Tobacco (market share approx. 78 per cent) with its Copenhagen and Skoal brands, both in the high-price segment. This high-price strategy has generated a rapidly growing low-price segment where Swedish Match's main product Timber Wolf and certain other competing products have grown rapidly. US Tobacco's launching of a low-price product of their own, Red Seal, seems to have accelerated the growth of this segment.

FUTURE STRATEGY

Swedish Match's strategic objective for the Snuff Division is growth, primarily in the Swedish and American markets. The preconditions for market growth in Sweden, where Swedish Match dominates the market, are favorable and include trends towards an increasing change-over to smokeless tobacco consumption. The Snuff Division pursues continuous product development in order to adapt the smokeless alternative, represented by snuff, to the needs of different consumer categories. This has resulted in an increased focus on the profitable portion-packed snuff seg-

ment, which accounts for a rapidly growing share of the consumption in Sweden. Today some 10 per cent of the consumers in Sweden are female, to a great extent due to the introduction of the so-called "mini-dose." In the US, conditions are favorable for an improvement in sales through an increase in market share. Although Swedish Match has grown rapidly in the American market, its share is still only 3 per cent. There are large geographic markets in the US, however, which remain to be penetrated by Swedish Match. Each percentage share gained from this market will yield substantial sales growth.

The Division is also actively engaged in a geographic expansion, primarily to countries in Asia and Africa where products similar to snuff are traditionally used.

GENERAL SNUFF (base price), SEK	on Jan. 1, 1996	on Jan. 1, 1997	on Aug. 1, 1996
Sales price Swedish Match	4.65	4.98	5.53
Retail margin	4.00	4.62	5.52
Excise tax	3.75	4.80	6.15
VAT	3.10	3.60	4.30
Price to consumer	15.50	18.00	21.50



IMPORTANT BRANDS

Generalsnus
 Ettan
 Grovsnus
 Röda Lacket
 Göteborgsrapé
 Catch
 Probe
 Timber Wolf
 Renegades

ONE GLOBAL COMPANY

A joint company culture

Along with the introduction of the overriding organizational structure the names of most of the Group's companies and operating units were changed resulting in all operations today being pursued under the name of Swedish Match. The graphic profile was renewed and coordinated in such a way that the exterior Swedish Match identity is expressed as "One Global Company".

A GLOBAL CHALLENGE

Superficial changes such as a change of name are comparatively easy to realize. In order, however, for a new organization to enter into effect and actively contribute to making the Group's announced growth policy achieve results, much engagement is required on the part of the management and all employees. The new global organization was developed out of four different company groups, each with its own culture. These groups are now melting together and will cooperate within one corporate entity with one joint culture. Since Swedish Match is a global organization with employees from all different parts of the world, the joint company culture must be devised in a way showing respect for cultural as well as individual differences.

Swedish Match's basic personnel concept for achieving the company's business objectives is to be a company attracting professionally skilled people with ambitions to develop the company's business and themselves irrespective of where in the world they are working.

In September 1997, a program for internal development and education was introduced to all 6,500 employees working in the 85 Swedish Match offices and factories world-wide. This program, the Global Challenge, spans several years, and the substantial investment in the Whitbread Round the World Race 1997/98 constitutes an important part of this activity. Apart from providing positive external marketing effects, the boat "Swedish Match" and its international crew represents the basic values which will permeate the entire organization and indicate the direction and goal of the personnel policy. These basic values are addressed to all employees and establishes the guiding principles for the work performance in the company:

Communication

Communication across all borders is the basic theme of the new company culture.

Teamwork

The employees are to work together in teams at their own places of work and across all geographical and cultural borders as member of Swedish Match's global team.



Trust

The employees are encouraged to act on their own responsibility and without too detailed instructions. They should have confidence in Swedish Match as a company keeping its promises.

Innovation

Every Swedish Match employee should be able and willing to present his/her own creative ideas about everything concerning the company, locally or globally.

Recognition

All employees are to be recognized for their work achievements and their ideas as to how the company should be further developed.

Growth

Commercial and human growth are overriding objectives of Swedish Match. To further develop human beings is a prerequisite for achieving the company's commercial objectives.

These six basic values constitute the foundation of Swedish Match's personnel performance strategies. The changes in practice are to be realized at each place of work in the global organization as based on a number of main strategies.

One important strategy is the leadership for renewal. The key persons when it comes to changing the company and the work procedures are the managers on all levels within the organization. Another main point is that all employees should have the opportunity to improve their own competence and thus be prepared to meet new challenges. A joint company culture is to be created and the rules of the game are also to be joint and clear. Our goal is to recruit the best employees and to develop a uniform reward system.

WHITBREAD - A UNIFYING CONCEPT

The Whitbread Race has been used as a uniting link in the work of change in progress. Each time the boat "Swedish Match" and its crew call at a port a large information flow starts spreading throughout the company. Information on Swedish Match's operation in the region where the boat is at the time is distributed to all employees. Countries, different cultures and company staff are reported on and the overall knowledge about one's "own" company is supplemented with new facts for each covered lap of the race. In this way, different cultures are joined to form a joint company culture and a common task - to make a successful contribution in stiff international competition. Knowledge, cooperativeness and understanding are strengthened at the same time as the boat and its crew are symbolizing and representing the six basic values and what is demanded of Swedish Match's employees.

Self-evidently, an attention-getting sports event such as Whitbread Round the World Race generates external values as well. Whitbread Round the World Race is the world's most widely known sailing contest. This very demanding race is a tough and exciting encounter between man and nature.

The Whitbread has become one of the world's most important sports events, telecast worldwide. With its international appeal and global audience, the Whitbread is the perfect sponsoring event for the new Swedish Match. The race demands depth of talent, commitment to teamwork, trust, innovation, recognition and involvement - the same values which optimize Swedish Match's global organization. Swedish Match participates by sponsoring a boat in the race. It is built specifically for this purpose and carries the company's name and colors.

TREASURY

Management

Swedish Match's business operation entails financial risk exposure primarily in the currency and interest sector. The Board of Directors of Swedish Match has adopted a financial policy with the objective of minimizing the Group's risks with regard to currency, interest, and credit, as well as financing and liquidity. Swedish Match Corporate Treasury, a part of the parent company, handles these risks centrally within the scope of a well-defined risk mandate as part of the adopted financial policy.

In addition to the financial operation pursued by Swedish Match Corporate Treasury in Stockholm, internal lending is also provided to group companies by Swedish Match Finance, a fully-owned subsidiary located in Ireland. This company operates in accordance with an adopted financial policy, and within the scope of the Swedish Match Corporate Treasury risk mandate.

CURRENCY RISK

The Group has cash flows in several different currencies, resulting in commercial, or financial, risk exposure affecting Group earnings. The result is also influenced when the earnings and net assets of foreign subsidiaries are translated into Swedish currency, known as translation exposure.

Commercial transaction exposure

Commercial currency flows in other currencies than the domestic currency of each subsidiary generate transaction exposure. In accordance with the Group's currency policy, 40-60 per cent of the net exposure of contracted and expected net flows in other currencies than the domestic currency is hedged. This hedging takes place on a rolling 12-month basis. The subsidiaries do their hedging through internal forward contracts with Swedish Match Corporate Treasury, which then engages in external forward transactions with banks in order to reduce the Group's total foreign currency exposure. As shown in table 1, Swedish Match had outstanding forward contracts with a book-value of a net of SEK 2 million for hedging of future commercial cash flows at the end of 1997.

As of December 31, 1997, the Group's total forecast transaction exposure, net in foreign currency against SEK, amounted to approx. SEK 7 million for the next 12 months (see diagram 1). However, as shown in the diagram, larger exposures in individual currencies occur.

Table 1. The Swedish Match Group's forward contracts (SEK M)

Exchange rate changes in future commercial cash flows		Exchange rate changes in placements and loans	
CHF	128	CNY	-17
EEK	-26	FIM	-34
FRF	11	FRF	-18
GBP	-72	HUF	-37
IEP	-8	IDR	-26
NLG	96	PHP	-67
SEK	51	SEK	367
USD	-148	USD	-170
Other	-30	Other	-3
Total	2	Total	-5

Diagram 1. Transaction exposure in the Group's most important currencies (SEK M)

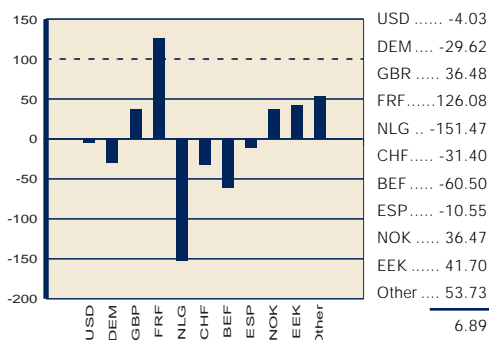
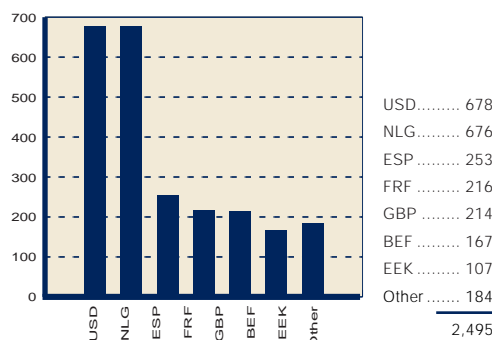


Diagram 2. Net assets in foreign currency (SEK M)



Financial transaction exposure

According to the financial policy, subsidiaries are to be financed in such a manner that they are not exposed to any currency risk. This is normally achieved by borrowing from Corporate Treasury in the local currency of the subsidiary concerned. Borrowing in a different currency only occurs in those cases where it is not possible to finance the subsidiaries in the local currency due to exchange controls or other reasons. In this situation, the loans are to be hedged by means of internal forward contracts with Swedish Match Corporate Treasury.

Translation exposure

At the end of 1997, shareholders' equity of Swedish Match foreign subsidiaries and associated companies amounted to SEK 2,495 million (see Diagram 2). Swedish Match has decided not to hedge the equity of the subsidiaries for the time being.

INTEREST RISK

The speed at which a persistent interest change affects the Group's net interest income depends on the fixed-rate period of loans and investments. The average fixed-rate period of the Group's interest-bearing assets as of December 31, 1997 amounted to 17 days, and the corresponding period of the Group's interest-bearing liabilities to 221 days as of the same date.

The Group's interest-bearing assets carried an average interest of 4.9 percent as of 31 December 1997. The average interest applying to the Group's total loan portfolio was 5.1 per cent as of the same date.

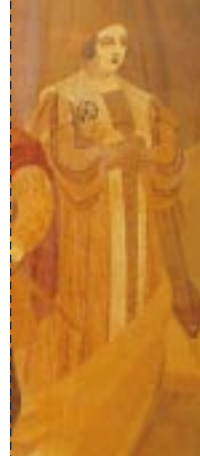
CREDIT RISK

According to Swedish Match's financial policy, investments, except those in bank accounts, can only be made in Swedish treasury bills and treasury bonds, and in securities issued by certain counterparties specified on a list of counterparties approved by the management. All counterparties on this list have a long rating of minimum A issued by Standard & Poor's or a corresponding institute. As of December 31, 1997, SEK 365.7 million of the Group's liquid funds were deposited in bank accounts, and SEK 196.9 million were invested in the form of bank deposits.

FINANCING AND LIQUIDITY

The Group's borrowing is made mainly through a Swedish certificate program with a loan limit of SEK 2,000 million, of which SEK 777 million was utilized as of December 31, 1997. The certificate program has a 'back-up facility' in the form of a syndicated bank loan with a loan limit of SEK 2,000 million, which was entirely unutilized as of December 31, 1997. In addition, there is a three-year fixed interest bond loan of SEK 200 million maturing on September 8, 2000, with an interest rate of 6.05 per cent.

The Group's policy is to offset liquid funds against borrowing as far as possible, with the objective of minimizing borrowing costs. For this reason, cashpools have been set up in Sweden, Great Britain, Germany and the USA and are also planned to be introduced in the Netherlands, France and Belgium during 1998.

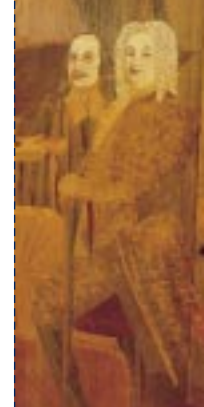


FIVE-YEAR

Summary

Consolidated income statements	1993	1994	1995	1996	1997
Sales	7,423	7,760	7,435	7,416	7,465
Cost of goods sold	-3,810	-3,888	-3,761	-3,653	-3,615
Gross profit	3,613	3,872	3,674	3,763	3,850
Selling, administrative and other expenses	-2,201	-2,304	-2,201	-2,056	-2,281
Share of earnings in associated companies	17	11	21	16	17
Items affecting comparability	-53	144	189	-123	-
Operating profit	1,376	1,723	1,683	1,600	1,586
Net interest income/expense	-173	-129	-107	-81	-17
Other financial items	5	31	0	11	-11
Net financial income and expense	-168	-98	-107	-70	-28
Profit after financial items	1,208	1,625	1,576	1,530	1,558
Taxes	-362	-487	-473	-439	-512
Minority interests	-1	-15	-6	18	-1
Profit for the year	845	1,123	1,097	1,109	1,045
Income/share after tax before items affecting comparability, SEK	1.90	2.20	1.89	2.59	2.25
Income/share after tax after items affecting comparability, SEK	1.82	2.42	2.37	2.39	2.25
Consolidated balance sheets	1993	1994	1995	1996	1997
Assets					
Intangible assets	765	640	563	516	757
Tangible assets	2,002	2,048	2,002	1,939	2,050
Other operating assets	163	126	98	94	176
Financial assets	23	67	80	278	308
Current operating receivables	3,750	3,393	2,980	2,964	3,125
Current financial receivables	281	288	119	144	153
Cash and bank	535	961	804	942	563
Total assets	7,519	7,523	6,646	6,877	7,132
Equity and liabilities					
Equity	1,757	1,760	1,557	2,314	2,972
Minority interests	123	121	105	54	20
Provisions	555	574	630	663	656
Long-term liabilities to credit institutions	3	2	9	4	209
Other long-term liabilities	83	60	35	29	27
Short-term liabilities to credit institutions	2,170	1,902	1,990	1,015	825
Other short-term liabilities	392	646	174	508	290
Short-term operating liabilities	2,436	2,458	2,146	2,290	2,133
Total equity and liabilities	7,519	7,523	6,646	6,877	7,132
Share capital	405	408	408	927	927
Dividends	-	-	-	510	510 ¹⁾
Average number of employees	10,242	7,658	7,306	6,580	6,467

¹⁾ Board proposal



Key figures	1993	1994	1995	1996	1997
Operating margin, %	19.3	20.3	20.1	23.2	21.2
Return on operating capital, %	36.8	39.9	41.3	49.9	42.7
Return on shareholders equity, %	54.2	63.9	66.1	57.3	39.5
Interest coverage ratio, %	6.9	9.0	9.1	9.6	24.9
Debt/equity ratio, %	87.1	50.1	71.9	3.2	15.7
Equity/assets ratio, %	25.0	25.0	25.0	34.4	41.9
Investments	532	376	302	217	292
Operating capital	4,244	3,749	3,497	3,224	3,975
Net debt	1,638	943	1,195	77	471
Sales per division	1993	1994	1995	1996	1997
Sales					
Chewing Tobacco	1,208	1,233	1,173	1,043	1,149
Cigarettes	1,633	1,934	1,941	1,983	1,546
Cigars	705	729	729	678	691
Lighters	791	796	835	846	834
Matches	1,825	1,754	1,358	1,241	1,299
Pipe Tobacco	269	222	182	196	166
Snuff	581	640	729	900	1,079
Groupwide operations and eliminations	411	452	488	529	701
Total	7,423	7,760	7,435	7,416	7,465
Operating income before items affecting comparability					
Chewing Tobacco	264	277	336	368	420
Cigarettes	631	775	786	789	537
Cigars	88	114	109	136	131
Lighters	37	-5	-3	48	53
Matches	261	303	93	118	147
Pipe Tobacco	69	35	31	41	28
Snuff	179	224	281	431	522
Groupwide operations and eliminations	-100	-144	-139	-208	-252
Summa	1,429	1,579	1,494	1,723	1,586
Operating margin, %					
Chewing Tobacco	21.9	22.5	28.6	35.3	36.6
Cigarettes	38.6	40.1	40.5	39.8	34.7
Cigars	12.5	15.6	15.0	20.1	19.0
Lighters	4.7	-0.6	-0.4	5.7	6.4
Matches	14.3	17.3	6.8	9.5	11.3
Pipe Tobacco	25.7	15.8	17.0	20.9	16.9
Snuff	30.8	35.0	38.5	47.9	48.4

DIRECTORS'

Report

SALES AND NET OPERATING INCOME

Swedish Match reported sales in 1997 amounting to SEK 7,465 million (7,416). Sales were affected positively by a 5 per cent currency effect. Sales increases for several divisions, primarily the Snuff Division, compensated for the downturn in the Cigarette Division.

Net operating income before items affecting comparability was SEK 1,586 million (1,723), after the currency effect of 5 per cent. The decline in profits for the Cigarette Division could only partially be offset through the improvements for smokeless tobacco and matches.

The total Swedish cigarette market dropped by 27 per cent during the year. The downturn in volume is strongly related to the two tax increases on tobacco during the year, only one-third of the effect of the decline in volume on net operating income could be compensated for through price increases. Net operating income for the Company compared to 1996 was also negatively affected by the hoarding which took place in December 1996 and by the Prince agreement that took effect on May 1, 1997. Group-wide activities rose to SEK 252 million (208). The net cost is attributable to the Company's sponsorship of the Whitbread Round the World Race as well as the costs for a global internal project, the Swedish Match Global Challenge. The cost for this project is expected to reach the same amount under 1998. The internal project is in line with the new Group structure as of January 1, 1997, and is aimed at strengthening global collaboration within the Company and thereby strengthening global business operations.

NET AFTER FINANCIAL INCOME AND EXPENSES

Net interest expense was SEK 17 million (expense 81). The net of other financial items was an expense of SEK 11 (income 11) and is attributable among other factors to exchange gains and losses on financial assets and liabilities. The majority of the exchange losses occurred in subsidiaries in Indonesia and the Philippines.

TAXES

The Company's tax expenses were SEK 512 million, equivalent to an effective tax rate of 32.8 per cent. See also Note 5, page 54.

EARNINGS PER SHARE AND PROPOSED DIVIDEND

Earnings per share were SEK 2.25 (2.39). In accordance with the Company's dividend policy, the Board of Directors has voted to recommend that the Annual General Meeting distribute a dividend to shareholders of SEK 1.10 (1.10) per share. The year's proposed dividend is equal to 49 per cent of net income for the year.

ACQUISITIONS

On December 1, 1997, a cigar factory in Pietarsaari, Finland was acquired through an agreement with R.J. Reynolds International. Under the terms of the agreement, all R.J. Reynolds cigar brands were transferred to Swedish Match. However, R.J. Reynolds will

continue to manage sales, marketing and distribution on behalf of Swedish Match. Annual volume for the business is 50 million cigars, with a sales of SEK 80 million. Co-determination negotiations with employee representatives were concluded, which resulted in the shutdown of the Pietarsaari factory during September 1998 and transfer of production to the Division's factory in Belgium.

In December, Swedish Match acquired a majority holding in two investment companies in Singapore from the Indian Jatia Group, which still holds a minority interest. The two investment companies are the largest shareholders in the Indian match company Wimco Limited, with 39 per cent of the shares. Wimco is a public company listed on the Bombay exchange and other Indian stock exchanges. In accordance with Indian law, Swedish Match and the Jatia Group have made a joint public offer on up to 20 per cent of Wimco's shares. By virtue of the acquisition, Swedish Match and the Jatia Group together now have a controlling interest in Wimco.

Wimco's sales for the match business in 1997 was SEK 375 million. Annual production capacity is 5 billion matchboxes and the company has one of the most well-developed distribution nets for consumer products in India. The primary purpose of the alliance is to open the Indian market for Swedish Match products in collaboration with partners with good local knowledge and experience.

At the end of the year, an agreement was entered into to acquire 58 per cent of the shares in PLAM Bulgarski Kibrit JSCo. The company is the only match manufacturer in Bulgaria. PLAM has approx. 400 employees at the factory and head office in the city of Kostenev, which is 70 km southeast of the capital city of Sofia. Sales in 1997 was approx. SEK 35 million.

In the fall, Swedish Match signed a joint venture agreement with Turkish KAV Orman Sanayii A.S. for development of its business in Turkey and other countries in the region. The agreement entailed the formation of a new company, of which Swedish Match will own 60 per cent. KAV is transferring its existing match business, with sales of SEK 100 million, which corresponds to a 45-50 per cent share of the Turkish market. After all government permits have been obtained, the new company is expected to start business towards the end of the first quarter of 1998.

Treab Plus AB was acquired in December. Treab Plus is active in the daily goods and service trade in Sweden, where the company sells tobacco products and accessories, among other products. Sales in 1997 amounted to SEK 94 million.


SHAREHOLDER PROGRAM

Within the framework of the shareholder program, adopted by the Board, and considering Swedish Match's strong financial position and substantial transfer capacity, the Board of Swedish Match has decided, in addition to the ordinary dividend for fiscal year 1997, to propose the redemption of Swedish Match shares to the Annual General Meeting on April 29, 1998. Through the redemption, capital which is no longer required in operations is transferred to the shareholders. This reduces shareholders' equity and the number of shares. The redemption will be proposed in an amount in the range of SEK 1,200 million.

Detailed information on the exact terms and conditions will be provided in mid-April, but not later than April 22, 1998. An Extraordinary General Meeting is planned to be held on or about July 7, after which the redemption amount is expected to be paid at the end of July.

INCENTIVE PROGRAM

The Board has decided to offer approx. 20 senior executives in the Group call options pertaining to shares in Swedish Match AB. The offering will comprise packages with options featuring three different lifetimes: three, four and five years. At full acceptance, the options



will correspond to 1,065,000 shares being issued. The allotment corresponds to a maximum of 30,000 and 105,000 options for the executives involved. The price for the options will be determined on market terms. The Company is also investigating the possibility of establishing of a profit-sharing system for the Group's employees.

INVESTMENTS

Group investments in tangible assets during the year totaled SEK 292 million (217). SEK 249 million (1) was invested in intangible assets, representing the acquisition of brands and distribution rights in Finland and the USA. Depreciation according to plan amounted to SEK 268 million (270).

FINANCING AND LIQUIDITY

Cash and cash equivalents, including short-term investments, totaled SEK 563 million at year-end, compared with SEK 942 million at the beginning of the year. Net liabilities at year-end were SEK 471 million, an increase of SEK 394 million since December 1996. Net liabilities at year-end 1996 were low because liabilities for both income tax and tobacco tax combined were about SEK 500 million higher than normal. These liabilities were paid down during 1997 and are now at a normal level.

A three year fixed-interest bond loan of SEK 200 million was raised during the year. The Company's main loan financing is a Swedish certificate program with a loan limit of SEK 2,000 million, of which SEK 777 million had been utilized as of 31 December. In addition, there is a syndicated bank loan with a loan limit of SEK 2,000 million, which was completely idle as of December 31.

DEBT/EQUITY RATIO

The Company's debt/equity ratio at the end of the fiscal year was 41.9 per cent (34.4).

GLOBAL SETTLEMENT

During the year, Philip Morris Inc., the R.J. Reynolds Tobacco Co., Brown & Williamson Tobacco Corp., the Lorillard Tobacco Co. and United States Tobacco reached a preliminary settlement with the 39 US states that had filed lawsuits against the companies in the US. In exchange for, among else, withdrawal of the lawsuits and certain limitations regarding future suits related to product liability, the five companies have agreed to make payments totaling nearly 370 billion dollars over the next 25 years. According to the preliminary settlement, the five companies have agreed to accept new restrictions on the manufacture, sales and distribution of cigarettes and smokeless tobacco products sold in the US (the agreement does not extend to pipe tobacco or cigars). If the proposed settlement materializes, it will have a significant effect on the tobacco industry in the US, including the operations of Swedish Match.

The proposed settlement is currently the object of extensive analysis and debate. It cannot yet be determined whether new legislation will be passed or the scope thereof, nor when any such laws would be introduced. Thus, it is impossible at present to predict how extensively the settlement will affect Swedish Match's business in the US.

INDONESIA

The Company has exposure in Asia, including a factory in Indonesia for production of hand-made cigars and semi-finished products for the European cigar factories. If the Indonesian political situation worsens, consequent production disturbances cannot be excluded.

PERSONNEL

The average number of employees of the Company during 1997 was 6,467 (6,580), of which 1,485 (1,467) in Sweden. Salaries and other compensation totaling SEK 1,171 million (1,114) were paid during the year, of which SEK 462 million (390) was paid to personnel in Sweden. See also Note 19, page 60.

RECOMMENDED ALLOCATION OF EARNINGS

According to the consolidated balance sheet, the Company's unrestricted shareholders' equity is SEK 1,693 million, of which SEK 1,045 million are the net earnings for the fiscal year. No allocations to restricted funds are recommended.

According to the Parent Company's balance sheet, SEK 5,138 million, of which SEK 1,478 million are the net earnings for the year, is at the disposal of the Annual General Meeting.

The Board of Directors and the Chief Executive Officer recommend that the earnings of SEK 5,138 million at the disposal of the Annual General Meeting be allocated so that shareholders receive a dividend of SEK 1.10 per share for a total dividend of SEK 510 million and that the remaining earnings be brought forward.

The Board of Directors further recommends that reconciliation of shareholders listed in the Swedish Securities Register Center (VPC) occur on May 5, 1998.

Stockholm, February 24, 1998

Bernt Magnusson
Chairman of the Board

Arne R. Bennborn

Jan Blomberg

Lennart Engström

Christer Nordgren

Bertil Persson

Klaus Unger

Göran Lindén
Chief Executive Officer

My auditor's report was issued on February 25, 1998.

Göran Tidström
Authorized Public Accountant

CONSOLIDATED

Income Statement

<i>SEK million</i>	1997	1996	
Sales inclusive tobacco tax	15,231	15,007	
Less, tobacco tax	-7,766	-7,591	
Sales	7,465	7,416	
Cost of goods sold	-3,615	-3,653	
Gross margin	3,850	3,763	
Selling expenses	note 2	-1,572	-1,352
Administrative expenses	-759	-729	
Other operating income	84	30	
Other operating expenses	-34	-5	
Share of earnings in associated companies	17	16	
Items affecting comparability	note 3	-	-123
Operating profit	1,586	1,600	
Interest income	48	97	
Interest expenses	-65	-178	
Exchange rate differences and other financial items	note 4	-11	11
Profit after financial items	1,558	1,530	
Taxes	note 5	-512	-439
Minority interest	-1	18	
PROFIT FOR THE YEAR	1,045	1,109	

CONSOLIDATED

Balance Sheet

SEK million	Dec. 31, 1997	Dec. 31, 1996
ASSETS		
Fixed assets		
Intangible assets note 6	757	516
Tangible assets note 7	2,050	1,939
Other operating fixed assets		
Participations in associated companies note 8	152	79
Other long-term operating receivables	24	15
Total other operating fixed assets	176	94
Financial assets note 9	308	278
Total fixed assets	3,291	2,827
Current assets		
Inventories note 10	1,584	1,388
Current operating receivables		
Trade receivables *)	1,245	1,344
Prepaid expenses and accrued income	138	91
Other current operating receivables	158	141
Total current operating receivables	1,541	1,576
Current financial receivables	153	144
Cash and bank	563	942
Total current assets	3,841	4,050
TOTAL ASSETS	7,132	6,877
EQUITY, PROVISIONS AND LIABILITIES		
Equity note 11		
Restricted equity		
Share capital	927	927
Restricted reserves	352	89
Non-Restricted equity		
Unrestricted reserves	648	189
Profit for the year	1,045	1,109
Total Equity	2,972	2,314
Minority	20	54
Provisions		
Pensions and similar commitments note 12	214	156
Provisions for taxation	373	310
Other provisions	69	197
Total provisions	656	663
Long-term liabilities		
Liabilities to credit institutions note 13	209	4
Other long-term liabilities	27	29
Total long-term liabilities	236	33
Short-term financial liabilities		
Liabilities to credit institutions note 13	825	1,015
Other short-term financial liabilities	290	508
Total short-term financial liabilities	1,115	1,523
Short-term operating liabilities		
Accounts payable	397	338
Accrued expenses and deferred income note 14	534	531
Other short-term operating liabilities note 14	1,202	1,421
Total short-term operating liabilities	2,133	2,290
Total short-term liabilities	3,248	3,813
TOTAL EQUITY, PROVISIONS AND LIABILITIES	7,132	6,877
COMMITMENTS AND CONTINGENT LIABILITIES note 16		
Pledged assets	156	126
Contingent liabilities	151	50

*) (Net of allowance for doubtful debts of 87 for 1997 and 71 for 1996.)

CONSOLIDATED

Cash Flow

SEK million	1997	1996
<i>Operations</i>		
Profit for the year	1,045	1,109
Depreciation	268	270
Share in earnings of associated companies	-17	-17
Dividends from associated companies	16	9
Gain on sales of property, plant and equipment	-6	-9
Gain on sales of shares	-	-1
Minority interests	2	-17
Other non-cash-affecting items	-21	11
Change in operating assets/liabilities		
Trade receivables	125	-135
Inventories	-111	156
Other assets	-62	-7
Accounts payable	41	-3
Accrued expenses and other current liabilities	-427	263
Change in pension provisions and other long-term liabilities	26	-22
Change in income tax liabilities	-186	286
Change in deferred income tax liabilities	80	-87
Cash flow from operations	773	1,806
<i>Investments</i>		
Investments in property, plant and equipment	-292	-217
Proceeds from sales of property, plant and equipment	40	38
Acquisition of subsidiaries	-60	-
Acquisition of trademarks	-249	-1
Investments in other shares	-	-1
Investments in associated companies	-45	-
Proceeds from sales of other shares	-	1
Change in financial receivables	-46	-160
Cash flow from investments	-652	-340
<i>Financing</i>		
Change in short-term loans	-214	-1,007
Dividends to minority shareholders	-5	-2
Change in long-term loans	198	-3
Dividend	-510	-300
Cash flow from financing	-531	-1,312
Translation differences attributable to cash and bank	31	-16
Decrease/increase of cash and bank	-379	138
Cash and bank at the beginning of the year	942	804
Cash and bank at the end of the year	563	942
<i>Year's payment for</i>		
Interest	89	163
Income taxes	587	254

NOTES TO THE

Consolidated Accounts

(All amounts in SEK M if not otherwise stated)

1 SIGNIFICANT ACCOUNTING PRINCIPLES

The Annual Report follows the recommendations of the Swedish Financial Accounting Standards Council. The accounting principles have not been changed from those applied in the preceding year. Figures from the preceding year have been reclassified in accordance with the new Swedish Annual Accounts Act.

Consolidated Accounts

The consolidated accounts include the Parent Company, all subsidiaries and associated companies. By subsidiaries is meant companies in which Swedish Match owns shares vested with more than 50 per cent of voting power. By associated companies is meant companies in which Swedish Match has long-term holdings equivalent to at least 20 per cent, but no more than 50 per cent, of voting power. Holdings in associated companies are accounted for using the equity method. The Company's share of the reported net earnings of associated companies is reported as part of operating profit and income taxes.

All acquisitions of companies have been accounted for using the purchase method. Companies that were sold during the year are included in the consolidated accounts up to the point of sale. Companies acquired during the year are included in the consolidated accounts from the point of acquisition.

The Company's minority shares of net earnings are accounted for after taxes.

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

Foreign Currency

Translation of the accounts of foreign subsidiaries

The balance sheets of foreign subsidiaries, with the exception of subsidiaries in countries with high inflation, have been translated to Swedish kronor at the closing day rate. Income statements have been translated at the average exchange rate for the period. Translation differences that arise in conjunction with translation of balance sheets and income statements are entered immediately under equity.

The accounts of subsidiaries active in countries with a high inflation rate have been translated according to the temporal method, wherein monetary entries are translated at the closing day rate and non-monetary entries at the investment rate. Income statements have been translated at the average rate for the period, except for depreciation and some components in the cost of goods sold, which were translated at the investment rate. Any differences are included on the income statement.

Receivables and Liabilities in Foreign Currency

Receivables and liabilities in foreign currency have been translated at the closing day rate, with the exception of hedged items, which have been translated at the respective rate of the associated forward contract. Exchange gains and losses are recorded in income.

Operating and Financial Assets and Liabilities

Operative assets and liabilities are attributed to operations. Financial assets and liabilities are attributed to financing and other business.

Currency Hedging

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

Taxes

Provisions for taxes include current Swedish and foreign tax liabilities as well as deferred taxes that are consequent upon temporary differences between financial and fiscal accounting. Deferred tax liabilities and deferred tax assets are entered at the current tax rate for each company (the liability method). Assets and liabilities in the form of deferred tax are offset only in units where tax equalization is possible in and between units.

Deferred tax assets are accounted for with respect to the temporary differences that will result in future deductions and fiscal losses carried forward. If it is unlikely that the deferred tax liability will be realized, it is not entered as an asset, but rather is appropriated to the valuation reserve.

Items Affecting Comparability

The net of significant income or expense entries, which are not expected to occur frequently, are classified as 'items affecting comparability' and accounted for separately under operating profit. Items affecting comparability include restructuring expenses as well as one-time income from sales of businesses and stock that were previously accounted for as operating assets.

Intangible Assets

Goodwill is included in intangible assets, which are straight-line amortized over 5-20 years. Goodwill in larger subsidiaries that

have been in business for more than 20 years, have strong brands and a good market position is amortized over 20 years.

The value of goodwill and other intangible assets is evaluated regularly to determine whether events or circumstances indicate that it may be difficult to reclaim their book values. These evaluations necessarily include significant judgments made by Company management of the ability of an acquired business to achieve expected results.

Tangible Assets

Depreciation on property, machinery and equipment is based on the acquisition cost of the asset and its estimated economic lifetime. Buildings and land improvements are generally written off over periods of 20-50 years. The normal estimated economic lifetime is 5 years for vehicles and 5-10 years for machinery and equipment.

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

Inventories

Inventories are accounted for at the lower of cost or market and in all significant aspects according to the FIFO (first-in, first-out) method after deductions for obsolescence. Non-realized inter-company profits are eliminated entirely.

Use of Estimates

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

2 SELLING EXPENSES

Selling expenses include expenses for Research and Development and similar in the amount of SEK 91 million for fiscal 1997 and SEK 88 million for fiscal 1996.

3 ITEMS AFFECTING COMPARABILITY

A provision of SEK 150 million was made in 1996 for the closure of the tobacco factories in Arvika and Härnösand. SEK 27 million was deducted from that amount for compensation received for a settlement of a dispute.

4 EXCHANGE RATE DIFFERENCES AND OTHER FINANCIAL ITEMS

	1997	1996
Exchange rate differences	-5	15
Other financial items	-6	-4
Total	-11	11

5 TAXES

Earnings before tax and minority shares for 1997 and 1996 were geographically distributed as follows:

	1997	1996
Sweden	937	920
Outside Sweden	621	610
Total	1, 558	1, 530

Taxes for 1997 and 1996 were geographically distributed as follows:

	1997	1996
Current tax		
Sweden	-177	-276
Outside Sweden	-226	-217
Total current tax	-403	-493
Deferred tax		
Sweden	-63	79
Outside Sweden	-17	9
Total deferred tax	-80	88
Other taxes		
Sweden	-	-
Outside Sweden	-29	-34
Total other taxes	-29	-34
Total tax	-512	-439

The fiscal effects of temporary differences which resulted in assets and liabilities in the form of deferred tax as of December 31, 1997 and December 31, 1996 are summarized below:

	1997	1996
Losses carried forward	90	88
Restructuring reserve	10	43
Pension benefits	72	60
Tax equalization reserves and profit equalization reserves	-240	-219
Depreciation in excess of plan	-94	-82
Inventory reserves	-42	-40
Valuation reserves	-76	-59
Other	59	61
Net deferred tax liability	-221	-148
<i>Classified per balance sheet category</i>		
Current financial receivables	61	59
Financial assets	91	103
Less: Tax provisions	-373	-310
Net deferred tax liability	-221	-148

As of December 31, 1997, the Company had losses carried forward equivalent to SEK 278 million. The Company's fiscal losses carried forward mature as follows:

Year	Amount
1998	55
1999	7
2000	41
2001	88
2002	11
Thereafter	76
Total fiscal losses carried forward	278

The Company's net earnings were charged with tax of 32.8 per cent in 1997 and 28.7 per cent in 1996. The difference between the Company's tax expense and the tax expense upon application of the statutory tax rate in Sweden of 28 per cent is attributable to the items shown on the table below:

	1997	1996
Swedish tax rate	28.0	28.0
Adjustments for foreign tax rates	2.6	4.6
Losses that could not be utilized	1.5	1.2
Non-taxable items	-1.2	-5.7
Non-deductible amortization on goodwill	0.5	0.8
Non-deductible expenses	1.1	2.3
Adjustments from previous years	-1.2	-2.5
Other	1.5	0
Total	32.8	28.7

6 INTANGIBLE ASSETS

Intangible fixed assets at December 31:

	Trademarks and other intangible assets		Goodwill		Total	
	1997	1996	1997	1996	1997	1996
Acquisition value brought forward	108	115	862	869	970	984
Purchases/Investments	249	1	-	-	249	1
Company acquisitions	-	-	23	-	23	-
Sales/discards	-	-2	-	-	-	-2
Reclassifications	-	-5	-	-24	-	-29
Exchange differences	1	-1	66	17	67	16
Accumulated acquisition value carried forward	358	108	951	862	1,309	970
Depreciation brought forward	-78	-72	-376	-349	-454	-421
Depreciation for the year	-12	-12	-47	-44	-59	-56
Sales/discards	-	2	-	-	-	2
Reclassifications	-	4	-	25	-	29
Exchange differences	-	-	-39	-8	-39	-8
Accumulated depreciation carried forward	-90	-78	-462	-376	-552	-454
Book value carried forward	268	30	489	486	757	516

Amortization on intangible assets is accounted for in its entirety under the heading "Administrative Expenses" on the income statement.

7 TANGIBLE ASSETS

Tangible assets as of December 31 included the following:

	Buildings and land		Machinery and other plant		Equipment, tools and installations		Current new construction		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Acquisition value brought forward	1,351	1,344	2,510	2,352	146	224	72	37	4,079	3,957
Purchases/Investments	55	9	123	124	23	15	91	70	292	217
Company acquisitions	21	-	15	-	11	-	-	-	47	-
Sales/discards	-44	-67	-27	26	-52	-82	10	-	-113	-123
Reclassifications	5	68	29	30	-13	-5	-51	-34	-30	59
Exchange differences	45	-3	4	-22	5	-6	-2	-1	89	-32
Accumulated acquisition value carried forward	1,433	1,351	2,691	2,510	120	146	120	72	4,364	4,078
Depreciation brought forward	-387	-321	-1,665	-1,493	-87	-141	-	-	-2,139	-1,955
Depreciation for the year	-30	-32	-170	-169	-9	-13	-	-	-209	-214
Company acquisitions	-4	0	0	0	-8	0	-	-	-12	0
Sales/discards	24	46	31	-17	24	64	-	-	79	93
Reclassifications	2	-82	8	2	10	0	-	-	20	-80
Exchange differences	-12	2	-39	12	-2	3	-	-	-53	17
Accumulated depreciation carried forward	-407	-387	-1,835	-1,665	-72	-87	-	-	-2,314	-2,139
Book value carried forward	1,026	964	856	845	48	59	120	72	2,050	1,939

The tax value as of December 31 for real property in Sweden is given below:

	1997	1996
Buildings	527	431
Land	83	68
Total assessed value for property in Sweden	610	499

Depreciation on tangible assets has been distributed among the following categories on the income statement:

	1997	1996
Cost of goods sold	-166	-164
Selling expenses	-11	-15
Administrative expenses	-32	-35
Total	-209	-214

8 PARTICIPATIONS IN ASSOCIATED COMPANIES

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

	1997		1996	
	Ownership %	Book value	Ownership %	Book value
Arnold André GmbH & Co. KG	40	76	40	78
Arnold André Verwaltungs GmbH	40	0	40	0
Wimco Ltd. ¹⁾	39	63	-	-
BVT Cricket & Co. Ltd. Vietnam	33	1	33	1
Cricket de Mexico SA de CV	20	0	20	0
Malaysian Match Company SDN	32	12	-	-
Total participations in associated companies	-	152	-	79
Other shares	-	0	-	0
Total shares	-	152	-	79

¹⁾ Included in the Company as of December 31, 1997. The comparable market value as of December 31, 1997 amounted to SEK 42 million.

Changes of participations in associated companies:

	1997	1996
Value brought forward from preceding year	79	83
Acquisition of participations in associated companies	75	-
Share in earnings of associated companies, net after tax	15	8
Dividends from associated companies	-16	-9
Exchange differences	-1	-3
Value carried forward	152	79

Within the framework of normal business, Swedish Match carries out transactions with associated companies. Receivables from these companies totaled SEK 6 million as of December 31, 1997 and SEK 9 million as of December 31, 1996. Total sales to associated companies were SEK 103 million for 1997 and SEK 89 million for 1996.

9 FINANCIAL ASSETS

	1997	1996
Brought forward from the preceding year	278	80
Advance payments for acquisitions	16	-
Cash deposits	-	117
Loans	-	49
Change of long-term deferred tax receivables	-22	31
Exchange differences	36	1
Value carried forward	308	278

10 INVENTORIES

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

	1997	1996
Finished goods inventories	417	361
Products in work	96	77
Raw tobacco	841	747
Other components and consumables	230	203
Total inventories	1,584	1,388

11 EQUITY

On December 29, 1995, the Board of Directors of Swedish Match approved a stock split from 40,794,836 shares to 203,974,180 shares and an increase in the number of shares to 463,558,252. The stock split and increase of the number of shares was registered on January 9, 1996.

As of December 31, 1995, the Company's capital structure included 463,558,252 shares (with a nominal value of 2 kronor per share) as shown below:

	1997	1996
Share capital	927	927
Restricted reserves from preceding years	89	93
Transfer from/to unrestricted reserves	263	-4
Total restricted reserves	352	89
Unrestricted reserves from preceding years	1,298	537
Transfer from/to restricted reserves	-263	4
Dividends to shareholders	-510	-300
Translation difference	123	-52
Profit for the year	1,045	1,109
Total unrestricted equity	1,693	1,298
Total equity	2,972	2,314

According to the Swedish Companies Act, dividends are limited to the lower of unrestricted equity according to the consolidated balance sheet and the parent company's balance sheet after recommended appropriations to restricted equity.

12 PENSIONS AND SIMILAR COMMITMENTS

The Company applies various pension plans for its employees worldwide. Pension provisions are calculated according to actuarial principles in each country. Most of the Company's pension plans are defined pension obligations which are either covered by insurance or funded or unfunded pension plans.

The pension benefits provided to employees of the Company's Swedish tobacco business are covered partially by two fully independent superannuation funds. As of December 31, 1997, the market value of the assets of the funds exceeded the actuarial value of the pension obligations by SEK 1,146 million. The surplus funds can only be disposed of upon approval of the Boards of Directors of the funds. In 1997, the funds contributed SEK 104 million to group companies in Sweden. The corresponding figure for 1997 was SEK 57 million.

The Company also has pension funds or similar arrangements for a number of benefits-based pension obligations, primarily in the USA, Sweden and the UK.

Certain of the Company's benefits-based pension obligations, primarily local and national plans, are unfunded. The current value of such future pension benefits is SEK 35 million and is entered as a liability on the consolidated balance sheet.

In addition to pension plans, the Company's USA subsidiaries apply unfunded plans for health care and other benefits for retired employees who fulfill the requirements for minimum age and years of service. In general, the plans are cost-sharing plans, for which the retired employee's share of cost is adjusted regularly and includes other components such as deductible

amounts and co-insurance. The estimated cost for pension benefits for health care are accrued, in accordance with U.S. SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This obligation is entered as a liability on the consolidated balance sheet in the amount of SEK 179 million.

13 LIABILITIES TO CREDIT INSTITUTIONS

Long-term liabilities to credit institutions in 1997 include a bond loan of SEK 200 million at 6.05% interest, which matures on 8 September 2000.

Swedish Match has credit agreements within all areas in which the Company does business. The idle portion of granted lines of credit, over and above the unutilized portion of a syndicated bank loan totaled SEK 349 million as of December 31, 1997. Some of the credit lines are provisional upon the payment of commitment fees. These fees can vary, but do not normally exceed 0.25% of the unutilized portion of the line of credit. The unutilized portion of the syndicated bank loan was SEK 2,000 million as of December 31, 1997. However, this loan shall secure the Swedish Match Swedish certificate program with a loan limit of SEK 2,000 million, of which SEK 777 million had been utilized as of December 31, 1997.

14 ACCRUED EXPENSES AND OTHER SHORT-TERM OPERATING LIABILITIES

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

	1997	1996
Accrued salary-related expenses	93	111
Accrued vacation pay	76	68
Accrued social security fees	131	125
Other	234	227
Total	534	531

Other short-term operating liabilities as of December 31 consist of the following:

	1997	1996
Tobacco taxes	768	942
Value Added Tax liability	242	312
Other	192	167
Total	1,202	1,421

15 FINANCIAL INSTRUMENTS

The Company is active internationally, which gives rise to risk exposure due to currency fluctuations. The Company employs forward contracts in order to reduce the risks.

As of December 31, the Company had outstanding currency forward contracts in the following nominal values:

	1997	1996
Forward contracts	745	743

The total book value of all financial instruments held by the Swedish Match group is approximately their market value, except for forward contracts. The book values and estimated market values of forward contracts as of December 31 is shown below:

	1997		1996	
	Book value	Estimated market value	Book value	Estimated market value
Forward contracts	-5	-10	-1	-10

The market value of futures contracts reflect the estimated amounts that the Company would receive or pay upon cancellation of the contract as of closing day, for which consideration has been taken to unrealized profits and losses on open contracts.

16 CONTINGENT LIABILITIES AND OBLIGATIONS

Leasing Agreements

Future annual minimum charges under the terms of irrevocable operative leasing agreements with initial or remaining terms of one year or more consisted of the following as of December 31 1997:

Year	Annual minimum charges
1998	24
1999	20
2000	17
2001	15
2002	10
Thereafter	5
Total minimum charges	91

The Company's expenses for operative leasing agreements were SEK 28 (28) million for 1997 (1996).

Legal Disputes

The Company is involved in a number of legal processes of routine character for the business. Though company management cannot in any meaningful way estimate the damages that could be awarded in any current or anticipated disputes, it is the understanding of Company management that obligations attributable to all such ongoing disputes should not have any significant negative impact on the earnings or financial position of Swedish Match.

Environmental Issues

One of the Company's subsidiaries has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") for a dump site in the USA. Clean-up of the area is in process and the subsidiary's share of costs has been estimated at a maximum of SEK 7 million, which has been reserved.

17 GEOGRAPHICAL INFORMATION

Certain information by geographical area has been summarized in the tables below:

	1997	1996
Sales outside the group		
Sweden	3,433	3,679
Western Europe excluding Sweden	1,825	1,782
Eastern Europe	123	121
North America	1,533	1,359
Latin America	427	372
Other Areas	124	103
Total sales outside the group	7,465	7,416
Earnings before tax and minority shares		
Sweden	937	919
Western Europe excluding Sweden	256	232
Eastern Europe	-6	-15
North America	387	355
Latin America	8	52
Other Areas	-24	-13
Total earnings before tax and minority shares	1,558	1,530
Assets		
Sweden	2,861	3,067
Western Europe excluding Sweden	2,079	1,837
Eastern Europe	171	209
North America	1,054	878
Latin America	703	691
Other areas	264	195
Total assets	7,132	6,877

18 NET PROFIT AND EQUITY ACCORDING TO AMERICAN ACCOUNTING PRINCIPLES

The accounts of Swedish Match were prepared according to Swedish accounting principles ("Swedish GAAP"). In conjunction with the listing of Swedish Match on NASDAQ in the USA, the Company issues certain financial information drawn up according to American accounting principles ("US GAAP"). Swedish Match also submits a yearly report (Form 20-F) to the United States Securities and Exchange Commission (SEC), which includes further information about Swedish Match's business activities according to established regulations.

A summary of the effects on the Company's net profits and equity upon application of American accounting principles is presented in the tables below:

	Note	1997	1996
Reconciliation of net profit for the year			
Net profit for the year according to Swedish accounting principles		1,045	1,109
Items that increase or reduce net profit			
Consolidation:	1		
Amortization expense		-308	-308
Depreciation expense		-3	-3
Restructuring expenses	2	-65	73
Early retirement pensions	3	-2	-5
Financial instruments	4	-1	-22
Pensions	5	10	61
Tax effects of the above adjustments		17	-32
Net profit according to American accounting principles		693	873
SEK per share:			
Net profit according to American accounting principles		1.49	1.88
Reconciliation of equity			
Equity accounted for according to Swedish accounting principles		2,972	2,314
Items that increase or reduce equity			
Consolidation:	1		
Goodwill		5,057	5,365
Property, machinery and equipment		109	112
Restructuring expenses	2	8	73
Early retirement pensions	3	-18	-
Financial instruments	4	-10	-9
Pensions	5	192	123
Tax effects of the above			
US GAAP adjustment		-116	-118
Equity according to American accounting principles		8,194	7,860

1. As of December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired the Company's parent company in two stages, in November 1993 and June 1994. The transactions were accounted for using the purchase method. Accordingly, the difference between the acquisition prices and the book values of the net assets was distributed among buildings, land and shares that were held by Swedish Match and for which the market values at time of acquisition exceeded the book values. The remainder of the difference between the acquisition price and the assets' book values was goodwill. These distributions were accounted for at the group level at Volvo and were not pushed down to the subsidiary group Swedish Match.

US GAAP requires application of "push down" accounting for the independent annual reports of wholly-owned subsidiaries if the share of ownership is 80% or more, which was the case with the Volvo acquisition of 1994. Consequently, the adjustments made by Volvo regarding Swedish Match according to the purchase method were accounted for in Swedish Match as of June 1994, in order to comply with US GAAP. The goodwill thus calculated was thereafter further adjusted because US GAAP requires the setting of the acquisition price based upon the market price of the compensation as of the date that the transaction was completed and not on the day that the acquisition was made public, as required by Swedish GAAP.

The total gross value of goodwill charged to Swedish Match according to the above was SEK 6,158 million in 1994. Adjustments for property, machinery and equipment totaled SEK 119 million. Goodwill is written off over 20 years.

The capital gain reported as a non-recurring amount for Swedish Match in conjunction with the sale of shares in UST Inc., has instead increased the value of assets upon the acquisition by Volvo.

2. A restructuring expense of SEK 150 million regarding the closure of the factories in Arvika and Härnösand in order to concentrate the production of smoking tobacco products to the factories in Malmö and Belgium has been accounted for in 1996 among items affecting comparability. According to Swedish accounting principles, the entire cost of the restructuring was entered in conjunction with the decision, while according to US GAAP, only certain costs could be booked as restructuring expenses. Expenses for training, moving of machinery and other expenses related to future production may only be booked when the expenses are incurred according to US GAAP. This correction amounted to SEK 73 million as of 31 December 1996. Of these expenses, SEK 65 million fell into 1997 and the remaining SEK 8 million will fall into 1998.

3. In 1994, a subsidiary of the Swedish Match group reported an expense for early retirement pensions according to Swedish GAAP. According to SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the criteria for this expense were not met until after 1994. Expenses accounted for 1997 comply with US GAAP criteria for early retirement pensions.

4. Under Swedish accounting principles, unrealized exchange gains and losses on futures contracts that protect expected future transactions are normally accounted for when the underlying transaction takes place.

Under US GAAP, positive and negative unrealized exchange differences for such futures contracts, estimated on the basis of market value on closing day, must be included in the reported net profit.

5. Pensions are accounted for each entity in the Swedish Match Group, where applicable, based on principles deemed appropriate for local statutory purposes, pursuant to such principles resulting in earned pension rights being reported as an expense.

Under US GAAP, pensions are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions". The Group has estimated the effect on net income and shareholders' equity assuming the application of SFAS No. 87.

Financial assets included in a Swedish Pension fund were reclassified during 1997 from being "Plan assets" to "Corporate assets" under SFAS No. 87. This reclassification results in an increase in shareholders' equity of SEK 28 million without a corresponding effect on earnings.

19 PERSONNEL

The average number of employees in 1997 was 38 for the Parent Company and 6,467 for the Company. The corresponding numbers in 1996 were 29 and 6,580.

Salaries, other compensation and social expenses are summarized below:

	1997		1996	
	Salaries and other compensation	Social expenses (of which pension expenses)	Salaries and other compensation	Social expenses (of which pension expenses)
Parent Company	23	13	17	9
		(5)		(3)
Subsidiaries	1,148	463	1,097	430
		(68)		(64)
The Company	1,171	476	1,114	439
		(73)		(67)

Salaries and other compensation distributed by country and between members of the Board, etc., and other employees are summarized below:

	1997		1996	
	Board and CEO (of which bonuses and similar)	Other employees	Board and CEO (of which bonuses and similar)	Other employees
The Parent Company				
Sweden	5(1)	18	3(0)	14
Subsidiaries				
Belgium	-(-)	102	-(-)	86
Brazil	2(-)	55	1(-)	55
England	2(0)	22	3(0)	20
Estonia	0(0)	4	1(0)	12
The Philippines	0(-)	13	1(-)	12
France	2(0)	60	1(0)	58
Indonesia	-(-)	4	-(-)	3
Ireland	1(0)	9	1(0)	7
China	1(-)	5	1(-)	4
The Netherlands	5(1)	95	3(1)	123
Portugal	1(-)	4	1(0)	4
Switzerland	6(1)	34	12(6)	45
Spain	1(0)	37	1(0)	32
Sweden	2(1)	437	5(1)	368
Germany	2(0)	10	2(0)	10
Hungary	0(0)	12	1(0)	15
USA	7(4)	206	6(3)	197
Other countries	2(1)	5	2(1)	4
Total in subsidiaries	34(8)	1,114	42(12)	1,055
Company total	39(9)	1,132	45(12)	1,069

Employees of the Company distributed by country are summarized below:

	Average number of employees		
	1997	of which men,%	1996
Parent Company			
Sweden	38	58	29
Other			
Belgium	577	43	569
Brazil	985	64	1,057
England	81	60	86
Estonia	54	54	188
The Philippines	277	32	290
France	263	68	286
Indonesia	650	11	445
Ireland	39	77	34
China	231	74	233
The Netherlands	459	81	470
Portugal	30	77	29
Switzerland	41	59	48
Spain	166	87	162
Sweden	1,447	56	1,438
Germany	38	13	41
Hungary	384	39	464
USA	686	62	698
Other countries	21	19	13
Company total	6,467	54	6,580

INFORMATION REGARDING EXECUTIVE BENEFITS IS GIVEN BELOW:

Bernt Magnusson, Chairman of the Board of Directors of Swedish Match, was paid a board fee of SEK 450 thousand in 1997.

Göran Lindén, President and CEO, was paid SEK 3,582 thousand in salary and benefits in 1997, of which SEK 708 thousand in bonuses. Göran Lindén has a bonus contract which allows a bonus of a maximum of 35 per cent of cash salary. Göran Lindén is entitled to a pension from the age of 60. From age 60 to 65, the pension is paid at 70 per cent of the fixed cash salary plus the average of the bonuses paid over the three years immediately preceding retirement. From the age of 65, the pension is paid at 45 per cent of pension-entitled salary benefits. Göran Lindén must give six months notice of intent to resign and the Company must give 12 months notice of intent to terminate employment. A maximum of two year's salary will be paid in severance if the Company terminates the employment contract. However, severance pay will be reduced by a maximum of 50 per cent of other income but to no less than half of the contracted severance pay amount.

Other Company executives, apart from those specified below, are entitled to pensions from the age of 60. Between 60-65 years of age, pensions are paid at 50-70 per cent of pension-entitled salary. From age 65, pensions are paid at 32.5-65 per cent of pension-entitled salary. By pension-entitled salary is meant the cash salary plus the average of the bonuses paid over during the three years immediately preceding retirement, which may in no case amount to more than 35 per cent of the cash salary.

The ordinary age of retirement for Hans van den Berg is 65 years, with a maximum pension of 70 per cent. The age of retirement for William G. McClure III is 65, with a contribution-based pension plan. The premiums have been based upon a pension of 70 per cent.

A six-months mutual notice of intent to terminate employment applies for all Company executives other than Göran Lindén. Severance pay will be paid if the Company terminates employment in an amount equivalent to 18 months of cash salary. Severance pay will be reduced by a maximum of 50 per cent of other income but to no less than half of the severance pay amount.

Salaries and compensation for the President and Executive Vice Presidents (3 persons) in 1997 were the approximate equivalent of SEK 15.2 million, of which bonuses were SEK 3.7 million. The aggregate amount of pension expenses and obligations for this group was the approximate equivalent of SEK 6.8 million.

Social expenses for management personnel were the approximate equivalent of SEK 9.5 million, of which pension expenses were approximately SEK 8.2 million.

Incentive Program

The Board of Directors has voted to assist in the offer of equity options on shares in Swedish Match AB to about 20 executives within the Company. The offer includes packages with options having three different terms: 3, 4 and 5 years. Upon full subscription, options equivalent to 1,065,000 shares will be issued. The allocation corresponds to a maximum of between 30,000 and 105,000 options for the executives concerned. Market pricing will be applied to the options.

PARENT COMPANY

Income Statement

SEK million		1997	1996
Sales	note 1	21	12
Cost of goods sold		-15	-8
Gross margin		6	4
Selling expenses		-3	-2
Administrative expenses	note 1	-321	-167
Other operating income	note 1	184	25
Operating profit		-134	-140
Dividends from subsidiaries		1,069	191
Interest income - group		13	51
Interest income - Other		15	-
Interest expenses - group		-67	-242
Interest expenses - Other		-48	-
Other net financial items	note 2	2	-145
Net financial items		984	-145
Earnings after financial items		850	-285
Appropriations			
Allowance for tax allocation reserve		-169	-
Group contribution and shareholder contribution		991	1,209
Income before tax		1,672	924
Taxes		-194	-246
PROFIT FOR THE YEAR		1,478	678

PARENT COMPANY

Balance Sheet

SEK million	Dec. 31, 1997	Dec. 31, 1996	
ASSETS			
Fixed assets			
Tangible assets	note 3	4	2
Financial assets			
Shares in subsidiaries	note 4	7,358	6,841
Other long-term financial receivables - group		34	14
Total fixed assets		7,396	6,857
Current assets			
Inventories	note 5	3	1
Current operating receivables:			
Trade receivables		1	1
Accounts receivable, group		28	-
Prepaid expenses and accrued income		43	33
Other operating receivables		6	1
Total short-term operating receivables		78	35
Current financial receivables - group		648	464
Cash and bank		221	518
Total current assets		950	1,018
TOTAL ASSETS		8,346	7,875
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital	note 6	927	927
Statutory reserve		186	88
Non-Restricted equity			
Profit brought forward		3,660	3,590
Profit for the year		1,478	678
Total Equity		6,251	5,283
Untaxed reserves		169	0
Long-term liabilities			
Liabilities to credit institutions		200	-
Liabilities to group companies		2	2
Total long-term liabilities		202	2
Short-term financial liabilities			
Liabilities to credit institutions		792	1,032
Liabilities to group companies		637	1,210
Other short-term liabilities		220	306
Total short-term financial liabilities		1,649	2,548
Short-term operating liabilities			
Accounts payable		27	6
Accounts payable - group companies		32	22
Accrued expenses and deferred income		6	10
Other short-term operating liabilities		10	4
Total short-term operating liabilities		75	42
Total short-term liabilities		1,724	2,590
TOTAL EQUITY, PROVISIONS AND LIABILITIES		8,346	7,875
PLEGDED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets		4	7
Contingent liabilities-group companys		105	31

PARENT COMPANY

Cash Flow

<i>SEK million</i>	1997	1996
<i>Operations</i>		
Profit for the year	1,478	678
Depreciation and change of untaxed reserves	170	1
Loss/gain (-)of sale of shares	-	145
Change in operating assets		
Trade receivables	-31	2
Inventories	-3	-
Other assets	-15	-29
Change in accounts payable, accrued expenses and other short-term liabilities	36	65
Change in income tax liabilities	-86	249
Cash flow from operations	1,549	1,111
<i>Investments</i>		
Investments in property, machinery and equipment	-3	-2
Investments in shares	-516	-1
Sale of shares	-	29
Payment of financial receivables	-	-3
Cash flow from investments	-519	23
<i>Financing</i>		
Change in short-term loans	-240	1,000
Change in long-term loans	200	-
Change in group balances	-777	-1,316
Dividend	-510	-300
Cash flow from financing	-1,327	-616
Decrease/increase of cash and bank	-297	518
Cash and bank at the beginning of the year	518	0
Cash and bank at the end of the year	221	518

PARENT COMPANY

Notes

(All amounts are in SEK millions unless stated otherwise)

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

1 SALES, ADMINISTRATION EXPENSES AND OTHER OPERATING INCOME

Sales in the Parent Company pertain to sales of advertising products. In 1997, sales to Group Companies amounted to SEK 12 million (6). Purchases from Group Companies amounted SEK 10 million (6) during 1997. Other operating income pertains to a group-wide administration expense debited to Group Companies.

2 OTHER FINANCIAL ITEMS, NET

The net of other financial income and expense includes exchange gains in the amount of SEK 6 million for fiscal 1997 and none for fiscal 1996. SEK 145 million is included for 1996, which refers to a loss upon the sale of shares in subsidiaries.

3 TANGIBLE FIXED ASSETS

Tangible fixed assets as of December 31 include equipment according to the following:

	1997	1996
Acquisition value brought forward	3	2
Investments	4	1
Closing balance, accumulated acquisition value	7	3
Depreciation brought forward	-1	-1
Depreciation for the year	-2	0
Closing balance, accumulated depreciation	-3	-1
Closing balance, book value	4	2

4 SHARES AND PARTICIPATIONS IN GROUP COMPANIES

In subsidiaries as of December 31, 1997:

	No. shares or participation	Currency	Nominal value SEK K	Book value SEK M	Parent Company holdings	Corp. ID No.	Domicile
Swedish Match Arenco AB	5,500	SEK	550	1	100	556040-2157	Kalmar
Swedish Match Industries AB						556005-0253	Tidaholm
- common stock	30,000	SEK	30,000	195	100		
- preferred stock	851	SEK	851	0	99.8		
Swedish Match United Brands	200,000	SEK	20,000	2,908	100	556345-7737	Sthlm
Export AB Svalan	500	SEK	50	3	100	556030-5640	Sthlm
Intermatch Sweden AB	10,000	SEK	1,000	1	100	556018-0423	Kalmar
AB Jönköping Vulcan	600	SEK	60	0	100	556008-0805	Sthlm
Svenska Tändsticks AB	1,000	SEK	100	0	100	556105-2506	Sthlm
Svenska Tändsticksbolaget Försäljnings AB	3,000	SEK	300	0	100	556012-2730	Sthlm
Treab Plus AB ⁴⁾	91,407	SEK	4,050	16	95	556013-4412	Sthlm
Svenska Tändsticks Philippine Company	20,000	PHP	20,000	0			
Swedish Match North America Inc.	100	USD	100	849	100		
Swedish Match Holding BV Netherlands	112,055	NLG	112,055	700	100		
Swedish Match Group BV	17,060,000	NLG	1,706	2,162	100		
Nitedals Taendstikker A/S	500	NOK	500	0	100		
Swedish Match SA	10,604	CHF	1,591	21	100		
Swedish Match Finance, Irland 4)	500,000,000	SEK	500,000	500	100		
SA Allumettière Caussemille 1)	10,000	FRF	1,000	0	100		
The Burma Match Co. Ltd 2)	300,000	BUK	3,000	0	100		
Vulcan Trading Co. Ltd 3)	4,000	BUK	400	0	100		
Total shares				7,358			

¹⁾ Nationalized in November 1963

³⁾ Nationalized in January 1969

²⁾ Nationalized in December 1968

⁴⁾ Acquired in 1997

In addition, shares are owned in: Union Allumettière Marocaine S.A. Ownership is formal only. All rights and obligations belong to group companies.

Other shares as of December 31, 1996

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

Yaka Feudor SA	JPY	100,000	0	15.4			
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5 INVENTORY

Inventory as of December 31, 1997 and 1996 consists entirely of stocks of finished goods.

6 SHAREHOLDERS' EQUITY

The Company's share capital is divided among 463,558,252 shares at a par value of two Swedish kronor per share.

All shares have one vote each and are unrestricted.

	Share Capital	Statutory Reserve	Earnings Brought Forward	Total Shareholders' Equity
At year-end 1995	927	88	3,890	4,905
Payments to shareholders	-	-	-300	-300
Net for the year	-	-	678	678
At year-end 1996	927	88	4,268	5,283
Appropriation to statutory reserve	-	98	-98	
Dividend to shareholders			-510	-510
Net for the year			1,478	1,478
At year-end 1997	927	186	5,138	6,251

AUDITOR'S Report

To the general meeting of shareholders of Swedish Match AB

I have audited the parent company and the consolidated financial statements, the accounts and the administration of the board of directors and the managing director of Swedish Match AB for 1997. These accounts and the administration of the Company are the responsibility of the board of directors and the managing director. My responsibility is to express an opinion on the financial statements and the administration based on my audit.

I conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director, as well as evaluating the overall presentation of information in the financial statements. I examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any board member or the managing director or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

In my opinion, the parent company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and, consequently I recommend

- that the income statements and the balance sheets of the Parent Company and the Group be adopted, and,
- that the profit of the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In my opinion, the board members and the managing director have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. I therefore recommend

- that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, February 25, 1998

Göran Tidström
Authorized Public Accountant

Board of Directors



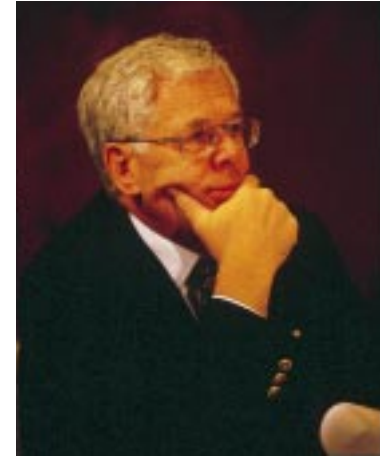
Bernt Magnusson

born 1941. Chairman. Member since 1993. Chairman of NCC AB.
Other Board assignments: Vice Chairman of Avesta Sheffield AB. Member of the Boards of MeritaN-ordbanken Abp, Burmah Castrol plc., Silja Oy Ab, Höganäs AB, ICB Shipping AB, Net Insight AB, the Federation of Swedish Industries and the Stockholm Chamber of Commerce. Advisor to the European Bank for Reconstruction and Development.
Shareholding in Swedish Match AB: 1,500 shares.



Arne R. Bennborn

born 1932. Member since 1996. Honorary Dr. Tech. Other Board assignments: Vice Chairman of Invest in Sweden Agency-ISA. Member of the Royal Academy of Engineering Sciences.
Shareholding in Swedish Match AB: 4,000 shares.



Jan Blomberg

born 1939. Member since 1996.
Other Board assignments: Chairman of Näckebro AB, Vice Chairman of Posten AB. Member of the Boards of PLM AB, Haldex AB, Investment AB Bure, Inductus AB, Byggelit AB, Svenska Spel AB, Mellanskog Industrier AB, Concis AB and Handelsbanken Regionbank City.
Shareholding in Swedish Match AB: 2,068 shares



Christer Nordgren

born 1943. Member since 1982. Represents the Swedish Trade Union Confederation (LO). Shop steward for the Swedish Food Workers Association (Livs) at the tobacco factory in Malmö, Sweden.
Shareholding in Swedish Match AB: 0.



Bertil Persson

born 1947. Member since 1997. Represents the Federation of Salaried Employees in Industry and Services (PTK). Deputy shop steward for Swedish Industrial Salaried Employees Association (SIF) at the tobacco factory in Malmö, Sweden.
Shareholding in Swedish Match AB: 200 shares



Kenneth Ek

born 1953. Deputy member since 1997. Represents the Federation of Salaried Employees in Industry and Services (PTK). Shop steward for the Swedish Association of Management and Professional Staff (Ledarna) at the snuff factory in Gotenburg, Sweden.
Shareholding in Swedish Match AB: 0.



Klaus Unger

born 1934. Member since 1984. Former President and Chief Executive Officer of Swedish Match AB. Other Board assignments: Member of the Board of Arnold André GmbH & Co KG. Member of the Royal Swedish Academy of Engineering Sciences. *Shareholding in Swedish Match AB: 2,831 shares.*



Göran Lindén

born 1944. Member since 1985. President and Chief Executive Officer of Swedish Match AB. Other Board assignments: Member of the Boards of Pripps Ringnes AB, Monark Stiga AB, Liber AB and the 6th AP Fund. *Shareholding in Swedish Match AB: 32,957 shares*.*



Lennart Engström

born 1934. Member since 1972. Represents the Swedish Trade Union Confederation (LO). Shop steward for the Industrial Union at Swedish Match Industries AB Tidaholm, Sweden. Other Board assignments: Member of the Industrial Union's Central Committee. Vice Chairman of Tidaholm's Sparbank. *Shareholding in Swedish Match AB: 0.*



Rolf Esbjörnsson

born 1950. Deputy member since 1994. Represents the Swedish Trade Union Confederation (LO). Shop steward for the Swedish Food Workers Association (Livs) at the tobacco factory in Arvika, Sweden. *Shareholding in Swedish Match AB: 200 shares.*



Dag Ivarsson

born 1946. Deputy member since 1985. Represents the Federation of Salaried Employees in Industry and Services (PTK). Shop steward for the Swedish Association of Management and Professional Staff (Ledarna) at Swedish Match Industries AB in Vellanda, Sweden. *Shareholding in Swedish Match AB: 0.*

Auditors

Göran Tidström

born 1946. Authorized Public Accountant, Öhrnings Coopers & Lybrand AB. Auditor in Swedish Match since 1986.

Åke Danielsson

born 1947. Authorized Public Accountant, Öhrnings Coopers & Lybrand AB. Deputy Auditor in Swedish Match since 1990.

** with family members shareholding*

Management



Göran Lindén

born 1944. President and Chief Executive Officer of Swedish Match AB since February 15, 1996. Other Board assignments: Member of the Boards of Pripps Ringnes AB, Monark Stiga AB, Liber AB and the 6th AP Fund.
Shareholdings in Swedish Match AB: 32,957 shares.*



Massimo Rossi

born 1942. Executive Vice President and Deputy Chief Executive Officer. Employed 1975. Member of the Management** since 1992. Board assignments: Chairman of Duni AB, Member of the Boards of the Solstickan Foundation, CityMail Sweden AB and Phimco Industries Inc., the Philippines.
Shareholding in Swedish Match AB: 61,400 shares.



William G. McClure III

born 1944. Executive Vice President and Strategic Planning. Employed 1990. Member of the Management** since 1992. Member of the Board of The Swedish-American Chamber of Commerce.
Shareholding in Swedish Match AB: ADRs representing 10,000 shares.



Hans van den Berg

born 1945. Executive Vice President and Chief Commercial Officer. Employed 1984. Member of the Management** since 1992.
Shareholding in Swedish Match AB: 923 shares.



Göran Streiffert

born 1946. Senior Vice President, Human Resources. Employed and member of the Management since January 1, 1997.
Shareholding in Swedish Match AB: 200 shares.



Bo Aulin

born 1948. Senior Vice President, Corporate Affairs, Secretary and General Counsel. Employed 1990. Member of the Management** since 1996.
Shareholding in Swedish Match AB: 100 shares.



Jan Gabrielsson

born 1938. Senior Vice President, Chief Financial Officer. Employed 1982. Member of the Management** since 1992.
Shareholding in Swedish Match AB: 10,000 shares.

* incl. family's shareholdings

** in the present Swedish Match company

Definitions

Swedish Match, which was previously a subsidiary within the Volvo Group, was distributed in 1996 to Volvo's shareholders and the company was listed on the Stockholm Stock Exchange. Certain operations which are currently part of Swedish Match were previously not legally accounted for as a subsidiary of the Swedish Match Group but were incorporated into the Group at December 31, 1995 as a preparatory step for the distribution. Information in this annual report pertaining to 1995 is presented pro forma. These pro forma financial statements consolidate all the accounts of those subsidiaries which were owned by the Swedish Match at December 31, 1995 as if they had been members of the Swedish Match Group during the years presented.

DEBT/EQUITY RATIO

is net debt divided by the sum of shareholders' equity and minority interests, expressed as a percentage.

DIRECT RETURN

dividend as a percentage of market price at year end.

EBIT-MULTIPLE

is market capitalization plus net debt plus minority interest divided by operating profit.

EQUITY/ASSETS RATIO

is shareholders' equity and minority interests divided by total assets, expressed as a percentage.

INTEREST COVERAGE

is income before income taxes and minority interests plus interest expense expressed as a multiple of interest expense. Interest expense in 1995 was calculated pro-forma applying an interest rate of 10 per cent on average interest-bearing liabilities.

NET DEBT

is interest-bearing liabilities less cash and bank.

OPERATING CAPITAL

is current operating assets, intangible assets, property, plant and equipment and other long-term operating assets, reduced by current operating liabilities.

OPERATING MARGIN

is income before items effecting comparability divided by sales, expressed as a percentage.

P/E RATIO AFTER TAX

is market price divided by income per share after items effecting comparability.

INCOME PER SHARE AFTER TAX

is net profit for the year divided by average number of shares. Adjusted where appropriate for items effecting comparability.

RETURN ON OPERATING CAPITAL

is operating income before items effecting comparability divided by average operating capital, expressed as a percentage. Average operating capital is calculated using the sum of operating capital of the year's opening and closing balances divided by two. The rolling 12-month average was applied in 1996 and 1997.

RETURN ON SHAREHOLDERS' EQUITY

is net income for the year divided by average shareholders' equity, expressed as a percentage. Average shareholders' equity is calculated using the sum of shareholders' equity of the year's opening and closing balances divided by two.

Addresses

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Swedish Match
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EAST EUROPEAN SALES REGION

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Swedish Match
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Swedish Match

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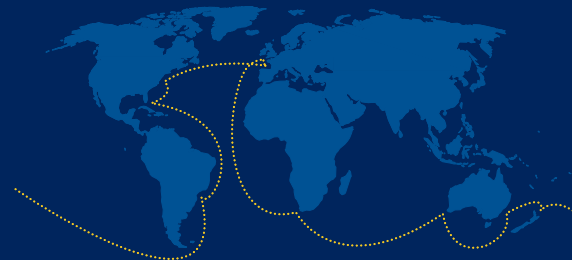
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ANNUAL REPORT 1997



☆☆☆
SWEDISH MATCH