



Interim Report January–June

97

- ★ *Operating income before nonrecurring items at same level as preceding year*
- ★ *Increase in net income as well as income before taxes and minority shares*
- ★ *Strong increase in earnings for smokeless tobacco products*
- ★ *Hoarding at the end of 1996 resulted in a decline of about SEK 75 M in cigarette sales in Sweden*
- ★ *New Prince agreement, effective May 1, will result in a fall in earnings of about SEK 40 M on a full-year basis*

SWEDISH MATCH



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Swedish Match sales during the first six months of 1997 increased by 1% to SEK 3 626 M, compared with SEK 3 581 M during the corresponding period in 1996. Increased sales in several divisions, particularly the Snuff Division, compensated for the Cigarette Division's decline in sales, which mainly resulted from hoarding at the end of 1996 and the new agreement regarding the Prince brand that came into effect on May 1, 1997.

Operating income before nonrecurring items amounted to SEK 741 M, equaling the figure for the preceding year. Increased earnings for the Chewing Tobacco and Snuff Divisions offset the decline in earnings in the Cigarette Division.

Swedish Match first six months

SEK M	First six months	
	1997	1996
Sales	3,626	3,581
Operating income before nonrecurring items	741	741
Operating income	741	618
Income before taxes and minority interests	758	572
Net income	528	398

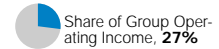
Sales by division

SEK M	First six months		Percent change	12 months ended	Full year
	1997	1996		June 30, 1997	1996
Chewing Tobacco	556	515	8	1,084	1,043
Cigarettes	779	914	- 15	1,848	1,983
Cigars	337	327	3	688	678
Lighters	437	429	2	854	846
Matches	652	645	1	1,248	1,241
Pipe Tobacco	78	91	- 14	183	196
Snuff	505	422	20	983	900
Group-wide operations and eliminations	282	238	18	573	529
Total	3,626	3,581	1	7,461	7,416

Operating income before nonrecurring items, by division

SEK M	First six months		Percent change	12 months ended	Full year
	1997	1996		June 30, 1997	1996
Chewing Tobacco	197	157	25	408	368
Cigarettes	238	332	- 28	695	789
Cigars	57	61	- 7	132	136
Lighters	23	26	- 12	45	48
Matches	69	58	19	129	118
Pipe Tobacco	14	14	0	41	41
Snuff	232	186	25	477	431
Group-wide operations and eliminations	- 89	- 93		- 204	- 208
Total	741	741	0	1,723	1,723

Division Chewing Tobacco

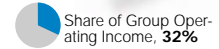


Sales for Division Chewing Tobacco, which operates in the North American market, amounted to SEK 556 M, an increase of SEK 41 M, or 8%, compared with the first six months of 1996. The increase was attributable to the strengthening of the U.S. dollar. Price increases largely off-

set the continued market decline for this group of products. Operating income rose SEK 40 M to SEK 197 M due to the factors named combined with cost savings.



Division Cigarettes



Sales for Division Cigarettes are primarily concentrated to the Swedish market. The division's sales amounted to SEK 779 M, a decline of 15% or SEK 135 M compared with the first six months of 1996. As a result of hoarding at year-end 1996, sales amounting to an estimated SEK 75 M were brought back to 1996.

The new agreement with Skandinavisk Tobakskompagni A/S (STK) relating to the Prince brand came into effect on May 1, 1997. Under the terms of the agreement, Swedish Match is responsible for production and distribution of Prince cigarettes, while STK, through its subsidiary House of Prince AB, is responsible for marketing.

Calculated on a twelve-month basis, Division Cigarettes will report a reduction of approximately SEK 200 M in sales as a result of the agreement. A corresponding amount will be reported under "Group-wide operations", meaning that Swedish Match's sales figures remain unchanged as a result of the Price agreement. As

stated earlier, annual earnings are expected to decrease by about SEK 40 M based on 1996 sales volumes.

The total market for cigarettes in Sweden declined by 23%, of which approx. 8% was attributable to the hoarding effect from last year's tax increase. The market share for the company's own cigarette brands declined from 52% to 50% during the first six months of 1997.

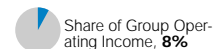
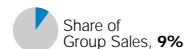
Operating income for the first six months fell by SEK 94 M to SEK 238 M. The effect of hoarding toward year-end 1996 on operating income during the first quarter of 1997 has been estimated at appr. SEK 45 M. Price increases offset other decline in volumes.

The remainder of the earnings decline was attributable primarily to intensified marketing efforts to counter increased competition.

During the 12 month period ended June 30, 1997 tobacco excise taxes in Sweden and VAT on the excise taxes amounted to SEK 9,197 million (8,863).



Division Cigars



Division Cigars, for which Western Europe is the most important market, increased sales by SEK 10 M to SEK 337 M as a result of price increases and increased volumes. Operating income declined from SEK 61 M to SEK 57 M,

mainly due to changes in the product and market mix. The launch of premium cigars in the U.S., currently in its initial phase, had a planned negative impact on earnings.



Division Lighters

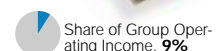


Division Lighters' sales during the first six months of 1997 amounted to SEK 437 M (429). Favorable currency exchange rates offset declining volumes in the U.S. and

Eastern Europe. Operating income declined by SEK 3 M to SEK 23 M due to lower volumes.



Division Matches



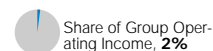
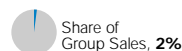
Sales during the first six months of 1997 amounted to SEK 652 M (645). Price increases and favorable exchange rates offset a slight fall in volumes. Operating income increased by SEK 11 M to SEK 69 M due to these factors and production rationalization measures.

Negotiations have started with KAV of Turkey regarding a joint venture in Turkey for the production and sale of matches.



Division Pipe Tobacco

Division Pipe Tobacco's sales fell by SEK 13 M to SEK 78 M, primarily as a result of large deliveries toward the end of 1996. The decline in volumes was offset by higher pri-



ces, with the result that operating income remained at the same level, SEK 14 M, as during the first six months of the preceding year.



Division Snuff

Sales increased by SEK 83 M to SEK 505 M compared with the first six months of 1996, due to increased volumes in the U.S. combined with price increases in both



Sweden and the U.S. This resulted in an increase in earnings from SEK 186 M to SEK 232 M.



New tobacco prices in Sweden starting on August 1

The Swedish parliament has decided to increase the tax on tobacco by 29%, effective August 1, 1997. Swedish Match also plans to increase its prices in conjunction with the tax increase. The table below shows the price increases for some of the most important products.

	Sales price from Swedish Match		Trade margin		Sales tax and VAT		Price to consumer	
	before Aug. 1	after Aug. 1	before Aug. 1	after Aug. 1	before Aug. 1	after Aug. 1	before Aug. 1	after Aug. 1
Blend Gul cigarettes (fixed highest price)	4.76	5.28	5.25	5.40	26.49	33.82	36.50	44.50
General loose snuff (guide price)	4.98	5.53	4.62	5.52	8.40	10.45	18.00	21.50

During the first half of 1997, Swedish Match's cost for raw tobacco in its Swedish operations increased by approximately 12 per cent compared with the same period previous year, mainly as a result of exchange-rate movements.

The price differential compared with other countries in Europe has increased substantially. In addition to reduced consumption, increased imports, both legal and illegal, can be expected to have an impact on Swedish Match's cigarette volumes. At present it is impossible to predict the size of this impact.

Preliminary settlement in U.S.

At the end of June, Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company, and United States Tobacco Company reached a settlement with the 39 states who are currently bringing lawsuits against the tobacco industry in the United States. In return for the settlement of such lawsuits and certain limitations

on future litigation regarding their products, the five companies have agreed to make payments which, in the first 25 years, aggregate \$368.5 billion. Under the terms of the settlement agreement, the five companies have agreed to unprecedented regulation of the manufacture, marketing, and distribution of cigarettes and smokeless tobacco products sold in the U.S. (the settlement does not purport to cover pipe tobacco or cigars). The settlement agreement requires the U.S. Congress to pass legislation which incorporates the settlement agreement's terms. If Congress were to pass such legislation, it would have a significant impact on the entire U.S. tobacco industry, including Swedish Match's U.S. operations.

The terms of the settlement agreement are currently the focus of much analysis and debate. It is too soon to know precisely what form, if any, congressional legislation will take or when it will become effective. For this reason, it is not possible at this time, to predict the impact of the settlement on Swedish Match's U.S. operations.

Financial result

Net interest items improved compared with the first six months of 1996 as a result of lower net debt. Other financial items, reflecting a net total of SEK 24 M (10), are attributable primarily to exchange gains on financial assets and liabilities.

Investments, financing and liquidity

Group investments in tangible assets during the first six months of 1997 amounted to SEK 121 M (91). Liquid funds, including short-term investments, totaled SEK 509 M at the close of the six-month period, compared with SEK 942 M at the beginning of the period under review. Net debt at the close of the period was SEK 615 M, an increase of SEK 538 M since December 1996. Net debt was low at the close of 1996 due to the fact that liabilities

for income taxes and tobacco excise taxes were a total of approximately SEK 500 M higher than normal. These liabilities have been paid down and are now at a normal level. A dividend amounting to SEK 510 M was paid out in May.

Average number of Group employees

The average number of Group employees during the first six months of 1997 was 6 272, compared with 6 692 during the corresponding period of 1996. The average number of employees in Sweden was 1 416 compared with 1 518 in 1996.

Other information

This report has not been reviewed by Swedish Match's auditors.

The interim report for the first nine months of 1997 is scheduled for release on November 3, 1997.



Göran Lindén
President and Chief Executive Officer

Group balance sheet summary

SEK M	June 30, 1997	Dec. 31, 1996
Intangible fixed assets	513	516
Tangible fixed assets	2 099	2 034
Financial fixed assets	296	277
Current operating assets	3 182	2 964
Current financial receivables	150	144
Liquid funds	509	942
Total assets	6,749	6,877
Shareholders' equity	2,477	2,314
Minority interests	54	54
Provisions	485	483
Long-term loans	5	4
Other long-term liabilities	24	8
Short-term borrowings	1,120	1,015
Other current liabilities	503	709
Current operating liabilities	2,081	2,290
Total shareholders' equity and liabilities	6,749	6,877
Operating capital	3,713	3,224
Net debt	615	77

Group income statement

SEK M	First six months		Percent change	12 months	Full
	1997	1996		ended	year
				June 30, 1997	1996
Sales, incl. tobacco tax	7,175	7,098	1	15,084	15,007
Less tobacco tax	- 3,549	- 3,517	- 1	- 7,623	- 7,591
Sales	3,626	3,581	1	7,461	7,416
Cost of goods sold	- 1,775	- 1,793	1	- 3,635	- 3,653
Gross profit	1,851	1,788	4	3,826	3,763
Sales and administration costs, etc	- 1,119	- 1,057	- 6	- 2,118	- 2,056
Share in earnings of associated companies	9	10	- 10	15	16
	741	741	0	1,723	1,723
Nonrecurring items	—	- 123		—	- 123
Operating income	741	618	20	1,723	1,600
Net interest expense	- 7	- 56		- 32	- 81
Other financial items, net	24	10		25	11
Net financial items	17	- 46		- 7	- 70
Income before income taxes and minority interests	758	572	33	1,716	1,530
Income taxes	- 226	- 174	- 30	- 491	- 439
Minority interests	- 4	0		14	18
Net income	528	398	33	1,239	1,109

Key Data

	12 month ended June 30, 1997	Full year 1996
Operating margin, %*	23.1	23.2
Return on operating capital, %*	48.8	49.9
Return on shareholders' equity, %	62.1	57.3
Interest coverage ratio, times	19.3	9.6
Debt/equity ratio, %	24.3	3.2
Equity/assets ratio, %	37.5	34.4
Investments, SEK M	246	217
Operating cash flow, SEK M*	1,776	1,968
Average number of employees	6,272**	6,580

Share data

Income per share after full tax,		
before nonrecurring items, SEK	2.67	2.59
after nonrecurring items, SEK	2.67	2.39
Shareholders' equity per share, SEK	5.34	4.99
Number of shares outstanding	463,558,252	463,558,252

Earnings per share after full tax for the first six months of 1997 amounted to SEK 1.14

* Before nonrecurring items

** First six months

Quarterly data

SEK M	Q1/96	Q2/96	Q3/96	Q4/96	Q1/97	Q2/97
Sales, incl. tobacco tax	3,383	3,715	3,793	4,116	3,181	3,994
Less tobacco tax	-1,650	-1,867	-1,938	-2,136	-1,497	-2,052
Sales	1,733	1,848	1,855	1,980	1,684	1,942
Cost of goods sold	-893	-900	-893	-967	-807	-968
Gross profit	840	948	962	1,013	877	974
Sales and administration costs, etc.	-526	-531	-484	-515	-548	-571
Shares of earnings in associated companies	5	5	4	2	5	4
Operating income before nonrecurring items	319	422	482	500	334	407
Nonrecurring items	—	-123	—	—	—	—
Operating income	319	299	482	500	334	407
Net interest expense	-30	-26	-17	-8	-3	-4
Other financial items, net	9	1	0	1	21	3
Net financial items	-21	-25	-17	-7	18	-1
Income before income taxes and minority interests	298	274	465	493	352	406
Income taxes	-80	-94	-149	-116	-116	-110
Minority interests	1	-1	1	17	-2	-2
Net income	219	179	317	394	234	294

Sales by division

SEK M	Q1/96	Q2/96	Q3/96	Q4/96	1996	Q1/97	Q2/97
Chewing Tobacco	248	267	296	232	1 043	295	261
Cigarettes	425	489	505	564	1 983	349	430
Cigars	159	168	168	183	678	151	186
Lighters	212	217	205	212	846	211	226
Matches	329	316	262	334	1 241	303	349
Pipe Tobacco	49	42	51	54	196	37	41
Snuff	201	221	229	249	900	238	267
Group-wide operations and eliminations	110	128	139	152	529	100	182
Total	1,733	1,848	1,855	1,980	7,416	1,684	1,942

Operating income before nonrecurring items, by division

SEK M	Q1/96	Q2/96	Q3/96	Q4/96	1996	Q1/97	Q2/97
Chewing Tobacco	59	98	111	100	368	104	93
Cigarettes	143	189	223	234	789	94	144
Cigars	25	36	30	45	136	30	27
Lighters	11	15	11	11	48	10	13
Matches	25	33	24	36	118	26	43
Pipe Tobacco	9	5	14	13	41	5	9
Snuff	86	100	117	128	431	115	117
Group-wide operations and eliminations	- 39	- 54	- 48	- 67	- 208	- 50	- 39
Total	319	422	482	500	1,723	334	407

Front cover photo:

Swedish Match is main sponsor for the Swedish Match Cup taking place in Marstrand, Sweden in July every year. This year's event was more exciting than ever when the entire sailing elite gathered to participate in the World Championship in Match Racing.

*Cover: Dan Ljungsvik
Other pictures: Janne Olander*

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