

ANNUAL REPORT 1999



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SWEDISH MATCH

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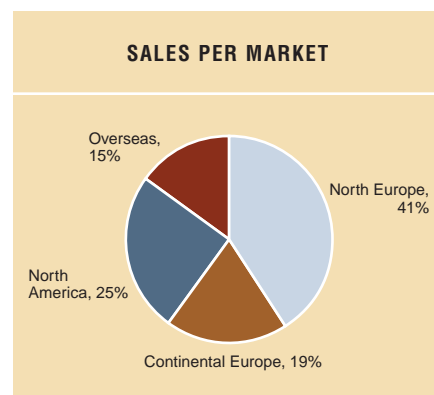
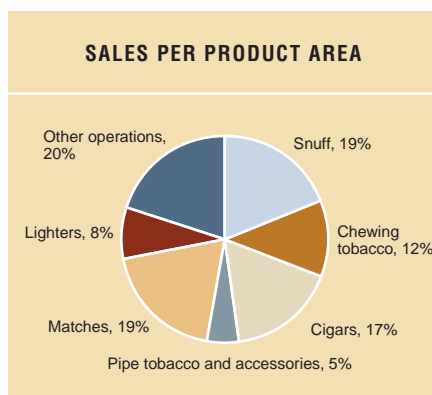
Swedish Match 1999

- ★ Sales increased 15 percent to 9,420 MSEK (8,194)
- ★ Operating income, before items affecting comparability, increased 13 percent to 1,689 MSEK (1,489).
- ★ Operating income, including a capital gain of 4,102 MSEK and a provision for restructuring of Matches of 395 MSEK, rose to 5,396 MSEK (1,381).
- ★ Strong sales and earnings improvement for Cigars, Snuff and PipeTobacco.
- ★ Revised business strategy: Cigarettes divested and clear focus on Smokeless Tobacco (snuff, chewing tobacco) and Brown Tobacco (cigars, pipe tobacco).
- ★ The Board of Directors proposes an increased dividend to 1.25 SEK per share (1.10).
- ★ The Board of Directors proposes a share redemption program of approximately 1,000 MSEK and the launch of a long-term share repurchase program.

KEY DATA

MSEK	1999	1998
Net sales	9,420	8,194
Operating income	5,396	1,381
Operating income before depreciation and amortization	5,777	1,713
Net income	4,656	726
Income per share after tax, SEK	10.79	1.59
Dividend per share, SEK	1.25*	1.10
Return on shareholders' equity, %	115.0	28.3

* Board proposal



Swedish Match in brief

Swedish Match is an international group specializing in niche tobacco products, OTP (Other Tobacco Products), as well as matches and lighters. The Group's products are manufactured in 26 plants located in 15 countries and are sold in 140 countries. During 1999, the average number of employees was 11,797. The Swedish Match share is listed on the OM Stockholm Exchange (SWMA) and on NASDAQ (SWMAY) in the form of American Depositary Receipts (ADR).



Smokeless tobacco

Smokeless tobacco operations include snuff and chewing tobacco and account for 31 percent of Group sales.

MARKET POSITION

Snuff

Market leader in the Nordic region and South Africa, and the third largest player in North America.

Chewing tobacco

Market leader in North America.



Brown tobacco

Brown tobacco operations include cigars and pipe tobacco and account for 22 percent of Group sales.

MARKET POSITION

Cigars

The world's second largest cigar company.

Pipe tobacco

One of the world's major players in the pipe tobacco area.



Matches and Lighters

Operations relating to matches and lighters account for 27 percent of Group sales.

MARKET POSITION

Matches

The world's only global match company.

Lighters

One of the world's three largest producers.



Other operations, including the distribution of tobacco products in Sweden, account for 20 percent of Group turnover.

President's statement

Swedish Match saw an intensive year of hard work in 1999, characterized by comprehensive change. Following a review and more precise definition of our strategies, we implemented a far-reaching action program. We sold the Group's cigarette operations, acquired several significant business operations in the cigar segment and initiated efforts to reduce costs. The organizational struc-

ture was also changed to support the Group's strategies and create momentum for our action program. These measures are intended to increase our rate of expansion, improve our earnings and profitability and, as a result, create greater value for our shareholders.

Today, as I review my first full calendar year as President, I am pleased to announce that our strategic work and

increased rate of change have yielded results. The increase in Group sales was the highest since the company was first listed on the stock exchange, with sales rising 15 percent to 9,420 MSEK. Sales in our remaining product areas – Smokeless Tobacco (snuff and chewing tobacco), Brown Tobacco (Cigars and Pipe Tobacco), and Matches and Lighters – increased by 29 percent.

”Our strategic work and the increased rate of change have yielded results”

Our earnings trend took an upward turn during 1999. Operating income, before items affecting comparability, increased 13 percent to 1,689 MSEK and was higher during the second half of 1999 compared with the year-earlier period, despite the sale of the cigarette operations. Operating income, including a capital gain of 4,102 MSEK and an allocation of 395 MSEK to restructuring reserves in the match operations, increased to 5,396 MSEK (1,381). Income after net financial items amounted to 5,280 MSEK (1,198).

This means that Swedish Match succeeded in strengthening its financial position. The operating margin was unchanged at 18 percent, and the return on shareholders' equity was 115 percent. The consolidated balance sheet strengthened considerably during the year due to the divestment of the cigarette operations. The Group's equity/assets ratio increased to 37 percent. Cash and short-term investments exceed interest-bearing liabilities by 1,267 MSEK.

Swedish Match can thus point to considerable progress regarding expansion, profitability and financial stability. To establish an optimal capital structure,



therefore, the Board of Directors is proposing that the Annual General Meeting resolve to approve a redemption program of approximately 1,000 MSEK. At the same time, the Board is proposing that it be given a mandate to repurchase up to five percent of the company's outstanding shares.

Strategies for growth

The most important task at hand for the Board of Directors and management is to continue creating shareholder value. Our revised strategies have mapped our future course, and I would like to comment on our progress in terms of strategic development.

”The Group has a number of distinct competitive advantages that our strategies are designed to streamline and strengthen.”

The path we have chosen for the future is based on a global tobacco industry characterized by rapid structural change. Cigarette consumption, the industry's most dominant source of revenue, is declining or has reached a plateau in most Western countries. For Swedish Match therefore, the divestment of our cigarette operations was a natural step. We were a strong player in local markets, but a very small player compared with our main competitors.

The Group has a number of distinct competitive advantages that our strategies are designed to streamline and strengthen. These advantages include a uniquely broad range of products that command leading international positions in the two segments of the tobacco market that show continued growth – smokeless

tobacco, with snuff as the dominant product, and cigars. As a result, we are one of the world's leading companies in the Other Tobacco Products (OTP) niche sector. With our strong financial resources, Swedish Match is well positioned to assume an active role in the industry's ongoing process of structural change.

To derive maximum benefit from our potential, at the beginning of 1999, a decision was made to concentrate most of our resources and future investments on smokeless tobacco products and cigars. With a new organizational structure and a firm grasp on costs, we should be able to enhance our operating efficiency in all parts of the Group and strengthen our know-how, our product range and our brands.

What have we accomplished so far?

★ During summer 1999, we sold our cigarette operations to Austria Tabak. As a result of the sale, we withdrew from the largest, but also in our part of the market, declining, sector of the tobacco market, in line with our new strategies. The sale was an important step toward concentration on growth products. At the same time, we strengthened our finances in readiness for further acquisitions.

★ During the spring and summer, we also strongly advanced our positions in the cigar market. The acquisitions of US company General Cigar's operations for machine made cigars, and El Credito, with one of the foremost premium cigar brands in the US, La Gloria Cubana, have positioned Swedish Match as one of the world's two leading cigar companies. Furthermore, in the autumn, we made an acquisition in South Africa, purchasing Leonard Dingler, a company that manufactures and markets snuff and pipe

tobacco. The company shows good profitability and offers expansion potential in a region where smokeless tobacco is part of the tobacco culture.

★ Planned cost reductions are also nearing realization. We noted a steady improvement during the year in terms of lower indirect costs as well as lower sales and administration costs. As a result, I am confident we will reach our goal of permanently reducing our cost mass by approximately 200 MSEK annually during the second half of year 2000.

★ To implement our action plan, the Group's old matrix organization was replaced by six divisions with clearly defined profit responsibility, thereby strengthening the market focus and creating direct links between Group management and the operative units. Today, one year later, I am happy to declare that our reorganization has been a success. We are now focused more strongly on profit responsibility, which has produced tangible results in the form of improved cost control, improved marketing and stronger earnings.

Important steps

In the area of Smokeless Tobacco, snuff showed a particularly favorable trend, bolstered by continued strong volume growth and higher margins in the US. Market shares continued to increase in this key market. Volume growth in the Nordic countries was good, despite the discontinuation of tax-free sales. The employees in the product area have worked intensively with product development and brand positioning, and these efforts are expected to bear fruit during year 2000. Snuff is our spearhead product in the smokeless tobacco market, with

global sales potential that is far from fully utilized. The number of smokers is declining in line with changing social attitudes toward smoking. Snuff is the alternative that many people are choosing.

”The reorganization has been a success. We are now focused more strongly on profit responsibility, which has produced tangible results in the form of improved cost control, improved marketing and stronger earnings.”

Sales volumes of chewing tobacco, which is primarily an American product, were at the same level as a year earlier, despite a decline in the overall market, as we have increased our market shares somewhat. Earnings stabilized at a satisfactory level. Chewing tobacco is a profitable product that fully justifies its position in our smokeless product range, and our strategy is focused on strengthening our market shares and profitability.

In the area of Cigars and Pipe tobacco, comprehensive structural changes are occurring in the global market for cigars, and Swedish Match is a highly active player in the ongoing process of change. The integration of acquired companies has proceeded favorably and in accordance with plan. Our market position has been strengthened significantly, particularly in the largest single market, North America, where we have now established coverage in all price segments. Swedish Match also commands a very strong position in European markets. We are now the world’s second largest cigar company in terms of sales value.

”Our efforts will focus on continued rationalization and efficiency-enhancement measures.”

Swedish Match is one of the world’s largest producers of pipe tobacco, an area in which we are also assuming a key role in the ongoing structural change. Consumption is declining, but through acquisitions and other restructuring measures, we are advancing our position.

The Matches and Lighters product areas showed different development trends in 1999. A restructuring program was implemented in the production and organizational areas of the lighter operations, leading to a gradual improvement in earnings during the second half of the year. Earnings from match operations declined, however, due to excess capacity in the industry. A decision was made to initiate a comprehensive program of structural change in our match operations.

Matches and Lighters provide strategic advantages for the Group as a whole. Both product groups have an international presence, with long-standing and well-developed relations in sales and distribution channels, a factor that provides added strength for the entire Group. We are focusing sharply, therefore, on efforts to reduce costs and introduce structural changes that will improve operating efficiency and increase our margins and profitability. Some improvements began to be noted during 1999 in the lighter operations. Substantial resources were allocated for the integration of match companies acquired in recent years, which will gradually yield positive results. We have established a profit margin target of 10 percent for the match operations and in my opinion the restructuring program will gain full effect within two to three years.

Outlook for 2000

Demand for snuff and cigars – segments in which Swedish Match is among the world leaders – is expected to continue to increase. Slightly declining consumption

and consolidation are foreseen in the pipe tobacco and chewing tobacco sectors. Structural changes, in the form of acquisitions, divestments and alliances, are expected to continue throughout the industry.

”Our goal is to consolidate and strengthen our position as the leading global OTP company.”

We see continued good potential for earnings improvements through the integration of past and future acquisitions. We also hope to complete new projects and business transactions that will strengthen our positions in various world markets. Our efforts will focus on continued rationalization and efficiency-enhancement measures.

Swedish Match is a very stable company in most respects, with a broad portfolio of brand-name products and strong roots among consumers in many countries. This base of loyalty and consumer confidence is our strongest asset. Combined with a strong balance sheet, it provides good potential for continued growth, development and the creation of value for our shareholders. In addition, there is a committed and skilled team of personnel with a significant ability to work globally. Our goal is to consolidate and strengthen our position as the leading global OTP company. In 1999, we laid a solid foundation, on which we shall continue to build.



Lennart Sundén
President and Chief Executive Officer

The global tobacco market

With the aim of maximizing the long-term value of the company for shareholders, the Board of Directors and management devoted considerable effort during the year to reviewing and developing Group strategies. The result of this work was an extensive action program aimed at concentrating operations to those segments of the tobacco market that show good growth and a substantial potential to generate profit.

The program was initiated during 1999 with the divestment of the cigarette operations, several acquisitions in the cigar and smokeless tobacco segments, cost rationalization measures and a re-organization.

The development of consumer trends and the competition situation in the global tobacco market during the past decade provided the general background to the strategy work and the action program. Broadly speaking, consumption of cigarettes – by far the most dominant product – is stagnating. Partly as a result of this trend, consumption of snuff is increasing in certain markets. At the same time, cigar consumption is experiencing a renaissance as an expression of a socially accepted and pleasurable form of

tobacco consumption. Changes in consumer behavior have led to a restructuring process in the tobacco sector, which had been less consolidated globally than most other consumer product sectors.

Change in consumer trends

In the most economically advanced markets, the cigarette consumption trend is declining. In Sweden, for example, approximately 20 percent of the adult population are now cigarette smokers. In the US, the percentage of the population who are cigarette smokers has dropped from 40 percent in the 1960s to approximately 25 percent now. The trend extends over more than a decade and is being followed, at different speeds, by most other Western countries.

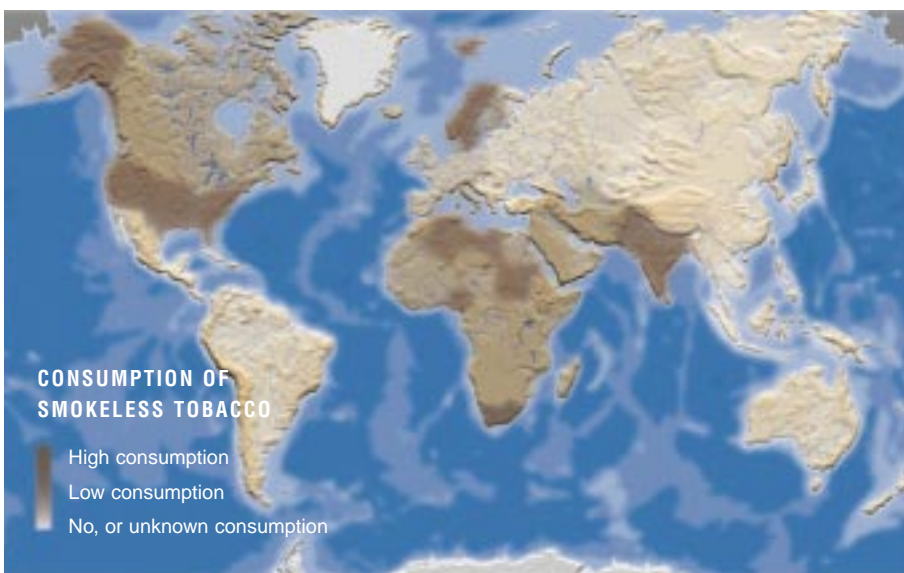
In an international perspective, Swedish Match's position in the cigarette market was weak. Swedish Match was one of the smallest cigarette companies in the market, with a number of strong local brands in a small, geographically limited market. This meant that the potential for expansion at reasonable cost within the framework of the ongoing global restructuring was severely limited. The strategic solution was to divest the cigarette operations.

Niche products in the tobacco sector – Other Tobacco Products (OTP)

Swedish Match has a unique position in the segment known as OTP (Other Tobacco Products), which covers tobacco products other than cigarettes. Swedish Match is the only tobacco company that has international, broadly based and well-established know-how in the production and sale of smokeless tobacco products (snuff, chewing tobacco) along with cigars and pipe tobacco. In addition, the company's global sales network for matches and lighters provides strategic marketing advantages for OTP products.

The company's position and know-how in the OTP area are also bolstered by global consumer and market trends for snuff and cigars. In the Nordic region, there is a clear migration of tobacco consumption from cigarettes to snuff, while the snuff market in the US has grown by 3 percent per year over the past 5 years. Cigar consumption also appears to be showing global growth.

The North American snuff market is the world's largest. Swedish Match's market share in the US has increased rapidly and is currently about 6.5 percent. In the Nordic region, snuff sales have increased by 5 percent per year over the past few years. Considerable potential





Swedish Match is the only tobacco company with an international distribution network for smokeless tobacco.

also exists for snuff in certain Asian countries, including India, and in parts of Africa and the Middle East where there is an established tradition of using smokeless tobacco products.

Against this background, Swedish Match has prioritized snuff as a product to spearhead future expansion through organic growth and acquisitions.

The Group's other prioritized spearhead segment for international expansion is cigars. After a long period of decline, cigar consumption has been growing again in countries with a high standard of living. The North American cigar market has grown since the mid-1990s. Growth

in the Western European market, which is larger, began in the late 1990s. Cigars have status value and are associated, in increasingly broad circles, with enjoyment at mealtimes and during social gatherings.

The international cigar segment has been strongly fragmented for many years, with a number of regional and local producers, many of whom have been able to count on stable and profitable returns thanks to the consumers' strong brand loyalty. Swedish Match has for many years had a strong position in the Western European cigar market.

With this as their starting-point, the

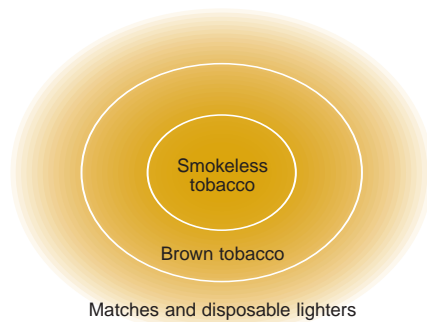
Board of Directors and management decided to initiate a strong expansion in the cigar area, primarily through acquisitions. In line with this strategy, Swedish Match acquired substantial cigar operations in the US market, both in the mass market segment and in the exclusive premium segments. The Group was thereby able to establish itself within a short period as the world's second largest cigar company in sales value.

With its unique position in the OTP segment, particularly in snuff and cigars, Swedish Match is strategically well positioned for the future.

Strategies and objectives

Swedish Match produces and markets an extensive range of snuff, chewing tobacco, cigars and pipe tobacco, as well as matches and disposable lighters.

Swedish Match core business focuses on its broad and deep knowledge of snuff and chewing tobacco (smokeless tobacco) and cigars and pipe tobacco (brown tobacco). These products constitute what are known as niche tobacco products, or OTP (Other Tobacco Products).



Swedish Match has long experience within the OTP area and is among the leaders in terms of technical expertise relating to product development and production processes. Swedish Match's extensive range, comprising well-known brands in the OTP area, has resulted in strong market positions in selected geographic markets. The Group's complementary operations, focusing on matches – an area where Swedish Match has unequalled market knowledge and expertise – give the Group a unique global distribution network, which is utilized for expanding OTP operations into new geographic markets.

Since Swedish Match operations concentrate on fast-moving consumer

products, they are generally not sensitive to economic fluctuations. Other factors, however, such as consumption patterns and legislation, can exert a substantial impact on Group operations.

Objectives

Swedish Match shall strengthen its position as a leading, global player in the area of niche tobacco products: snuff, chewing tobacco, cigars and pipe tobacco. Swedish Match shall further consolidate its position in the European and North American markets and continue developing positions in certain selected markets in the rest of the world.

Strategy

Swedish Match strategy shall be based on utilizing sales channels and the Group's extensive distribution network across product boundaries, and on its unequalled breadth and expertise relating to different tobacco products. The major portion of resources and future investments will be concentrated toward smokeless tobacco products and cigars.

Financial objectives

Swedish Match financial objectives include giving shareholders good value growth and high dividend levels. Profits and growth in cash flow are the most important factors for ensuring that Swedish Match can produce a good total return. The Group's focus on growing areas of OTP, a high pay-out ratio and a positive attitude toward returning surplus funds to shareholders are all key elements in ensuring a good total return.

Required rate of return

The target for acquisitions is a return over time of at least 13 percent, before tax, on capital invested. Based on an equity/assets ratio of 30 percent, this would produce a return on shareholders' equity, after tax, in excess of 20 percent.

This requirement relates to investments made in SEK and at current inflation and interest-rate levels. The required rate of return for individual investments and acquisitions varies, depending on such factors as the type of investment, the product area and the geographic market.

Equity/assets ratio and net debt/equity ratio

Swedish Match operations are not sensitive to economic cycles and produce a strong and stable cash flow. The long-term target is an equity/assets ratio of 25 – 30 percent.

The net debt/equity ratio shall not exceed 100 percent long-term.

Shareholder program

The Board of Directors is positively disposed toward a policy of continuing to transfer to shareholders the funds that are not considered necessary for the Group's expansion and consolidation.

Dividend policy

Swedish Match intends to distribute, long-term, 40-50 percent of the Group's net income. The size and timing of the dividend depend on Swedish Match financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors that need to be taken into account.

Group review

In 1999, after a review of the Group's strategic direction and product areas, steps were taken to concentrate more clearly on, and increase investment in, product areas considered to have favorable prospects for growth and profitability. Now, Swedish Match has a clear focus on smokeless tobacco (snuff and chewing tobacco) and brown tobacco (cigars and pipe tobacco). The Group's position in smokeless tobacco and cigars is very strong.

Acquisitions and divestments

In April 1999, Swedish Match acquired the machine-made cigar operations of General Cigar in the US. The acquired operations include two manufacturing plants, machinery and equipment, and inventories and brand names, as well as a sales force of about 70 people and a total of approximately 1,000 employees. The acquisition brings Swedish Match additional annual net sales of approximately 750 MSEK. The brand names included are Garcia y Vega, White Owl, Tiparillo and Tijuana Smalls. The operations have been consolidated with Swedish Match since May 1, 1999.

On July 2, 1999, the Group signed an agreement covering acquisition of El Credito Cigars, US, which manufactures and markets premium cigars, mainly for the US market. The company's flagship brand is La Gloria Cubana. The acquisition includes production units in the Dominican Republic and Miami, Florida, with 350 employees, and brings to Swedish Match additional annual net sales of approximately 100 MSEK. The operations have been consolidated with Swedish Match since September 1.

In September 1999, Swedish Match acquired 80 percent of Leonard Dingler Limited in South Africa. In South Africa, the company manufactures, sells and distributes tobacco products – a business of which 25 percent derives from snuff, and the remainder pipe tobacco. The company's flagship brand names are

Boxer for pipe tobacco and Taxi for snuff. The acquisition includes a production unit in Boksburg, sales offices in Cape Town and Bloemfontein, as well as slightly over 300 employees. Net sales amount to 360 MSEK. The operations were consolidated with Swedish Match in the fourth quarter of 1999.

Units acquired in 1999 accounted for 638 MSEK of the year's net sales.

At the end of the year, Swedish Match signed an agreement with Gum Tech International to form a joint venture to investigate new business opportunities for non-tobacco-based nicotine products. The plan is to form an independent company to develop, manufacture, market and distribute the products. Swedish Match will own 51 percent and Gum Tech will own 49 percent of the new company. Gum Tech is contributing intellectual property and Swedish Match is contributing 10 MUSD in startup capital.

Swedish Match divested its cigarette business on July 1, 1999 to Austria Tabak for 4,800 MSEK. After deduction of the net book value, the capital gain amounted to 4,102 MSEK. Capital-gains tax was limited to stamp tax of 1 percent of the purchase price. The operations were transferred to Austria Tabak on July 1, 1999. The divested operations include a production unit in Malmö, company management and marketing functions in Stockholm, and a sales force and a local business in Estonia. Some 500 employees were affected. The principle brand names that were divested are Blend, Right and John Silver. In connection with the transfer, an agreement was signed with Austria Tabak regarding the continuing distribution of cigarettes in Sweden.

In September 1999, an agreement was signed with KOÇ Holding AS regarding the acquisition of the remaining 40 percent of Swedish Match KAV in Turkey. As

SUMMARY INCOME STATEMENT

MSEK	1999	1998
Net sales	9,420	8,194
Operating income	5,396	1,381
Net financial items	-116	-183
Taxes	-638	-482
Minority interest	14	10
Net income	4 656	726
Profit per share, SEK	10.79	1.59

SALES AND OPERATING INCOME BY PRODUCT AREA

MSEK	Net sales		Operating income	
	1999	1998	1999	1998
Chewing Tobacco	1,068	1,068	297	331
Cigars	1,438	902	206	117
Lighters	662	735	14	18
Matches	1,673	1,573	107	134
Pipe Tobacco & Accessories	420	218	109	38
Snuff	1,688	1,337	828	641
Other operations	1,742	893	-127	-228
Subtotal	8,691	6,726	1,434	1,051
Divested business	729	1,468	255	438
Items affecting comparability	-	-	3,707	-108
Total	9,420	8,194	5,396	1,381

a result of the acquisition, Swedish Match will own and control 100 percent of the company, whose operations include the manufacture and sale of matches, primarily for the Turkish market. Implementation of the acquisition is scheduled for the beginning of 2000.

Net sales

During the year, net sales increased by 15 percent to 9,420 MSEK (8,194), of which acquisitions accounted for 9 percent. Substantial sales increases were reported for snuff, cigars and pipe tobacco.

In 1999, net sales of snuff increased by 26 percent. Volumes increased by 6 percent in the Nordic market and 44 percent in the US market. The total volume increase was 16 percent. In the US, the Group's market share amounted to 6.6 percent at year-end, a 1.6 percentage-point improvement compared with the preceding year. The sales increases for Cigars and Pipe Tobacco are attributed primarily to acquisitions.

For Lighters, net sales declined by 10 percent. As a result of declining markets in Asia and eastern Europe, sales volumes fell considerably during the third quarter of 1998 and to date volumes to these markets have not recovered. The 6 percent increase in Matches sales is primarily attributable to the full-year effect of the acquisitions implemented in 1998. Chewing Tobacco, which is sold almost exclusively in the U S, reported the same net sales in 1999 as in the preceding year expressed in Swedish kronor, but somewhat reduced sales expressed in the local currency. The market for chewing tobacco has declined by an average of 4 percent per year during the past three years. Over the course of 1999, the market share held by Swedish Match increased.

Operating income

Operating income before items affecting comparability including divested operations increased for the full year to 1,689 MSEK (1,489), or 13 percent.

Operating income continued to improve in the priority product areas of snuff, cigars and pipe tobacco. The improved income for snuff is attributable to continued volume growth in the Nordic market and the US, whereas income growth for cigars and pipe tobacco stems mainly from acquisitions carried out in 1999. Other operations – chewing tobacco, lighters and matches – reported a decline, which is primarily attributable to market conditions. To bring production in line with demand, and to reduce fixed costs in the Lighter operations, the Lyon production facility was closed in July, 1999. This has improved capacity utilization in the remaining factories, and has contributed to the profit improvement in the second half of the year.

Other operations include among other things the distribution of tobacco products on the Swedish market as well as corporate overheads. For the year, net expenses for other operations were reduced to 127 MSEK (228).

Items affecting comparability

As of July 1, 1999, the cigarette business was sold for 4,800 MSEK. After deduction of the net book value, the capital gain for Swedish Match amounted to 4,102 MSEK.

Due to sales volumes for Matches having declined in certain markets, and low capacity utilization, an extensive restructuring program will be implemented, with the aim of increasing the operating margin for Matches to 10 percent within three years. In the fourth quarter, a restructuring charge of 395 MSEK for the Match division was provided, to cover the cost of the reduction of production capacity and to write down fixed assets in India.

SUMMARY BALANCE SHEET

MSEK	1999	1998
Fixed assets	5,566	3,597
Inventories	1,732	1,902
Current assets	2,076	2,187
Liquid funds	7,296	2,876
Total assets	16,670	10,562
Shareholders' equity	5,940	2,160
Minority interests	162	148
Provisions	1,195	1,165
Long-term liabilities	5,303	2,124
Current liabilities	4,070	4,965
Total shareholders' equity and liabilities	16,670	10,562
Operating capital	6,352	4,700
Net debt	-1,267	1,455

The net amount of these two items, 3,707 MSEK, has been reported in items affecting comparability.

Net financial expense

Net financial expense amounted to 116 MSEK (183). Other financial items amounted to income of 15 MSEK (expense: 41).

Taxes

Total tax for 1999 amounted to 638 MSEK (482) corresponding to 12.1 percent of income before taxes. The tax rate decreased due to the fact that the capital gain on the sale of the cigarettes operation was only nominally taxed. The rate increased since it was not deemed possible to claim the costs of the restructuring provision for the Matches division for tax purposes.

Board of Directors' dividend proposal

Income per share was 10.79 SEK (1.59). The Board of Directors has decided to

propose that the Annual General Meeting approve payment of a dividend of 1.25 SEK per share (1.10), or a total of 539 MSEK (474), to the shareholders.

Liquidity

Cash and bank balances and short-term securities amounted to 7,296 MSEK at the end of the period, compared with 2,876 MSEK at the beginning of the year.

At year-end, the Group's liquid funds were distributed as followed:

Instrument	MSEK
Bank accounts	540
Investment loans in banks	1,738
Treasury bills	404
Money-market funds	2,170
Corporate bonds and commercial paper	2,444
TOTAL	7,296

In addition to existing liquid funds, Swedish Match has unutilized lines of credit amounting to 1,173 MSEK with

terms of up to one year, so-called 364-day credit facilities, 60 MSEK until 2001, and 1,926 MSEK until 2004.

Financing

The Group's principal borrowing financing consist of an international short-term commercial paper program (Global MTN Programme), of which 360 MEUR was utilized at year-end 1999, and a Swedish bond program, of which 1,922 MSEK was utilized at the same date. During the year, greater emphasis was placed on increasing the proportion of long-term financing in the Group.

Loans

Distribution of the portfolio by loan type is as follows:

Instrument	MSEK
Swedish bond program	1,922
Global MTN Programme	3,072
Bank loans	835
Other bonds	200
TOTAL	6,029

The Group's long term objective is to have approximately 60 percent in borrowing at floating interest and 40 percent with fixed interest. Occasionally, however, the relationship between floating and fixed interest may deviate from this distribution. On December 31, 1999, about 63 percent of loans carried floating-rate interest and 37 percent fixed-rate interest.

Equity/assets and net debt level

At the close of the budget year, the Group's equity/assets ratio amounted to 36.6 percent as compared with 21.9 percent in the preceding year.

At the end of the period, the Group had liquid funds 1,267 MSEK in excess of interest-bearing liabilities, as comp-

ared with a net debt of 1,455 MSEK on December 31, 1998, due primarily to the divestment of the cigarettes operations during the year.

Investments

The Group's direct investments in tangible fixed assets amounted to 452 MSEK (393). Of this amount, 144 MSEK consisted of fixed assets in connection with acquisitions and the remaining 308 MSEK pertained to efficiency-improving and capacity-increasing investments. In addition, 2,488 MSEK (213) was invested in intangible assets during the period. These investments pertained mainly to brand names and goodwill related to acquisitions made during the year.

Total depreciation and amortization amounted to 381 MSEK (332), of which depreciation on tangible assets amounted to 222 MSEK (248) and amortization of intangibles amounted to 159 MSEK (84).

Investments in associated companies amounted to 50 MSEK during 1999.

Tobacco tax

In Sweden during the past year, the Company has paid tobacco taxes, plus value-added taxes on tobacco taxes, amounting to 9,016 MSEK (9,266).

Redemption of shares and share repurchase program

Considering the strong financial position of Swedish Match, the Board of Directors has decided to propose the redemption of Swedish Match shares to the Annual General Meeting in April. This is in addition to the ordinary dividend in fiscal year 1999. Through the redemption, capital which is no longer required in operations is transferred to the shareholders. The proposed redemption amount, in the range of 1,000 MSEK, is expected to be paid prior to the end of July.

The Board of Directors of Swedish Match has decided to propose to the Annual General Meeting to give the Board of Directors authorization to decide on repurchase of Swedish Match shares. The authorization is proposed to be valid until the next Annual General Meeting with regard to the repurchase of up to 5 percent of the number of outstanding shares.

Significant events after the end of the budget year

After the end of the budget year, an agreement was signed between General Cigar Holdings (NYSE:MPP) and Swedish

Match, the objective of which is for Swedish Match to acquire 64 percent of General Cigar. The remaining 36 percent will stay in the hands of the previous principal owner, the Cullman family. The transaction is conditional on the approval of the shareholders in General Cigar at a Special General Meeting in the spring of 2000. General Cigar's head office is in New York and the company's manufacturing plants are in the Dominican Republic, Jamaica, Honduras and Florida. General Cigar is a market leader in luxury cigars in the US with brand names such as Macanudo, Partagas, Punch, Hoyo de Monturey and Cohiba. General Cigar is also one of the foremost producers of high-quality Connecticut shade wrapper tobacco in the world.

After year-end an agreement was reached regarding the acquisition of National Tobacco's chewing tobacco brand names, formulations and inventories. The foremost chewing-tobacco brand name is Beech-Nut. The operations have generated net sales of approximately 400 MSEK and will be integrated in the existing Swedish Match chewing tobacco operations in North America.

SUMMARY CASH FLOW

MSEK	1999	1998
Cash flow from current operations	1,329	794
Cash flow from divestment of cigarette operations and plants	4,881	849
Cash flow from other investment activities	-2,876	-767
Cash flow from financing activities	1,181	1,427
Cash flow for the year	4,515	2,303
Liquid funds at beginning of year	2,876	563
Translation differences in liquid funds	-95	10
Liquid funds at year-end	7,296	2,876

Financial risk management

Foreign exchange risk

Translation exposure

Group income and shareholders' equity are affected when the income and balance sheets of foreign subsidiaries are translated into Swedish kronor. This is known as translation exposure. Of the Group's shareholders' equity in foreign currency at year-end, 70 percent consisted of Euro currencies, 4 percent of GBP, 5 percent of USD and 21 percent of other currencies. As a rule, Swedish Match does not hedge the equity in foreign subsidiaries.

Commercial transaction exposure

The currency flows which occur in the buying and selling of goods and services in currencies other than those of the relevant subsidiary's domestic currency give rise to commercial transaction exposure. The introduction of the Euro reduced the Group's transaction exposure substantially. Some hedging is conducted, however, within a time frame of not more than 12 months.

Financial transaction exposure

Currency flows which occur in connection with borrowing and investments in currencies other than the domestic currency of the subsidiary concerned give rise to financial transaction exposure. In accordance with the company's finance policy, the financing of subsidiaries must

be achieved in a manner that avoids foreign exchange risks as far as possible. This is achieved by borrowing in the local currency of the subsidiary concerned, where this is possible. Borrowing is only undertaken in another currency if it is not possible to finance the subsidiary in local currency due to foreign exchange regulations or for other reasons. In some cases the loan is hedged.

Interest rate risk

The time which elapses before a lasting change in the interest rate has an impact on the Group's net interest depends on the fixed interest term of the loan or the investment. The average fixed interest term for the Group's interest-bearing assets amounted to 107 days at December 31, 1999. The average rate of interest on the Group's interest-bearing liabilities was 3.62 percent at December 31, 1999.

The average fixed interest term for interest-bearing liabilities amounted to 509 days on December 31, 1999. The average interest on the Group's interest-bearing liabilities was 5.96 percent on December 31, 1999.

Credit risk

Investments, with the exception of bank account deposits, are made primarily in Swedish government treasury bills and national bonds, and in securities issued by certain counter parties specified in a list of counter parties approved by management. All counter parties on this list have a Standard & Poor's long rating of at least A or the equivalent.

Rating

At December 31, 1999, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investors Service:

	Standard & Poors	Moody's
Long-term rating:	A –	Baa1
Short-term rating:	K-1/A-2	–

EMU and the euro

As regards financing, Swedish Match carried out a restructuring of certain aspects of the Company's borrowings from Swedish kronor to euro. In April 1999, Swedish Match renegotiated a syndicated bank loan for 2,000 MSEK to a new loan for 225 MEUR. The loan, which on December 31, 1999 was fully unutilized, has a term of five years. In 1999, Swedish Match also carried out two issues of commercial paper in the Euro market within the framework of the company's international bond program (Global MTN Programme), which are listed on the London Stock Exchange. The first issue, a private placement, took place in February, and involved 60 MEUR borrowed for five years at fixed interest rate, 4 percent. The second transaction, which took place in September, was a public issue involving 300 MEUR, borrowed for seven years at a fixed interest rate, 6.125 percent. Through these transactions, Swedish Match established itself as a borrower in the international capital market. The transactions attracted great interest from European institutional investors, and were well received by the market.

Swedish Match and the environment

Swedish Match environmental vision is to achieve a balance in which the company consistently reaches its commercial objective of meeting the requirements of shareholders, customers and other interested parties, while at the same time integrating its operations and products in the natural ecocycle.

Environmental policy

Swedish Match environmental policy is based on the following main points:

In addition to following all applicable legislation and regulations and other requirements affecting the Group, Swedish Match, in all areas of operation, shall

- ★ apply suitable environmental management systems in all areas, formulated to prevent contamination and reduce the risks for negative environmental impacts.
- ★ in addition to customary financial and marketing criteria, also consider environmental aspects in all commercial undertakings.
- ★ identify and gradually implement changes in every phase of the life cycle of products, processes and services to reduce negative environmental aspects that may be in contravention to the conditions necessary for a sustainable society.

The Group's operations are participating in a program for certification in accordance with the environmental management program ISO 14001. The program, which encompasses all operations, is being implemented in Group units in Belgium, Netherlands, Sweden and the US.



The wind power plant, Elin, supplies nearly 20 percent of the energy needs for Swedish Match's snuff plant in Gothenburg.

Representatives for the Group's primary operations are constructing a network for the exchange of experiences and formulating a plan of action relating to environmental aspects.

Environmental impact in Swedish units

One of the Group's Swedish subsidiaries is conducting operations that require authorization in accordance with the

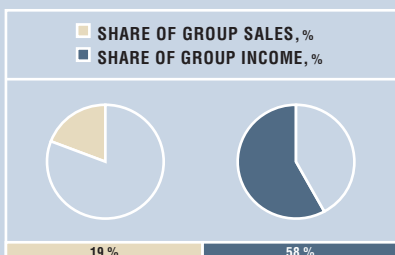
Environmental Act. This primarily relates to the handling of timber and the content of suspended substances in wastewater in connection with match production. Inspection occurs every other year with a focus on review of the company's procedures and internal monitoring system. In accordance with the Environmental Code, the Group's facilities for snuff production in Gothenburg are required to submit specific reports.

Smokeless tobacco



FACTS:

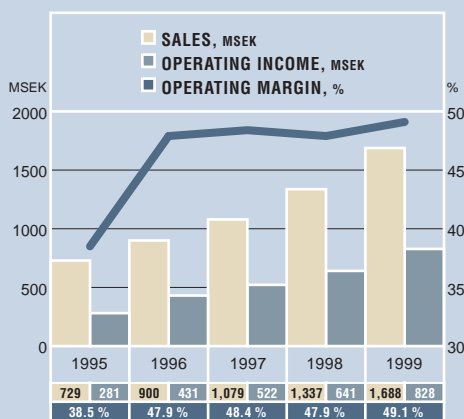
- ★ Swedish Match is the leading manufacturer of snuff products in the Nordic and South African markets and the third largest producer in the US.



Shares are before divested business operations and items affecting comparability for full-year 1999.

KEY DATA

MSEK	1999	1998
Sales	1,688	1,337
Operating income	828	641
Investments in tangible fixed assets	68	41
Average number of employees	485	378



PRODUCTION FACILITIES IN:

Sweden, South Africa, Zimbabwe and the US.

MAJOR BRANDS:

Catch, Ettan, General, Grovsnus, Göteborgs Rapé, Renegades, Taxi, Timber Wolf.

Snuff

Snuff operations showed a continued strong volume increase. In the North American snuff market, Swedish Match's market share increased and margins improved. In the Nordic market, where Swedish Match is the leading manufacturer, strong growth in volumes occurred. Swedish Match acquired the South African company Leonard Dingler, whose Taxi snuff brand is the market leader in South Africa.

The year

Sales increased by 26 percent to 1,688 MSEK (1,337) during 1999. Overall, Swedish Match volume increased by 16 percent. The volume increase in the Nordic market was six percent and in the US was 44 percent. In the US, Swedish Match market share was 6.6 percent at year-end, an improvement of 1.6 percentage points over the preceding year.

Operating income for the year increased by 29 percent, to 828 MSEK (641).

In September, Swedish Match acquired 80 percent of Leonard Dingler Ltd. in South Africa. The company has annual sales of 360 MSEK, with snuff accounting for about 25 percent. The acquisition includes the market-leading Taxi brand, a production plant and a sales organization.

The market

Snuff consumption has strong traditions in northern Europe, North America, Africa and some countries in Asia.

In Europe and North America, moist oral snuff, is the most commonly used variety, while dry, nasal snuff is the dominant product variety in Africa and Asia.

Approximately 175 million cans of moist snuff are sold annually in the Nordic countries. In Sweden, the largest market, there are approximately 900,000 snuff consumers, corresponding to about 10 percent of the population. Women account for about 10 percent of snuff consumers. The Nordic market is charac-

terized by steady volume growth, which is primarily attributable to increased restrictions on smoking and greater health awareness among those of the population who smoke. More than half of today's snuff consumers in the Nordic market are former smokers. Snuff consumption rose six percent during 1999. The market share of portion-packaged snuff is rising, accounting for almost 45 percent of total market sales.

Swedish Match is the dominant player in the Nordic market. For the past few years, the Group has conducted a comprehensive strategic branding project, which has strengthened – or will strengthen – the market identities of Sweden's four best-known snuff brands: Ettan, General, Grovsnus and Catch. These four brands account for more than 80 percent of all snuff sales in Sweden. During



1998-1999, Ettan and Catch were re-launched with new graphic profiles and packaging designs. In order to further capitalize the General brand and to strengthen brand image, Swedish Match, in cooperation with a Swedish wine distributor, launched General Whisky in Sweden – a 12-year-old pure malt Scotch

SMOKELESS TOBACCO

whisky, in the premium segment. Preparations were also made during the year to launch Catch Eucalyptus, which reached retail outlets in January 2000.

In the highly competitive North American market, consumption of snuff has increased by 2-3 percent annually for the past several years. Consumption in 1999 is estimated at more than 800 million cans of snuff. The value price segment shows strong growth, accounting for 15 percent of the market, compared with five percent five years ago. Over the past five years, Swedish Match has increased its share of the total snuff market to 6.6 percent. With its Timber Wolf brand, Swedish Match is the leader in the value price segment. The product



range also includes Renegades portion-packaged snuff. The acquisition of General Cigar machine made cigar operations has given Swedish

Match access to a sales force and efficient distribution channels that also cover parts of the US where the company's coverage was previously weak. As a result of the acquisition, Swedish Match also now has the market's broadest range of Other Tobacco Products (OTP), comprising snuff, cigars, chewing tobacco and pipe tobacco, which is an important competitive advantage in relations with retailers.

In the South African market, snuff is the dominant smokeless tobacco product. Swedish Match established operations in the South African market in 1999 through its acquisition of Dingle, whose Taxi brand is the market leader. The acquisition provides a platform in South Africa, one of the world's most important markets for smokeless tobacco outside the Nordic countries and North America. Swedish Match opened a new production plant in Zimbabwe



during 1999. The plant is a pilot project for sales in the local market.

The future

Sales of snuff were prohibited in the EU in 1992, primarily based on the assumption that the product may be carcinogenic. Sweden was exempted from the ban when entering the EU in 1995. Several studies in Sweden have shown that this assumption is lacking in scientific support. Against this background, the European Commission put forward a proposal in 1999 to change the warning labels on packagings for smokeless tobacco, including snuff. This can be viewed as a step toward total repeal of the ban on snuff sales in the EU.



WHAT IS SNUFF?

- ★ Moist snuff consists mainly of tobacco, water and salt.
- ★ Different types of tobacco are used for snuff than for cigarettes.
- ★ Available as loose snuff or portion-packed.
- ★ Moist snuff is inserted beneath the lip.

Chewing tobacco

Swedish Match is the largest player in the North American market for chewing tobacco. Through an intensified marketing program, the Group has succeeded in reversing the former negative trend of volume development.

The year

Sales for the year amounted to 1,068 MSEK (1,068). Expressed in local currency, sales decreased slightly. Operating income for the year was down 10 percent to 297 MSEK (331).

Swedish Match continued to focus on rationalization measures and efforts to reduce costs. Southern Pride, a new chewing tobacco brand in the value price segment introduced by the Group in 1998, showed continued strong sales growth in 1999.

The market

The use of chewing tobacco is an old custom in the US, where consumption is mainly concentrated in a region comprising the southeastern states.

Chewing tobacco is often associated with outdoor activities such as hunting and fishing.

The total retail market in 1999 amounted to 3,500 MSEK. The market has declined by an average of four percent annually over the past three years. Swedish Match increased the intensity of its marketing operations and was able to recapture market shares following the negative trend of sales in 1998.

Chewing tobacco is a relatively price-sensitive product. The market is charac-

terized by strong price competition, with premium brands affected negatively by growth in the value price segment.

Four manufacturers dominate the market for chewing tobacco, which includes brands in several price segments. Swedish Match is the leading producer, with its Red Man family of brands. In 1999, the Group captured additional market share in the value price segment with its newly launched Southern Pride brand.



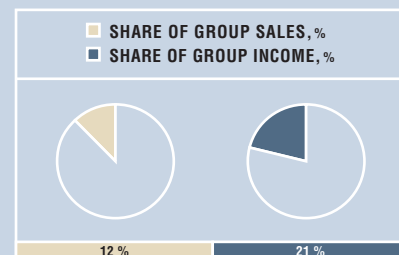
The future

Swedish Match's goal is to maintain and strengthen its leading position in the declining but still highly profitable market for chewing tobacco.



FACTS:

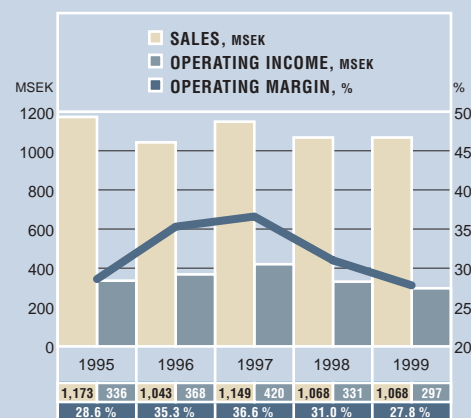
- ★ Swedish Match's chewing-tobacco operations are conducted in North America, primarily in the US.
- ★ The Red Man brand family is the market leader.



Shares are before divested business operations and items affecting comparability for full-year 1999.

KEY DATA

MSEK	1999	1998
Sales	1,068	1,068
Operating income	297	331
Investments in tangible fixed assets	29	20
Average number of employees	491	504



PRODUCTION PLANT IN:

The US.

MAJOR BRANDS

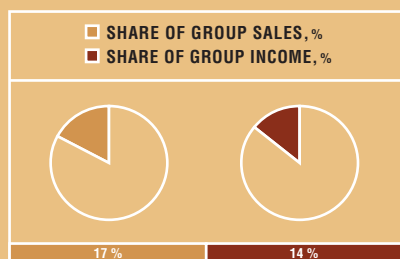
Granger Select, J.D.'s Blend, Red Man, Red Man Golden Blend, Red Man Select, Southern Pride.

Brown tobacco



FACTS:

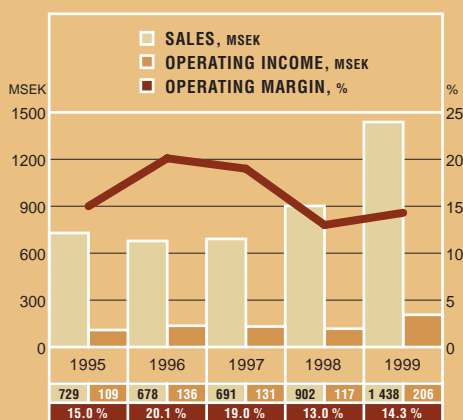
- ★ Swedish Match is the world's second largest cigar company in terms of sales value.
- ★ More than 20 brands are marketed in more than 90 countries.
- ★ The most important markets are Western Europe and the US.
- ★ The products cover a broad range, from hand-rolled cigars to machine-manufactured cigarillos.



Shares are before divested business operations and items affecting comparability for full-year 1999.

KEY DATA

MSEK	1999	1998
Sales	1,438	902
Operating income	206	117
Investments in tangible fixed assets	142	68
Average number of employees	2,323	1,842



PRODUCTION FACILITIES IN:

The Netherlands, Belgium, Indonesia, the US, the Dominican Republic and Germany (via the partly owned company Arnold André).

MAJOR BRANDS:

La Paz, Clubmaster*, Willem II, Handelsgold*, Wings, de Heeren van Ruysdael, Justus van Maurik, Montague, Bellman, Frans Suell, Robert Burns, La Gloria Cubana, Garcia y Vega.

(*via Arnold André)

Cigars

The acquisitions of General Cigar's machine-made cigar operations and the premium producer El Credito have made Swedish Match the world's second largest cigar company, with a very strong position in the North American market.

The year

In 1999, sales amounted to 1,438 MSEK (902), an increase of 59 percent. Operating income rose 76 percent to 206 MSEK (117). The increases in sales and operating income were mainly attributable to acquisitions.

In line with Swedish Match's growth strategy for cigars, two acquisitions were made in 1999 – General Cigar's machine-produced cigar operations, purchased in April for 200 MUSD, and El Credito, acquired in August.

The operations acquired from General Cigar comprise brand names, two production units, inventories, and a sales force of about 70 persons, for a total of about 1,000 employees. Among the brand names included in the acquisition are Garcia y Vega, White Owl, Tiparillo and Tijuana Smalls. As a result of the acquisition, Swedish Match's market share in the US became 11 percent. The operations were consolidated in Swedish Match effective May 1, 1999. The sales force was integrated into the existing Swedish Match structure during the fourth quarter of 1999.

El Credito hand-rolls and markets premium cigars, primarily for the North American market. The most prominent brand is La Gloria Cubana. Other brands include El Rico Habano and La Hoya Selecta. The acquisition included two production units with a combined total of about 350 employees. The operations were consolidated in Swedish Match effective September 1, 1999.

The market

There have always been a large number of players in the international market, with many small local companies operating in parallel with major manufacturers. Production and wholesaling have undergone a period of restructuring during recent years, however, in a growing trend toward fewer and larger players. The trend of consolidation accelerated in 1998-99, highlighted by several major mergers. During the past two years, Swedish Match acquired the cigar operations of R J Reynolds in Finland, The Alexander Group in Australia, the mass market business of General Cigar and El Credito. These acquisitions have made Swedish Match the world's second largest cigar company in terms of sales value.



Europe accounts for about 40 percent and North America about 35 percent of the global cigar market.

The product segment extends from machine-manufactured cigarillos to premium cigars hand-rolled in a variety of formats and sizes.

Consumption of cigars in Europe showed an average increase of 2-2.5 percent in 1999. The strongest growth was noted in Portugal, Spain, France and the Netherlands, as well as Greece, where consumption rose about 15 percent. The largest increase in consumption was noted for products in the premium segment. Swedish Match's market share in the growing European market is slightly more than 15 percent.

In the mid-1990s, strong growth characterized the American market for premium cigars. Market growth slackened in 1998, and total consumption of cigars declined somewhat, but stabilized at a high level in 1999. The situation created large inventories for players in the commercial chain, which affected sales negatively during 1999.

In 1999, Swedish Match acquired the mass market part of General Cigar's operations, defined as machine-manufactured, good-quality cigars sold at reasonable prices. The Garcia y Vega brand, which is close to the premium segment in terms of price and quality, accounts for a substantial portion of sales. The Group also acquired El Credito, a premium cigar manufacturer with brands, including La Gloria Cubana, that rank among the leading and most exclusive cigars in the North American market. As a result of the two acquisitions, Swedish Match now offers a complete range of cigars, covering all price seg-

ments of the North American market. The acquisitions have also provided Swedish Match with the market's broadest range of Other Tobacco Products (OTP), which comprise snuff, cigars, pipe tobacco and chewing tobacco. Swedish

Match broad product portfolio is a very strong competitive factor that will strengthen the Group's position in North America.

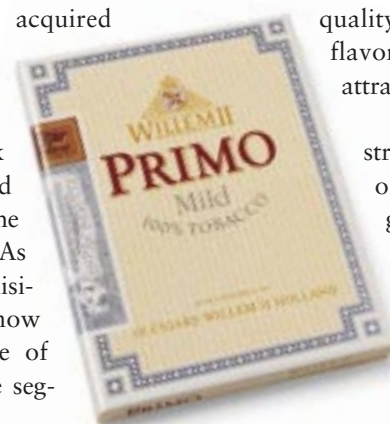
Asia and Australia continued to be characterized as growth markets for cigars. Particularly strong growth was reported in Australia, which showed a volume increase of 15-20 percent in the total market. Swedish Match captured a share of the market's strong growth, partly through sales of the cigarillo Willem II. In Asia, Swedish Match used its base in Hong Kong to develop its contacts with the Chinese mainland.

Swedish Match restructured its distribution operations in Brazil, which resulted in higher sales of cigars and pipe tobacco. Products from recent acquisitions in the US have supplemented the Group's product range in Brazil.

The future

Cigars represent a growth product in many markets where Swedish Match is positioned strongly for aggressive marketing efforts. Current trends show growing demand for international brands, high-quality products and mild-flavored cigarillos sold in attractive packages.

The Group intends to strengthen its position as one of the industry's global leaders. During 2000, Swedish Match will also conduct a strategic review of its cigar brands.



Pipe tobacco and Accessories

Swedish Match acquired 80 percent of Leonard Dingler of South Africa in 1999. With its Boxer brand, Dingler is the South African market's leading supplier of pipe tobacco.

The year

Sales during 1999 increased 93 percent to 420 MSEK (218). Operating income increased to 109 MSEK (38) during the year.

In line with the Group's strategic focus on smokeless tobacco and brown tobacco, Swedish Match acquired 80 percent of Leonard Dingler of South Africa in September 1999. The company manufactures, sells and distributes pipe tobacco and snuff in South Africa and neighboring countries. The acquisition also included a production unit and 300 employees. The activities of Leonard Dingler were consolidated from the fourth quarter of 1999.

The market

The market is characterized both by exclusive niche products produced in limited quantities and by products aimed at the mass market, where producers are applying defensive strategies, with few marketing investments. The market players include both major tobacco comp-



anies with pipe tobacco divisions and a large number of smaller companies with a focus mainly on pipe tobacco.

World consumption has declined 6 – 8 percent annually in recent years. The main reasons for market decline are demographic, with the average age of consumers rising and with fewer new consumers entering the market. Current trends show a slight increase in demand for pipe tobacco in the premium and value price segments, with weaker demand in the moderate price segment. The largest single market for pipe tobacco is the US, which accounts for about 40 percent of global consumption. Other large markets are Western Europe and Australia, Japan, Canada and South Africa.



Consumption in the American market has declined as much as eight percent annually during recent years. There are discernible signs of a slow-down in market decline, however. In terms of value, Swedish Match is the second largest manufacturer of pipe tobacco in the US, and the fourth largest in terms of volume, with a market share of about 20 percent. The Group is now represented in the American market by Borkum Riff, Half and Half, Velvet and Paladin



and, in the value price segment, by Custom Blend from Royal House Ltd.

A continued decline had also been noted in European consumption of pipe tobacco, but the decline in 1999 was not as sharp as in previous years, with sales down slightly more than 1 percent. There is a trend toward greater concentration in the retail chain. Swedish Match has very strong positions in Sweden and Finland. Some market growth was noted in Spain and Switzerland for Borkum Riff.

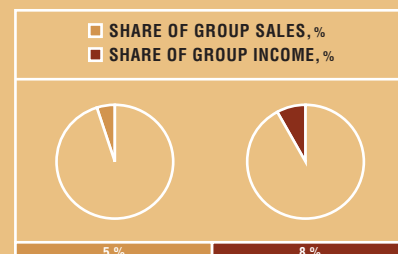
The market in South Africa has grown during recent years. With its acquisition of Leonard Dingler, Swedish Match has created a solid platform for continued expansion in South Africa and neighboring countries. Dingler's market share is estimated at 65 – 70 percent. The acquired company's brands include Boxer, Nineteen O Four, Black and White and Giraffe.

The future

Swedish Match is a global player in the profitable market for pipe tobacco. Some consolidation is foreseen in the industry, and Swedish Match intends to play an active role in the restructuring process.

FACTS:

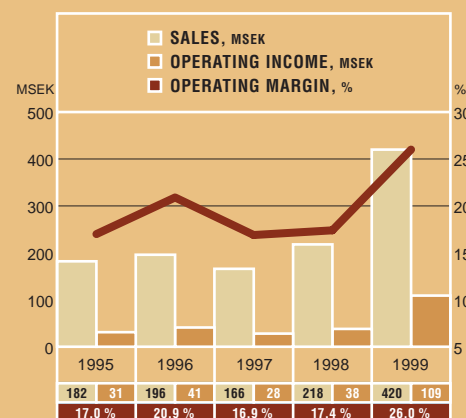
- ★ Swedish Match is one of the world's leading manufacturers of pipe tobacco.
- ★ The main markets are Europe, North America and South Africa.



Shares are before divested business operations and items affecting comparability for full-year 1999.

KEY DATA

MSEK	1999	1998
Sales	420	218
Operating income	109	38
Investments in tangible fixed assets	27	3
Average number of employees	143	49



PRODUCTION PLANTS IN:

The US and South Africa.

MAJOR BRANDS:

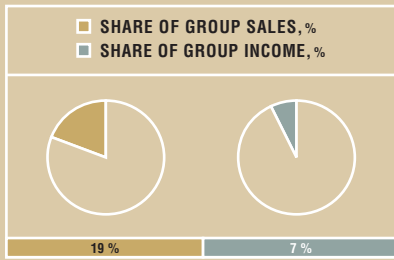
Borkum Riff, Greve Gilbert Hamiltons blandning, Half and Half, Boxer, Mellow Breeze, Velvet, Paladin, Black and White, Giraffe, Nineteen O Four.

Matches and Lighters



FACTS:

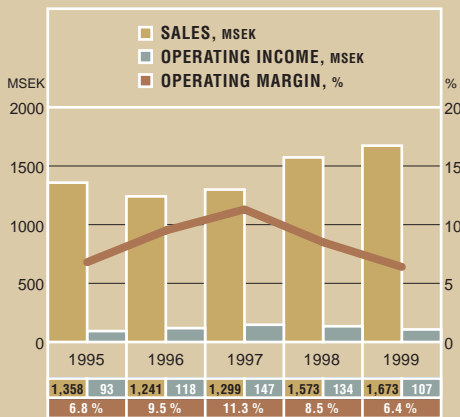
- ★ Swedish Match is the world's leading match producer and the only global producer.
- ★ The main match markets are Europe, Latin America and Asia.
- ★ Operations include the production of match manufacturing machinery and equipment by Swedish Match Arenco.



Shares are before divested business operations and items affecting comparability for full-year 1999.

KEY DATA

MSEK	1999	1998
Sales	1,673	1,573
Operating income	107	134
Investments in tangible fixed assets	136	171
Average number of employees	7,034	5,843

**PRODUCTION PLANTS IN:**

Brazil, Bulgaria, Hungary, India, Indonesia*, Spain, Sweden and Turkey.

(* through the partly owned company P.T. Java Match Factory)

Production of machinery and equipment used for match production is located in Sweden and China.

MAJOR BRANDS:

Three Stars, Solstickan, Swan Vestas, England's Glory, Union Match och Fiat Lux.

Matches

A comprehensive program of restructuring and rationalization work was initiated to improve the profitability of match operations.

The year

In 1999, sales increased six percent to 1,673 MSEK (1,573). The increase was primarily attributable to the full-year impact of 1998 acquisitions. Operating income for the year amounted to 107 MSEK (134).

A charge of 395 MSEK, reported as an item affecting comparability, was made during the fourth quarter to cover the cost of a reduction of the installed production capacity, an efficiency-enhancement program and a write-down of fixed assets in India.

During the year, Swedish Match acquired 40 percent of P.T. Java Match Factory, Indonesia's largest manufacturer of matches, and entered into an agreement to acquire the remaining 40 percent of KAV in Turkey.

The market

The world market for matches is relatively stable, with an estimated total value of 12 billion SEK. Consumption of matches is highest in India, the rest of Asia, Africa, Latin America and Eastern Europe.

Consumption in Western Europe shows a prolonged downward trend. Matches sold in Western European markets are generally of high quality and show a trend toward greater differentiation. The products are brand-dependent and marketed under a large number of local brand names.

Swedish Match is the market leader and manufacturer and sells a broad range of matches under local brand names. A program was initiated during the year to strengthen several brands in

markets where the Group has strong positions and established sales forces. The work involves development and differentiation of match products, both in terms of new formats and new sales concepts for the non-durable goods sector.

The match industry in the highly competitive markets of Eastern Europe is undergoing a period of privatization and consolidation. The devaluation of Russia's currency toward year-end 1998 sharply increased the competitiveness of Russian match manufacturers, resulting in the loss of Swedish Match market shares in Eastern Europe.

Match consumption in India, one of the world's largest markets for matches, is showing a slight increase. Following the acquisition of Wimco, Swedish Match is one of the largest independent players in the country, where the Group also has a well-developed distribution network for consumer products.





Swedish Match's activities in Latin America are mainly concentrated in Brazil, where the Group manufactures and markets matches under several well-known brand names, commanding a Brazilian market share of about 50 percent. Devaluation of the Brazilian real (BRL) had a negative effect on earnings

after translation to Swedish kronor (SEK). Swedish Match was able to offset some of the negative effects of devaluation through higher volumes, however. Following the closure of a production plant in São Lauro, production was concentrated to the plant in Curitiba in southern Brazil.

The future

Swedish Match is the world's only global player in the match industry, operating through well-developed distribution channels in all Group markets. Its unique position offers a springboard and strong strategic support for other Swedish Match products in various markets.

In view of the reduction in sales volumes in certain markets and low capacity utilization, a comprehensive restructuring program is planned, with the aim of increasing the operating margin to 10 percent within three years.



Lighters

Efforts to implement structural changes and reduce costs continued, and it proved possible to reverse the earlier negative earnings trend.

The year

Sales for the year declined 10 percent to 662 MSEK (735). Operating income in 1999 fell to 14 MSEK (18).

During the second half of 1998, sales volumes declined substantially due to the economic downturn in Asia and Eastern Europe. To bring production into line with demand, and to reduce fixed costs, the production facility in Lyon, France, was closed in July 1999, with the result that capacity utilization was improved in the remaining plants.

Cricket Mini, a new lighter from Swedish Match, was launched in France toward year-end.



The market

After a period of stagnation in the world market for lighters, some signs of improvement were perceived toward year-end 1999, when volumes were restored to the normal growth rate of 1-2 percent annu-

ally. Since growth is correlated with trends in cigarette consumption and general economic growth, the increase is higher in developing nations, while markets in Western Europe and the US continue to decline at 2 – 3 percent annually.

In developed markets, competition is intense between the three global manufacturers of lighters, including Swedish Match, and a large number of small local companies in “low-cost” countries.

In terms of value, Swedish Match has an estimated market share of 14 percent in Europe. Volumes in Russia began to increase slightly during 1999, although from a low level of sales following economic uncertainties.

The North American market for lighters has declined by 2-3 percent annually during the past few years, in terms of volume. Swedish Match has a market share of just under 10 percent, based on value. The Group reviewed its product range during 1999 to focus on its bestselling lighter models, in terms of volume.

Conditions in Southeast Asia were characterized by instability during 1998, and the market for disposable lighters declined for the first time. The downturn

was caused by consumers switching to matches or cheaper lighters in parallel with economic decline and currency devaluations. The situation improved during the second half of 1999, however.

Favorable business development was noted in Latin America, particularly in Brazil, where Swedish Match reported a 10 percent increase in volumes as a result of intensified marketing activities and reduced imports of low-price lighters, compared with previous years.



The future

Swedish Match will continue to improve operating efficiency and reduce costs during 2000 as part of overall efforts to remain strongly competitive and defend the Group’s market positions.

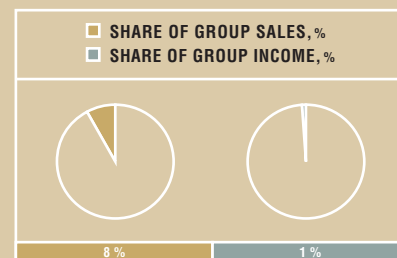
Implementation of a standardization program relating to a new product platform introduced during 1999 will be continued during 2000.

Swedish Match supports the acceptance of a voluntary global safety standard for lighters through a dialogue with standardization bodies and public safety organizations.



FAKTA:

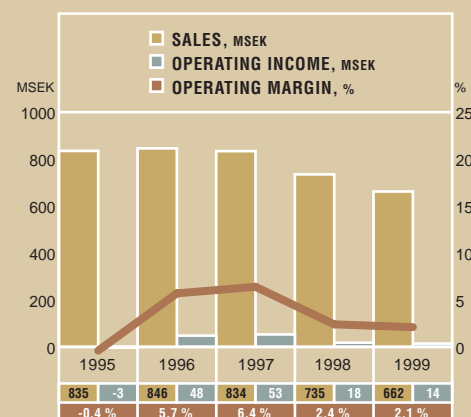
- ★ Swedish Match is one of the world’s three largest manufacturers of disposable lighters.
- ★ The largest markets are Europe, parts of Asia and the US.
- ★ Cricket is the most important brand name.



Shares are before divested business operations and items affecting comparability for full-year 1999.

KEY DATA

MSEK	1999	1998
Sales	662	735
Operating income	14	18
Investments in tangible fixed assets	27	34
Average number of employees	719	763



PRODUCTION PLANTS IN:

The Netherlands, Philippines and Brazil.

MAJOR BRANDS:

Cricket, Feudor, Poppell.

Substantial value in brands

Brands constitute a very high proportion of Swedish Match's value. They often involve substantial investments over many years in development, quality improvements, packaging, distribution, marketing and sales. And they also represent the consumer's loyalty and confidence in the product. This trust is the primary factor in the Group's success.

Brands in the tobacco industry differ in some respects from other consumer brands. Many tobacco brands have venerable traditions. La Paz, one of Swedish Match's prime cigar brands first appeared in 1813, and the company has many products in its portfolio which have been on the market for 50 years or more.

Many of these brands are also very stable. Brand loyalty is considerable, once the consumer has made his or her choice. On the whole, this is a positive factor. Brands have a long life and the costs incurred may be recouped over a great many years. On the other hand, it makes brand repositioning more challenging and sometimes makes necessary modernization measures a risky business.

A further special characteristic of tobacco brands is that marketing is strictly regulated in many countries, and that consumption, particularly smoking, is restricted in many cases. This makes it difficult to launch new brands in the tobacco sector in most Western countries, and the limited incidence of new, competitive brands means that the value of the existing brands is increasing.

Uniquely broad brand portfolio

Today, Swedish Match has a uniquely broad and well-mixed portfolio of brands in the two segments of the tobacco market that are growing – snuff and cigars, as well as in premium pipe tobacco brands, including Borkum Riff, the best-selling pipe tobacco in the world, and Red Man, which is the leading chewing tobacco in the United States. Matches are marketed under local but strong brands.

In the cigar field the Group has some 40 brands, some of which are promoted on a global scale, a limited number are developed in several countries simultaneously, and a large number are marketed at the national level. Brand positioning is one of Swedish Match's areas of strategic expertise.



La Paz – a brand success story

The development of tobacco brands is time-consuming – a fact that has been accentuated during the past several decades as the scope for advertising has become increasingly restricted. An example of a highly successful development is the La Paz cigar family, which has rapidly attained world coverage despite the background situation.

La Paz, one of the oldest cigar brands in the world, was launched in the Netherlands in 1813 by Dutch cigar maker Van der Pasch as an exciting, internationally viable variation on his own name. For

more than 150 years, La Paz was a local quality brand, known mainly for its large corona cigars. In 1929, La Paz was acquired by Elisabeth Bas, who came into the Swedish Match Group in 1968.

Swedish Match's brand specialists soon identified the global potential of La Paz. The Group's rapid and striking repositioning of La Paz entailed considerable risk. It involved a new logo-type, new packaging and new cigar sizes. A completely new brand image combining masculinity, vitality, independence and boldness was developed. This was a pioneering step in the industry, and La Paz became the first modern brand in the cigar world. The "Wilde" version was a great success, establishing a family range with a less well-mannered appearance – the lighting end of a Wilde cigar is slightly "ragged."

Subsequently, La Paz has grown considerably in one country after another, with national sales forces and increasingly diversified market adaptation in terms of sizes, packaging formats and, in due course, the tobacco content. A "Wilde Brazil" version was introduced. By the early 1980s, La Paz was being sold in 80 countries and copied by competitors. Customer support and service developed steadily, including the introduction of an automatic shelf display system.

La Paz is an example of how Swedish Match creativity and sensitivity to market needs have consistently enabled it to maintain the initiative. A campaign designed to reinforce and consolidate the brand's original values is being launched, based on consumer surveys.

"General" modernized, with a new partner

Swedish "General" snuff – one of the Group's most valuable brands – provides another interesting example of renewal



Maaïke Oomen is the international brand manager for Swedish Match top seller in the cigar segment – La Paz. This cigar is sold in 90 countries and is a world leader among all shortfiller brands.



Patrick Hildingsson, marketing manager in the North Europe Division, has led the relaunch of General, one of the Group's most valuable brands.

and modernization. A comprehensive survey of snuff brands was conducted during 1998, establishing clear brand profiles in terms of distinctive characteristics and unique values from the consumer viewpoint.

General is classified as a premium, quality snuff with a strong masculine identity. During 1999, work continued on the development of a new logotype and new packagings. A communication platform and new sales materials have been created, including a new design for retail use. Refrigerated storage cabinets and shelving are also being redesigned. Cooperation with the central sales organizations at the retail level was initiated at an early stage.

Swedish Match has now embarked

on a bold brand-extension project, linking the General trademark with whisky. The idea was conceived in the course of a discussion between the Group's snuff marketing manager and a colleague representing Bibendum, a Swedish importer of wines and spirits. Very extensive target group analysis supported the concept of launching a "General whisky." There were considerable brand similarities, and consumer attitudes to snuff and Scotch malt whisky matched each other closely.

A 12-year-old malt whisky was developed in cooperation with a prominent Scottish whisky firm, to be marketed under the General name, with the same logo as the snuff. The project is fully in line with the balance between tradition

and renewal, experimentation and experience, which is one of the hallmarks of Swedish Match's brand strategies.



Andreas Larsson, the snuff factory, Gothenburg.



Competence development

Efforts were continued in 1999 to support integration between different Swedish Match units and promote a common corporate culture based on the Group's six fundamental values: Communication, Teamwork, Trust, Innovation, Recognition and Growth.

The work is conducted within the framework of Global Challenge, a project now in its third year. Global Challenge was initiated to increase all employees' commitment to and understanding of the Group's business pursuits, through internal training and information.

A key factor in the development of sensitivity to and understanding of the Group's basic values is to secure a plentiful future supply of internal management resources. Three leadership programs started in 1998, with emphasis on senior management, international management and trainees, were continued in 1999.

Slightly more than 100 senior managers participated in six-day training sessions conducted on 14 different occasions. The participants consisted of management personnel in various senior positions in the Group's divisions. The training program was focused on international management, leadership skills and leadership in difficult situations, with particular emphasis on efforts to support a common corporate culture and develop networks between management personnel in different parts of the Group.

About 15 representatives of management with at least three years of employment in Swedish Match, and at least 30 years of age, took part in the international management program. The participants worked for a total of 40 days on various projects and attended four seminars. The main themes of the program were "team building," international management and leadership skills, with the objective to build a strong recruitment foundation for future international management personnel within

the Group and promote a common global culture.

Swedish Match international trainee program continued for the second consecutive year. The program is focused on younger employees under 30 years of age, with one or more years of professional experience. The themes of the trainee program are similar to the program for international management personnel. A large part of the training curriculum consists of systematically supervised projects in various international Group environments for two to three periods of six months.

The Group has also intensified its gender equality program. A review was started in 1999 to secure conditions for more equitable gender distribution of job assignments, including jobs at various management levels.

Profit-sharing system for employees in Sweden

The Board of Directors has approved the introduction of a profit-sharing system for Group employees in Sweden. The system is based on a profit-sharing fund with a related trust fund to which Group companies in Sweden will allocate provisions in relation to the increase in consolidated earnings per share. The fund's assets will be invested primarily in Swedish Match shares. Payments of profitsharing units will not be made until provisions allocated to the fund have been held for at least three calendar years. The system was launched during 1999.

Options program for senior executives

The Board of Directors resolved in 1999



Emmett Harrison and Djuli Ruzeskovic, Swedish Match Investor Relations.

to introduce a new options program to further increase the commitment of senior executive management personnel and their ownership in Swedish Match. The program applied to 35 senior executives in 1999 and provides the opportunity to receive allotments of call options for Swedish Match shares.

The allotment is dependent on the relative total shareholder return on Swedish Match shares, compared with a selection of international tobacco companies, and the improvement in earnings per share, which represents as much of an incentive for Swedish Match senior executives as it is for the company's shareholders.

The program was launched during 1999, with the first opportunity for allotments at the beginning of 2000. The options have a term of five years.

Corporate Governance

Annual General Meeting

The Annual General Meeting of 1999 elected the Board of Directors proposed by the Nomination Committee. Meg Tivéus, President of Svenska Spel AB, and Lennart Sundén, President and CEO of Swedish Match AB, were elected as new members of the Board. Göran Lindén, former President, and employee representatives Lennart Engström and Ingemar Malmström left the Board. All other members appointed by the Annual General Meeting were reelected. Retirements and the divestment of cigarette operations in August resulted in changes to the employee representatives on the Board. The following persons became members of the Board effective October 1999: Eva Larsson, LO (Swedish Trade Union Confederation), Gull-Britt Larsson, LO, and Kenneth Ek, PTK (Federation of Salaried Employees in Industry and Services). The employee organizations appointed Lennart Johansson, PTK, Stig Karlsson, LO, and Joakim Lindström, PTK, as deputy members.

The Annual General Meeting also elected members of the Nomination Committee. All members were reelected: Bernt Magnusson (Chairman of the Board), Bo Eklöf (President of SPP) and Björn Franzon (Vice President of the National Pension Insurance Fund, Fourth Fund Board). The Nomination Committee prepares and submits proposals to the Annual General Meeting for the election of Board members and auditors, and regarding the fees paid to Board members and auditors.

Board of Directors

The Board of Directors of Swedish Match AB has established a working procedure with instructions for the allocation of duties for the Board and the President as well as instructions for financial reporting. The Board convenes annually for the

statutory meeting and five ordinary meetings. Four of the ordinary meetings are held in connection with the company's publication of full-year and interim reports. The fifth ordinary meeting is held in December, and concentrates on a review of the budget. The auditors attend the Board of Directors' meeting at which the year-end report is presented in order to pass on their comments relating to the audit.

The Board of Directors exercises supervision over the President's performance, is responsible for ensuring that the company's organization fulfills its purpose, and conducts continuous evaluations of the company's routines and guidelines for the administration and investment of the company's funds. In addition, the Board approves budgets and strategic plan for the company and for the Group, and monitors the development of operations compared with the budget and strategic planning.

The new Board of Directors held its statutory meeting on the same day as the Annual General Meeting, and made the customary decisions, such as selecting a chairman (Bernt Magnusson), a secretary (Bo Aulin) and the persons authorized to sign on behalf of the company. Two members of the Board may sign jointly on behalf of the company, as well as a limited number of senior company employees, two of whom may sign jointly. The President is always authorized to sign on behalf of the company in matters related to everyday management of the company's operations.

The work conducted by the Board of Directors in 1999 was unusually intensive, with a total of 15 Board meetings held during the year. Considerable efforts were expended to develop the Group's strategies, with special focus on segments of the tobacco market with the strongest growth potential. Several proposed

acquisitions were evaluated and implemented. The divestment of the Group's cigarette operations was a large and complicated transaction that required a great deal of work during the spring and summer. In addition, the Board devoted a substantial amount of time to the supervision and follow-up of the new organization, as well as continuous monitoring of the Group's business development.

Chairman of the Board

The Chairman of the Board monitors the development of business operations and ensures that Board members receive all the information required to maintain the quality of their work and exercise their duties as stipulated in the Swedish Companies Act. The Chairman represents the company in matters regarding ownership.

Company President

The President manages the company's operations within the guidelines established by the Board of Directors. The President prepares the required information and documentation prior to meetings of the Board and submits reasoned proposals for decisions by the Board. The President also provides members of the Board with the information required on a monthly basis to monitor the company's and the Group's position, liquidity and development, while also providing the Chairman with continuous information regarding the company's ongoing operations.

Meetings of Group Management

The President leads Group Management and, after consultations with its members, makes decisions regarding business operations. Group Management's work responsibilities were revised during the year in conjunction with the reorganiza-

tion of Swedish Match, as part of efforts to create a more clearly defined decision-making structure. The Group Management Team was increased to 11 members, including the participation of all division managers and staff officers. At the same time, the functions of Chief Operating Officer and Chief Commercial Officer were eliminated to create shorter decision-making processes. Sven Hindrikes, Chief Financial Officer, was appointed Executive Vice President, effective January 1, 2000. Meetings of the Group Manage-

ment Team take place, generally, during one or two days each month. Many of the meetings are scheduled to coincide with visits to various Group units. The President also conducts business review meetings with all divisions of Swedish Match, three times per year in accordance with a rolling schedule.

Remuneration Committee

The Remuneration Committee of the Board of Directors discusses and resolves questions concerning salaries and other

terms of employment, pension benefits and bonus systems for the President and for managers who report directly to the President. The Committee also discusses and resolves other remuneration issues that involve matters of principle or are of considerable importance in other respects, for example option programs and profit-sharing plans. The Chairman of the Remuneration Committee is Board Chairman Bernt Magnusson. Other members are Lennart Sundén, Jan Blomberg and Klaus Unger.

Swedish Match 1999

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PARENT COMPANY FINANCIAL STATEMENTS

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Consolidated Financial Statements

Income Statement

MSEK	Note	1999	1998
Net sales, including tobacco tax		16,953	15,915
Less tobacco tax		-7,533	-7,721
Net sales		9,420	8,194
Cost of goods sold		-5,138	-4,096
Gross profit		4,282	4,098
Selling expenses	2	-1,746	-1,941
Administrative expenses	2	-950	-821
Other operating income	3	73	157
Other operating expenses	3	-13	-15
Share of earnings in associated companies		43	11
Items affecting comparability	4	3,707	-108
Operating income		5,396	1,381
Interest income		192	100
Interest expenses		-323	-182
Exchange rate differences and other financial items	5	15	-41
Items affecting comparability	4	-	-60
Income after financial items		5,280	1,198
Taxes	6	-638	-482
Minority interest		14	10
NET INCOME		4,656	726
Average number of shares		431,339,663	450,133,840
Earnings per share, SEK		10.79	1.59

Balance Sheets

MSEK	Note	1999 12 31		1998 12 31	
ASSETS					
Fixed assets					
Intangible assets	7	3,268		895	
Tangible assets	8	1,866		2,239	
Financial assets	9	432		463	
Total fixed assets		5,566		3,597	
Current assets					
Inventories	10	1,732		1,902	
Current operating receivables					
Trade receivables		1,495		1,421	
Other receivables		456		628	
Prepaid expenses and accrued income		125	2,076	138	2,187
Liquid funds					
Current investments	11	5,018		1,386	
Cash and bank	11	2,278	7,296	1,490	2,876
Total current assets		11,104		6,965	
TOTAL ASSETS		16,670		10,562	
EQUITY AND LIABILITIES					
Equity					
12					
Restricted equity					
Share capital		949		949	
Restricted reserves		1,020		540	
Unrestricted equity					
Unrestricted reserves		-685		-55	
Net income for the year		4,656	5,940	726	2,160
Minority interests			162		148
Provisions					
Provisions for pensions and similar commitments	13	283		270	
Provisions for taxation	6	515		465	
Other provisions		397	1,195	430	1,165
Long-term liabilities					
Liabilities to credit institutions	14	5,093		2,098	
Other long-term liabilities		210	5,303	26	2,124
Current liabilities					
Liabilities to credit institutions	14	936		2,233	
Accounts payable		589		567	
Other current liabilities	15	1,854		1,596	
Accrued expenses and deferred income	15	691	4,070	569	4,965
TOTAL EQUITY AND LIABILITIES		16,670		10,562	
Commitments and contingent liabilities					
16					
Pledged assets		477		537	
Contingent liabilities		250		200	

Cash flow

MSEK	Note	1999	1998
Operations			
Income after financial items		5,280	1,198
Depreciation and amortization		381	332
Capital gains reported in operating income		-4,102	-326
Other		229	135
		1,788	1,339
Taxes paid		-486	-577
Cash flow from operations before changes in operating capital		1,302	762
Cash flow from changes in operating capital			
Trade receivables		-207	-73
Inventories		-187	-149
Other assets		125	-140
Accounts payable		92	-73
Accrued expenses and other current liabilities		204	467
Cash flow from operations		1,329	794
Investment activities			
Investments in property, plant and equipment		-452	-393
Sales of property, plant and equipment		83	849
Divestment of operations		4,798	-
Acquisition of subsidiaries		-	-157
Acquisition of intangible assets		-2,488	-213
Investments in associated companies and other companies		-51	-11
Change in financial receivables		115	7
Cash flow from investment activities		2,005	82
Financing activities			
Change in short-term loans		-2,019	1,150
Long-term loans entered into		3,722	1,937
Repayment of long-term loans		-48	-3
Dividends paid		-474	-510
Redemption of shares		-	-1,147
Cash flow from financing activities		1,181	1,427
Cash flow for the year		4,515	2,303
Liquid funds at the beginning of the year		2,876	563
Translation differences attributable to liquid funds		-95	10
Liquid funds at the end of the year	11	7,296	2,876
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Notes

(All amounts in MSEK if not otherwise stated)

The Annual Report follows the recommendations of the Swedish Financial Accounting Standards Council. The accounting principles are the same as in the preceding year.

1 SIGNIFICANT ACCOUNTING PRINCIPLES

Consolidated Financial Statements

The Consolidated Financial Statements include the Parent Company, all subsidiaries and associated companies. Subsidiaries refer to companies in which Swedish Match holds shares vested with more than 50 percent of the votes or in which Swedish Match has a decisive influence in some other way. Associated companies are defined as companies in which Swedish Match has long-term holdings equivalent to at least 20 percent, but not more than 50 percent, of the votes. Holdings in associated companies are reported in accordance with the equity method. The Group's share of the reported income of associated companies is reported as a proportion of operating profit and income taxes.

All acquisitions of companies have been reported in accordance with the purchase method. Companies divested during the year are included in the Consolidated Financial Statements up to the date of sale. Companies acquired during the year are included in the Consolidated Financial Statements from the date of acquisition.

The minority participation in Swedish Match's income is reported after income 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 income statements and balance sheets are entered immediately under equity.

The accounts of subsidiaries active in countries with a high inflation rate have been translated into Swedish kronor at the closing day rate for both income statements and balance sheets, based on inflation-adjusted reporting in accordance with International Accounting Standard No. 29 (IAS 29).

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 reported in operating income to the extent they amount to operating balance dealings and otherwise in net financial items.

Derivative instruments

Currency forward contracts

The Company enters into forward contracts mainly 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 concerned take place. Balances in foreign currency, which have been hedged, are translated using the relevant rate according to the forward contract, and realized and unrealized exchange gains and losses are reported on the income statement.

Interest-rate swaps

The Company uses interest-rate swaps to adjust the relationship between borrowing at fixed and variable rates of interest. An interest-rate swap involves the exchange of the fixed interest on a loan or investment for variable interest, or vice versa. Since such swaps are linked to the underlying loan or investment in terms of the amount and the maturity period, swaps held are reported at amounts corresponding to the accrued interest.

Currency swaps

The Company enters into currency swaps with the intent of hedging currency risks in borrowing in another currency than the local currency. A currency swap involves the exchange of payments of interest and amortization in one currency for payment of interest and amortization in another currency. Since the swap is linked to the underlying loan with regard to the currency, amount and term, the swaps held are reported in the amount of the interest accrued as well as unrealized exchange-rate differences.

Interest-rate forward-, future- and option contracts

The Company purchases interest-bearing derivative instruments to hedge its holdings of interest-bearing securities, such as Swedish government bonds, or to hedge interest from loans. These instruments have been reported using the lowest value principle.

Income taxes

Provisions for taxes include current Swedish and foreign current tax liabilities and also deferred taxes incurred as a result of temporary differences between financial and tax accounting. Deferred tax liabilities and deferred tax claims are entered at the current tax rate for the company concerned (the liability method). Assets and liabilities in the form of deferred tax are offset only in units where tax consolidation is possible within and between units.

Deferred tax claims are booked with respect to the temporary differences that will result in future deductions and tax losses carried forward. If it is unlikely that the deferred tax claim will be realized, it is not entered as an asset, but is offset against the valuation reserve.

CONSOLIDATED FINANCIAL STATEMENTS

Intangible Assets

Goodwill is included in intangible assets, which are amortized on a straight-line basis over 5–20 years. Goodwill in major subsidiaries that have been in business for more than 20 years and have strong brands and a satisfactory market position, is amortized over 20 years. Acquired trademarks are amortized over 20 years, if similar conditions exist.

Tangible Assets

Depreciation on property, machinery and equipment is based on the acquisition cost of the asset and its estimated economic life. Buildings and land improvements are generally depreciated over periods of 20–50 years. The estimated economic life for vehicles is normally 5 years 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 the associated accumulated depreciation and any profit or loss is entered as income.

Inventories

Inventories are reported at the lower of cost or market and in all significant aspects in accordance with the FIFO (first-in, first-out) method after deductions for obsolescence. Non-realized inter-company profits are eliminated in their entirety.

Use of Estimates

The preparation of annual reports in accordance with generally accepted accounting principles requires company management to make estimates and assumptions that affect the amounts of assets and liabilities reported, 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 AND ADMINISTRATIVE EXPENSES

Selling expenses include expenses for Research and Development, etc., of 94 MSEK (94).

Administrative expenses include costs for auditors' fees in accordance with the table below:

	1999	1998
Auditing assignments	6	6
Other assignments	8	7
PricewaterhouseCoopers	14	13
Other accountants (auditing assignments)	1	1

3 OTHER OPERATING INCOME AND OTHER OPERATING COSTS

Included in other operating income are exchange rate gains attributable to accounts receivable of 18 MSEK (10).

Included in other operating costs are exchange rate losses attributable to accounts payable of 15 MSEK (15).

4 ITEMS AFFECTING COMPARABILITY

Cigarette operations were divested on July 1, 1999 for 4,800 MSEK. After deductions for net book value, capital gains amounted to SEK 4,102 M.

In addition, in items affecting comparability for 1999 a provision of 395 MSEK was included. The provision to cover costs for the reduction in production capacity within the match operation and to write down of fixed assets in India. The amount 395 MSEK pertains to a write-down of 196 MSEK, reservations for personnel cutbacks 65 MSEK and another 134 MSEK.

The net amount for these items, 3,707 MSEK, is shown as items affecting comparability for 1999.

A capital gain of 266 MSEK was reported for 1998 on the sales of Swedish Match's head office in Stockholm. In addition, the amount for items affecting comparability includes costs of 177 MSEK for the restructuring of production, 97 MSEK for the write-down of intangible assets and a cost of 100 MSEK for implementation of a new Group organizational structure. The net amount for these items totaled –108 MSEK for 1998.

Among the financial items reported in 1998 as items affecting comparability a provision for risk of 60 MSEK regarding the Group's financial exposure in Southeast Asia.

5 EXCHANGE RATE DIFFERENCES AND OTHER FINANCIAL ITEMS

	1999	1998
Exchange rate differences	62	–10
Other financial items	–47	–31
Total	15	–41

6 TAXES

Earnings before income taxes and minority shares for 1999 and 1998 were geographically distributed as follows:

	1999	1998
Sweden	1,131	891
Outside Sweden	4,149	307
Total	5,280	1,198

Income taxes for 1999 and 1998 were geographically distributed as follows:

	1999	1998
<i>Current income taxes</i>		
Sweden	-378	-261
Outside Sweden	-187	-186
Total current income taxes	-565	-447
<i>Deferred income taxes</i>		
Sweden	7	-36
Outside Sweden	-51	51
Total deferred income taxes	-44	15
<i>Other taxes</i>		
Sweden	-	-
Outside Sweden	-29	-50
Total other taxes	-29	-50
Total taxes	-638	-482

The tax effects of temporary differences that resulted in assets and liabilities in the form of deferred tax as of December 31, 1999 and December 31, 1998 are summarized below:

	1999	1998
Losses carried forward	132	108
Restructuring reserve	97	45
Healthcare benefits	85	76
Tax equalization reserves	-229	-276
Depreciation in excess of plan	-146	-110
Inventory reserves	-62	-52
Valuation reserves	-197	-61
Other	54	51
Net deferred income tax liability	-266	-219
<i>Classified per balance sheet category</i>		
Current financial receivables	111	86
Financial assets	138	160
Less tax provisions	-515	-465
Net deferred income tax liability	-266	-219

As of December 31, 1999, the Group had deductible losses carried forward equivalent to 332 MSEK. The Group's deductible tax losses carried forward expire as follows:

Year	Amount
2000	1
2001	22
2002	15
2003	86
2004	2
2005	-
Thereafter	206
Total deductible tax losses carried forward	332

In 1999 and 1998 the Company's net income was charged with tax of 12.1 percent and 40.2 percent respectively. The difference between the Group's tax expense and application of the statutory tax rate in Sweden of 28 percent is attributable to the items shown in the following table:

	1999	1998
Swedish tax rate	28,0	28,0
Adjustments for foreign tax rates	5,8	1,4
Losses that could not be utilized	2,7	6,5
Capital gains	-26,6	-
Non-taxable items	-0,6	-1,1
Non-deductible amortization of goodwill	0,5	1,3
Non-deductible expenses	1,8	3,5
Other	0,5	0,6
Total	12,1	40,2

7 INTANGIBLE FIXED ASSETS

Intangible fixed assets at December 31 are as follows:

	Trademarks and other intangible assets		Goodwill		Total	
	1999	1998	1999	1998	1999	1998
Acquisition value brought forward	329	358	1,137	951	1,466	1,309
Purchases/investments	1,449	147	1,039	66	2,488	213
Companies acquired	–	–	–	85	–	85
Scrapping/write-downs	–	–177	–	1	–	–176
Exchange differences, etc.	17	1	39	34	56	35
Accumulated acquisition value carried forward	1,795	329	2,215	1,137	4,010	1,466
Amortization brought forward	–34	–90	–537	–462	–571	–552
Amortization for the year	–57	–24	–102	–60	–159	–84
Scrapping/write downs	–	80	–	–	–	80
Exchange differences	–1	0	–11	–15	–12	–15
Accumulated amortization carried forward	–92	–34	–650	–537	–742	–571
Book value carried forward	1,703	295	1,565	600	3,268	895

Amortization of intangible assets is accounted for in its entirety under the “Administrative Expenses” heading in the income statement.

8 TANGIBLE FIXED ASSETS

Tangible fixed assets as of December 31 included the following:

	Buildings and land		Machinery and other technical facilities		Equipment, tools and fixtures		New construction		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Acquisition value brought forward	1,421	1,433	2,743	2,691	467	120	196	120	4,827	4,364
Purchases/Investments	98	45	166	162	42	57	146	129	452	393
Companies acquired	–	461	–	166	–	19	–	62	–	708
Companies divested	–96	–	–412	–	–117	–	–7	–	–632	–
Sales/scrapping	–129	–567	–66	–99	–64	–14	–12	–13	–271	–693
Reclassifications	19	42	87	–251	2	282	–108	–104	0	–31
Exchange differences	–75	7	–141	74	–19	3	3	2	–232	86
Accumulated acquisition value carried forward	1,238	1,421	2,377	2,743	311	467	218	196	4,144	4,827
Depreciation brought forward	–465	–407	–1,810	–1,835	–312	–72	–1	0	–2,588	–2,314
Depreciation for the year	–27	–36	–152	–172	–43	–37	–	–3	–222	–248
Companies acquired	–	–111	–	–50	–	–6	–	0	–	–167
Companies divested	65	–	295	–	92	–	–	–	452	–
Sales/scrapping	60	80	48	73	61	17	–	2	169	172
Write-downs	–49	–	–161	–	–	–	–	–	–210	–
Reclassifications	1	13	3	228	–5	–212	1	0	0	29
Exchange differences	8	–4	101	–54	12	–2	0	0	121	–60
Accumulated depreciation carried forward	–407	–465	–1,676	–1,810	–195	–312	0	–1	–2,278	–2,588
Book value carried forward	831	956	701	933	116	155	218	195	1,866	2,239

The tax assessment value as of December 31 for real estate in Sweden is indicated below:

	1999	1998
Buildings	102	209
Land	17	41
Total assessed tax value for property in Sweden	119	250

Depreciation on tangible assets has been charged to the following areas in the income statement:

	1999	1998
Cost of goods sold	–168	–186
Selling expenses	–16	–14
Administrative expenses	–38	–48
Total	–222	–248

CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCIAL FIXED ASSETS

Financial fixed assets are as follows:

	1999	1998
Amount brought forward from preceding year	463	485
Change in long-term deferred tax receivables	-26	65
Change in long-term financial receivables	-41	52
Reallocation to shares in subsidiaries	-	-87
Reallocation to current receivables	-	-96
Acquisition of shares in other companies	1	21
Acquisition of participations in associated companies	50	1
Share in earnings of associated companies, net after tax	23	7
Dividends from associated companies	-24	-11
Exchange differences	-14	26
Value carried forward	432	463

Participations in associated companies and other shares included in financial assets as of December 31, 1999 are in accordance with the following:

	1999		1998	
	Ownership value, %	Book value	Ownership value, %	Book value
Arnold André GmbH & Co. KG	40	77	40	83
Other associated companies		54		11
Total shares in associated companies		131		94
Other shares and participations		22		21
Total shares and participations		153		115

Within the framework of normal business, Swedish Match carries out transactions with associated companies. Receivables from these companies totaled 44 MSEK as of December 31, 1999 and 30 MSEK as of December 31, 1998. Total sales to associated companies amounted to 125 MSEK in 1999 and 120 MSEK in 1998.

10 INVENTORIES

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

	1999	1998
Finished goods inventories	639	594
Work in progress	86	153
Leaf tobacco	710	909
Other input and consumable materials	297	246
Total inventories	1 732	1 902

11 LIQUID FUNDS

Liquid funds consist of current investments in the form of interest-bearing securities, cash and bank balances in accordance with the following:

	1999	1998
Current investments		
Swedish government bonds and treasury bills	404	988
Commercial paper	2 444	398
Money market funds	2,170	-
	5,018	1,386
Cash and bank		
Bank accounts and cash	540	991
Investment loans in banks	1,738	499
	2,278	1,490
Total liquid funds	7,296	2,876

Liquid funds include instruments where maturity dates exceed 3 months.

12 SHAREHOLDERS' EQUITY

Swedish Match's share capital is distributed among 431,339,663 shares with a nominal value of SEK 2.20 per share. Each share carries one vote. For further information about the Swedish Match share, see page 58.

	1999	1998
Share capital opening balance	949	927
Redemption of shares	-	-69
New issue	-	5
Bonus issue	-	86
Total share capital	949	949
Restricted reserves opening balance	540	352
Premium on new issue	-	64
Bonus issue	-	-86
Transfer between unrestricted and restricted shareholders' equity	480	210
Total restricted reserves	1,020	540
Unrestricted reserves opening balance	671	1 693
Redemption of shares	-	-1 147
Dividend	-474	-510
Transfer between unrestricted and restricted shareholders' equity	-480	-210
Translation difference *)	-402	119
Net income for the year	4 656	726
Total unrestricted shareholders' equity	3,971	671
Total shareholders' equity	5,940	2,160

*) Included in the translation difference is a currency hedge of shareholders' equity amounting to 101 MSEK. With the support of the Swedish Financial Accounting Standards Council's recommendation RR5 points 8 and 10, the accumulated translation differences for foreign operations have not been reported.

13 PENSIONS AND SIMILAR COMMITMENTS

The Company applies various pension schemes for its employees all over the world. Pension provisions are calculated in accordance with actuarial principles in each country. Most of the Company's pension schemes are defined pension obligations, which are either covered by insurance or funded or unfunded pension plans.

The pension benefits available to employees of the Group's Swedish operations are mainly covered by two fully independent super-annuation funds. As of December 31, 1999, the market value of the assets of the funds exceeded the actuarial value of the pension obligations by 1,422 MSEK. The surplus funds can only be utilized following approval of the Boards of these funds. In 1999, the funds contributed 98 MSEK to Group companies in Sweden. The corresponding figure for 1998 was 101 MSEK.

The Group also has foundations or similar arrangements for a number of benefit-based pension obligations, primarily in the US, Sweden and Great Britain.

Certain of the Group's benefit-based pension commitments, primarily general local and national plans, are covered by the Company. The current value of such future pension benefits are reported as liabilities in the consolidated balance sheet and total 64 MSEK (81).

In addition to pension schemes, the Group's US subsidiaries employ unfunded schemes for health care and other benefits for retired employees who fulfill the requirements for minimum age and years of service. In general, these schemes involve a cost contribution, 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 future cost of pension benefits for health care are reported as a liability, in accordance with US accounting principles. This liability in the consolidated balance sheet amounts to 200 MSEK (189).

14 LIABILITIES TO CREDIT INSTITUTIONS

Long-term interest-bearing liabilities

	1999	1998
Bond loans	4,580	1,761
Bank loans	513	337
Total long-term interest-bearing liabilities	5,093	2,098

Long-term interest-bearing liabilities are distributed among the following currencies after currency swaps are taken into consideration:

	1999	1998
SEK	2,481	1,965
Euro	2,539	–
Other	73	133
Total long-term interest-bearing liabilities	5,093	2,098

Swedish Match also has accessible, confirmed, non-utilized credit lines of 1,173 MSEK up to one year, so-called 364-days credit, 60 MSEK through 2001 and 1,926 MSEK through 2004.

Current interest-bearing liabilities

	1999	1998
Next year's amortization of long-term loans	727	48
Bank overdraft facility utilized	53	59
Other current liabilities	156	2,126
Total current interest-bearing liabilities	936	2,233

The maturity structure for the Group's long-term interest-bearing liabilities is distributed according to the following:

Year	1999
2001	957
2002	387
2003	546
2004	593
2005 and later	2,610
	5,093

CONSOLIDATED FINANCIAL STATEMENTS

15 ACCRUED EXPENSES AND OTHER CURRENT OPERATING LIABILITIES

Other current liabilities as of December 31 consist of the following

	1999	1998
Tobacco taxes	776	706
Value Added Tax liability	237	231
Income tax liability	298	209
Other	543	450
Total	1,854	1,596

Accrued expenses and prepaid revenues as of December 31 consist of the following:

	1999	1998
Accrued wage/salary-related expenses	85	63
Accrued vacation pay	63	78
Accrued social security charges	133	156
Other	410	272
Total	691	569

16 COMMITMENTS AND CONTINGENT LIABILITIES

Operating Lease Agreements

Future annual minimum charges under the terms of irrevocable operating lease agreements with initial or remaining terms of one year or more consisted of the following as of December 31 1999:

Year	Annual minimum charges
2000	79
2001	75
2002	65
2003	57
2004 and thereafter	489
Total minimum charges	765

The Group's leasing expenses for operating lease agreements amounted to 78 MSEK in 1999 and 31 MSEK in 1998.

Leaf tobacco purchases

Within certain divisions in the Group, commitments have been made to tobacco growers regarding future purchases of leaf tobacco.

Legal Disputes

The company is involved in a number of legal proceedings of a routine character for the business. In some cases, the Group's cigar operations are involved in disputes with competitors regarding the use of certain brand names.

Although company management cannot in any meaningful way estimate the damages that might be awarded in any current or anticipated disputes, management considers 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 waste dumpsite in the US. Cleaning up of the area is under way and it has been estimated that the subsidiary's share of costs is not more than 9 MSEK, for which provision has been made.

17 NOTES TO THE CASH-FLOW STATEMENTS

Divestment of subsidiaries 1999

During the year, Swedish Match divested Swedish Match Cigarettes AB and Eesti Tubakas AS. Proceeds amounted to 4,800 MSEK. Liquid funds in both companies, at the time of the sale, amounted to 2 MSEK.

Distribution of the Group value of divested assets is illustrated below:

	1999
Tangible fixed assets	-180
Inventories	-312
Accounts receivable-trade	-76
Accounts payable-trade and accrued expenses	127
Other assets/liabilities, net	-255
	-696
Consideration received	4,800
Cash and bank balances as of sale date	-2
Effect on the Group's liquid funds	4,798

Acquisition of subsidiaries 1998

In 1998, companies were acquired for a total of 163 MSEK. Liquid funds in the acquired companies totaled 6 MSEK.

Because of these acquisitions, the Group acquired net assets in accordance with the following:

	1998
Tangible fixed assets	539
Intangible fixed assets	85
Inventories	113
Accounts receivable-trade	77
Change in liabilities to minority interests	-146
Accounts payable-trade	-214
Loans in acquired operations	-213
Other assets/liabilities, net	-78
Purchase price	163
Cash and bank balances as of acquisition date	-6
Effect on the Group's liquid funds	157

Liquid funds

See Note 11.

Interest paid

During the period, interest payments amounted to 204 MSEK (123).

18 DERIVATIVE INSTRUMENTS

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

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

	1999	1998
Forward contracts	1,657	2,718

Flow hedging

Flow hedging is carried out on budgeted flows on a rolling twelve-month scenario. Hedging is done with the help of currency forward contracts. Presented below is the size of the flow hedge in relation to expected payments and divided by each of the company's most important currencies. These are all net inflow currency for the Group.

	Inflow currencies				Total
	USD	GBP	AUD	Other	
Exposure	157	104	60	63	384
Flow hedging	-121	-30	-4	15	-140
	36	74	56	78	244

The unrealized loss that should have arisen due to the closing out of outstanding forward contracts as of December 31, 1999, totals 10 MSEK.

The book values and estimated market values of forward contracts as of December 31 is shown below:

	1999		1998	
	Book value	Estimated market value	Book value	Estimated market value
Currency forwards	-59	-60	-19	-19
Currency swaps	-14	-15	-	-
Interest-rate swaps	14	-25	-	-
Total	-59	-100	-19	-19

19 GEOGRAPHICAL INFORMATION

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

	1999	1998
Sales outside the Group		
Sweden	3,980	3,650
Europe excluding Sweden	2,080	2,145
North America	2,226	1,533
Latin America	309	427
Other areas	825	439
Total sales outside the Group	9,420	8,194
Assets		
Sweden	6,665	4,908
Europe excluding Sweden	5,005	2,743
North America	2,368	1,035
Latin America	503	710
Other areas	2,129	1,166
Total assets	16,670	10,562

20 PROFIT AND SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US 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 US, the company issues certain financial information drawn up according to American accounting principles ("US GAAP"). Swedish Match also submits a report each year (Form 20-F) to the Securities and Exchange Commission (SEC), which includes further information about Swedish Match's business activities in accordance with the rules established.

CONSOLIDATED FINANCIAL STATEMENTS

20 CONTINUATION

A summary of the effects on the Group's income and shareholders' equity of application of US GAAP is presented in the tables below:

	Note	1999	1998
<i>Reconciliation of net income</i>			
Income for the year according to Swedish accounting principles		4,656	726
Items that increase or reduce income			
Reporting of goodwill, etc.:	a		
Amortization of goodwill		-218	-308
Other depreciation		-2	-3
Adjustment of capital gains in cigarette operation		-2,751	-
Restructuring expenses	b	19	183
Sale-leasebacks	c	-5	-266
Adjustment of company acquisitions	d	-65	-
Reporting of hedging operations	e	-8	24
Pensions and pension investments	f	-19	-42
Options program	g	9	-
Tax effects of the above US GAAP adjustments		85	72
Net income according to US accounting principles		1,701	386
<i>In SEK per share:</i>			
Net income according to US accounting principles		3.94	0.85
	Note	1999	1998
<i>Reconciliation of equity</i>			
Shareholders' equity according to Swedish accounting principles		5 940	2 160
Items that increase or reduce equity			
Reporting of goodwill, etc.:	a		
Goodwill		1 841	4 749
Property, machinery and equipment		42	106
Restructuring expenses	b	210	191
Sale-leaseback	c	-271	-266
Adjustment of company acquisitions	d	-65	-
Reporting hedging operations	e	6	14
Pensions and pension investments	f	131	134
Options programs	g	9	-
Tax effects of the above US GAAP adjustments		37	-44
Shareholders' equity according to US accounting principles		7 880	7 044

a. Reporting of goodwill, etc.

As of December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired the Group's parent company in two stages, November 1993 and June 1994, whereby the purchase method was applied in the reporting of the transactions. Accordingly, the difference between the acquisition values 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 the time of the acquisitions exceeded book values. The remainder of the difference between the acquisition price and the assets' book value was goodwill. These distributions were booked at Group level by Volvo and were not pushed down to the subsidiary Group, Swedish Match.

US GAAP requires that "push down" accounting be applied for the independent annual reports of wholly owned subsidiaries if the share of ownership is 95 percent or more, which was the case in Volvo's acquisition in 1994. Consequently, the adjustments made in accordance with the purchase method by Volvo, pertaining to Swedish Match, began being reported for US GAAP purposes by Swedish Match in June 1994. The goodwill thereby calculated has subsequently been further adjusted since US GAAP requires that the acquisition price shall be set on the basis of the payment amount at the time the transaction was completed and not the date the transaction was made public, as required by Swedish GAAP.

Total gross value of goodwill which, according to the above, was transferred to Swedish Match in 1994 amounted to 6,158 MSEK. Adjustments for property, machinery and equipment amounted to 119 MSEK. The goodwill amount is written off in 20 years.

The capital gain that Swedish Match reported as an item affecting comparability concerning the sale of the shares in UST, Inc. has instead increased the value of the assets at the time Volvo made the acquisition.

In 1999, Swedish Match divested its cigarette operations. This has resulted in the goodwill value that was transferred from Volvo being reduced to the extent that it was applicable to the cigarette operation. The gross value that originally was attributable to the cigarette operation totaled 3,605 MSEK. The planned residual value of this goodwill amount has, consequently, been settled against the capital gains that arose in the sale of the cigarette operations. Including small adjustments for properties, machinery and equipment, the adjustment amounted to a reported capital gain of -2,751 MSEK. The remaining gross value of goodwill that pertains to the remaining operations within Swedish Match amounts to 2,553 MSEK. Corresponding amounts from properties, machinery and equipment, fittings, etc. totaled 49 MSEK.

b. Restructuring costs

In the Swedish Match Group, provisions for restructuring costs have been made in accordance with Swedish accounting principles. According to US GAAP, costs for restructuring measures are only to be reported on the condition that a sufficiently detailed plan for the implementation of these measures exist at the beginning of the accounting period, and that these are made public and the conditions are known for those employees that will be affected prior to the balance sheet day. Those provisions that have been cancelled for US GAAP reconciliation are primarily explained in that the aforementioned requirements have not been met.

c. Sale-leaseback of property

In 1998, the Group sold a property and is now leasing this same property in accordance with a leasing agreement, which according to Swedish accounting principles is classified as an operating lease. As Swedish Match has an option to repurchase this property, the sale in 1998, in accordance with US GAAP, is considered a financing arrangement, with the result that income recognition is postponed and the sale proceeds are entered as a liability. The capital gain in 1998 was 266 MSEK. The property's value is recovered and depreciation according to plan is applied.

d. Adjustment of company acquisitions

Certain costs for restructuring reserves that affect the acquiring company are included in the goodwill total in the consolidated balance sheet. In accordance with US GAAP, these costs have been charged against income since they were not associated with the acquired company.

e. Reporting of hedging operations

In applying Swedish accounting principles, unrealized currency exchange gains and losses on forward contracts that hedge anticipated future transactions are normally accounted for only when the underlying transaction takes place. In applying US GAAP, the positive and negative unrealized exchange differences for such forward contracts are calculated on the basis of the market values at fiscal year-end and must be included in reported net profit.

f. Pensions and pension investments

Pensions are reported by each of the Swedish Group units, where suitable, based on the principles deemed appropriate for local statutory purposes, provided that these stipulate that pension entitlements are reported as an expense. Under US GAAP, pensions are reported 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 SFAS No. 87 provisions are being applied. Accordingly, financial assets in a Swedish pension foundation have, been reclassified from "plan assets" to "the corporate assets" under SFAS No. 87.

g. Options program

The Board of Directors decided to introduce an options program in 1999 for Senior Management. Swedish Match has charged the cost of this program to 1999 earnings in the amount of 17 MSEK, which includes 8 MSEK related to tax withholding and social fees.

In accordance with US GAAP (APB 25), net cost of 9 MSEK shall not be charged against earnings when the redemption price exceeds the market value of the shares at the time they are issued.

Cash Flow Analysis

According to SFAS No. 95, "cash and cash equivalents" only cover funds with a three-month term or shorter. A part of Swedish Match's liquid funds (see Note 11) do not meet this requirement. As a consequence, changes in this segment of liquid funds are reported as investments according to SFAS No. 95.

In addition, in accordance with Swedish accounting principles, changes in short-term borrowing, where the term is twelve months or shorter is reported net. In accordance with SFAS 95, there is a three-month limit for such net reporting.

21 PERSONNEL

The average number of employees in the Parent Company in 1999 was 45, and 11,797 in the Group. The corresponding numbers in 1998 were 48 and 10,314.

Wages, salaries, other remuneration and social welfare costs are summarized below:

	1999		1998	
	Salaries and other compensation	Social welfare costs (of which pension costs)	Salaries and other compensation	Social welfare costs (of which pension costs)
Parent Company	28	17 (8)	30	21 (9)
Subsidiaries	1,144	452 (75)	1,198	445 (94)
The Group	1,172	469 (83)	1,228	466 (103)

Wages, salaries and other remuneration by country and between members of the Board, etc., and other employees are summarized below:

	1999		1998	
	Board and CEO (of which bonuses, etc. and similar)	Other employees	Board and CEO (of which bonuses, etc. and similar)	Other employees
Parent Company				
Sweden	4 (0)	24	5 (0)	25
Subsidiaries				
Australia	1 (0)	9	1	8
Belgium	1	105	0 (0)	111
Brazil	2	37	2 (0)	37
Bulgaria	0	5	0 (0)	4
Dominican Republic		12		
Estonia		2		5
Philippines	1 (0)	10	0 (0)	9
France	0	45	2	61
Hong Kong	2	2	0	1
India	1	42	0	45
Indonesia		4		3
Ireland	2 (1)	10	2 (1)	9
China	0	6	0	7
Netherlands	3	111	5 (0)	113
Portugal	1	4	0	5
Switzerland	3 (0)	32	6 (1)	38
South Africa	0	8		
Spain		35	1 (0)	32
United Kingdom	1 (0)	24	2 (0)	23
Sweden	3 (0)	333	3 (0)	403
Turkey	3 (1)	14	3 (1)	7
Germany	1	11	2 (0)	11
Hungary	0	16	1	13
United States	9 (0)	223	5 (1)	191
Other countries	2 (0)	8	3 (0)	24
Total in subsidiaries	36 (2)	1,108	38 (4)	1,160
Group total	40 (2)	1,132	43 (4)	1,185

21 CONTINUATION

Average number of employees:

	Average number of employees		
	1999	of whom men, %	1998
<i>Parent Company</i>			
Sweden	45	56	48
<i>Other</i>			
Australia	48	54	45
Belgium	562	37	612
Brazil	826	74	829
Bulgaria	316	49	373
Dominican Republic	493	32	–
Estonia	26	50	52
Philippines	176	51	179
France	172	62	254
Hong Kong	16	56	18
India	4,478	99	3,099
Indonesia	737	13	1,002
Ireland	42	79	40
China	195	76	213
Netherlands	441	83	447
Portugal	31	71	31
Switzerland	42	55	46
Spain	168	87	164
United Kingdom	75	64	75
Sweden	1,138	51	1,382
South Africa	108	97	–
Turkey	203	83	215
Germany	46	41	44
Hungary	428	44	384
United States	961	60	670
Other countries	24	38	92
Group total	11,797	71	10,314

Information regarding benefits for senior executives:

Bernt Magnusson, Chairman of the Board of Swedish Match, was paid a Board of Directors fee of 450,000 SEK in 1999.

Lennart Sundén, President and CEO, was paid salary and benefits during 1999 of 3,107,000 SEK. No bonus was paid. Lennart Sundén has a bonus agreement of up to 35 percent of salary. In accordance with a 1999 options program, determined by the Board, he was granted options at a gross cost of 1,200,000 SEK plus social fees. He is entitled to a pension from the age of 60. From age 60 to 65, a pension is paid at 70 percent of pensionable salary. From the age of 65, a pension is paid at 45 percent of pensionable salary. Lennart Sundén must give six months notice of his intention to resign and the company must give 12 months notice. A maximum severance payment of two year's salary is payable if the company terminates the employment contract. However, severance pay will be reduced by a maximum of 50 percent of any other income but to no less than half of the contracted severance pay.

Other members of the Group Management Team are entitled to pensions at the normal pension ages of 60-65. Between 60-65 years of age, pensions are paid at 50-70 percent of pensionable salary. From age 65, pensions are paid at 32.5-70 percent of pensionable salary. Pensionable salary (which can vary depending on country of service) is defined as the cash salary plus the average of the bonuses paid during the three years immediately preceding retirement, which may in no case amount to more than 35 percent of the cash salary. A six-months mutual notice of intent to terminate employment applies for all members of Group Management Team other than Lennart Sundén. Severance pay is payable if the Company terminates employment in an amount equivalent to 18 months of cash salary. Wages, salaries and remuneration for the President and Executive Vice President in 1999 corresponded to approximately 5.8 MSEK. Pension costs in regard to the President and Executive Vice President corresponded to 1.4 MSEK.

Options Program for Senior Management

The Board of Directors decided to introduce an options program to further increase senior management's commitment and action in Swedish Match. The program comprised, in 1999, 35 senior managers in leading positions and provides the opportunity for annual distribution of call options in Swedish Match.

Distribution is dependent on the total shareholder return on Swedish Match shares compared with a selection of international tobacco companies as well as an improvement in earnings per share. Maximum distribution requires that the Swedish Match share's total shareholder return exceeds the total return for the average of a selection of international tobacco companies by 20 percentage points and that the earnings per share increases by 20 percent in comparison with the average earnings per share for the three preceding years. Costs for Swedish Match in 1999 amounted to 17 MSEK, including social costs. Maximum distribution for 1999 will occur.

Valuation of the options is done in accordance with the Black-Scholes option-pricing model.

Parent Company Financial Statements

Income Statement

MSEK	Note	1999	1998
Net sales	1	14	16
Cost of goods sold		-9	-12
Gross income		5	4
Selling expenses		-4	-5
Administrative expenses	1	-238	-331
Other operating income	1	41	149
Operating income		-196	-183
Income from participations in Group companies		737	2,399
Interest income, Group companies		298	54
Other interest income		113	57
Interest expenses, Group companies		-67	-58
Other interest expenses		-240	-124
Exchange differences for other financial items	2	190	-15
Income after financial items		835	2 130
Appropriations			
Accelerated depreciation, equipment		1	-
Appropriations to tax equalization reserve		-320	-231
Group contribution and shareholder contribution, net		1,402	1,317
Income before tax		1,918	3,216
Taxes		-351	-290
NET INCOME		1,567	2,926

Balance Sheet

MSEK	Note	12-31-99		12-31-98	
ASSETS					
Fixed assets					
Tangible fixed assets	3		3		5
Financial fixed assets	4				
Shares and participations in Group companies		7,791		8,079	
Other long-term securities		10		10	
Other long-term receivables in Group companies		4,154	11,955	2,475	10,564
Total fixed assets			11,958		10,569
Current assets					
Inventories	5				1
Current receivables					
Trade receivables		2		1	
Accounts receivable, Group companies		2,060		727	
Other receivables		8		15	
Prepaid expenses and accrued income		62	2,132	59	802
Liquid funds					
Current investments	6	3,355		1,386	
Cash and bank	6	692	4,047	1,075	2,461
Total current assets			6,179		3,264
TOTAL ASSETS			18,137		13,833
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' Equity					
Restricted equity	7				
Share capital		949		949	
Statutory reserve		190		164	
Unrestricted equity					
Profit brought forward		5,907		3,481	
Net Income for the year		1,567	8,613	2,926	7,520
Untaxed reserves			719		400
Long-term liabilities					
Liabilities to credit institutions		5,020		1,961	
Liabilities to Group companies		12	5,032	2	1,963
Current liabilities					
Liabilities to credit institutions		792		2,177	
Liabilities to Group companies		2,759		1,592	
Accounts payable		12		29	
Accounts payable, Group companies		8		27	
Other current liabilities		190		115	
Accrued expenses and deferred income		12	3,773	10	3,950
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			18,137		13,833
PLEGGED ASSETS AND CONTINGENT LIABILITIES					
Pledged assets			8		8
Contingent liabilities for subsidiaries			415		261

Cash flow

MSEK	note	1999	1998
Current operations			
Income before taxes		1,918	3,216
Depreciation according to plan		2	2
Change in untaxed reserves		319	231
Capital gains report in operating income		–	3
		2,239	3,452
Taxes paid		–272	–400
Cash flow from current operations before changes in operating capital		1,967	3,052
Cash flow from changes in operating capital		–14	–22
Cash flow from current operations		1,953	3,030
Investment activities			
Investments in property and equipment		–1	–3
Investments in shares		–212	–734
Liquidation of subsidiary		500	–
Cash flow from investment activities		287	–737
Financing activities			
Change in short-term loans		–1,999	1,385
Change long-term loans		3,673	1,761
Change in Group balances		–1,854	–1,542
Dividends paid		–474	–510
Redemption of shares, net		–	–1,147
Cash flow from financing activities		–654	–53
Cash flow for the year		1,586	2,240
Liquid funds at the beginning of the year		2,461	221
Liquid funds at the end of the year	6	4,047	2,461
Supplementary information	8		

Notes

(All amounts are in MSEK unless stated otherwise)

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

1 SALES, ADMINISTRATIVE EXPENSES AND OTHER OPERATING REVENUE

Sales in the Parent Company pertain to sales of advertising products. In 1999, sales to Group Companies amounted to 2 MSEK (8). Purchases from Group Companies amounted to 5 MSEK (6). Other operating revenue pertains to a Groupwide administration expenses and payment from a bankruptcy, 7 MSEK.

Administrative expenses include costs for auditing fees as shown below:

	1999	1998
Auditing assignments	1	1
Other assignments	3	4
PricewaterhouseCoopers	4	5

2 EXCHANGE DIFFERENCES AND OTHER FINANCIAL ITEMS

Exchange differences amounted to 203 MSEK in fiscal 1999 and 10 MSEK in fiscal 1998.

3 TANGIBLE FIXED ASSETS

Tangible fixed assets as of December 31 include equipment as follows:

	1999	1998
Acquisition value brought forward	9	7
Investments	1	2
Sales/disposals	-2	-
Closing balance, accumulated acquisition value	8	9
Depreciation brought forward	-4	-3
Depreciation for the year	-2	-1
Sales/scraping	1	-
Closing balance, accumulated depreciation	-5	-4
Closing balance, book value	3	5

4 FINANCIAL FIXED ASSETS

Change in financial fixed assets:

	1999	1998
Amount brought forward from preceding year	10,564	7,392
Acquisition of shares in Group companies	212	724
Liquidation of Group companies	-500	-3
Investment in other long-term securities holdings	-	10
Change in other long-term receivables due from Group companies	1,679	2,441
Total	11,955	10,564

Shares and participations in subsidiary companies at December 31, 1999:

	Number of shares or participations	Currency value	Par value*	Book value MSEK	Parent Company holding, %	Corp. reg. No.	Domicile
Swedish Match Arenco AB	305,500	SEK	30,550	31	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	122	100	556345-7737	Stockholm
Intermatch Sweden AB	710,000	SEK	71,000	85	100	556018-0423	Stockholm
Svenska Tändsticks AB	1,000	SEK	100	0	100	556105-2506	Stockholm
Svenska Tändsticksbolaget Försäljnings AB	1,903,000	SEK	190,300	228	100	556012-2730	Stockholm
Treab Plus AB	91,846	SEK	4,050	17	100	556013-4412	Stockholm
Svenska Tändsticks Philippine Company	20,000	PHP	20,000	0	100		
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	20,900,000	NLG	2,090	5,331	100		
Nitedals Taendstiker A/S	500	NOK	500	1	100		
Swedish Match SA	10,604	CHF	1,591	21	100		
SA Allumettiére 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		
Svenska Tobaks AB	8,000	SEK	800	1	100	556337-4833	Stockholm
Reserca AB	10,000	SEK	1,000	2	100	556362-6968	Stockholm
Blend AB	60,000	SEK	6,000	0	100	556197-0350	Stockholm
Tobak Fastighetsaktiebolaget	2,000	SEK	2,000	146	100	556367-1253	Stockholm
Gullbergsvass Fastighetsaktiebolag	1,000	SEK	1,000	62	100	556367-1261	Stockholm
Total shares				7,791			

*1) Local currency in 000s

1) Nationalized in November 1963 2) Nationalized in December 1968 3) Nationalized in January 1969

In addition, shares are owned in:

- Union Allumettiére Marocaine S.A.

Ownership is purely formal. Group companies have all rights and obligations.

Other shares at December 31, 1999

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

Name	Currency	Par value	Book value	Parent Company holding, %
Yaka Feudor SA	JPY	100,000	0	15.4

PARENT COMPANY FINANCIAL STATEMENTS

5 INVENTORIES

At December 31, 1999 and 1998, the inventory consisted entirely of finished goods.

6 LIQUID FUNDS

Liquid funds comprise short-term investments in fixed-income securities and in cash and bank balances as follows:

	1999	1998
<i>Short-term investments</i>		
Government bonds/Treasury bills	312	988
Corporate bonds/commercial paper	2,444	398
Capital market funds	599	–
	3,355	1,386
<i>Cash and bank balances</i>		
Bank accounts and cash	195	576
Certificate of deposit in banks	497	499
	692	1 075
Total liquid funds	4,047	2,461

The liquid funds above include instruments in which the term exceeds three months.

7 SHAREHOLDERS' EQUITY

The Parent Company's share capital at December 31, 1999 comprises 431,339,663 shares with a par value of 2.20 SEK per share. All shares carry one vote each.

	1999	1998
Share capital brought forward	949	927
Redemption of shares	–	–69
New issue	–	5
Bonus issue	–	86
Total share capital	949	949
Statutory reserve brought forward	164	186
Premium on share issue	–	64
Bonus issue	–	–86
Allocation to statutory reserve	26	–
Total statutory reserve	190	164
Unrestricted equity brought forward	6,407	5,138
Redemption of shares	–	–1,147
Dividend	–474	–510
Allocation to statutory reserve	–26	–
Income for the year	1,567	2,926
Total unrestricted equity	7,474	6,407
Total shareholders' equity	8,613	7,520

8 SUPPLEMENTARY INFORMATION TO CASH-FLOW ANALYSIS

Liquid funds

See Note 6.

Interest paid

Interest paid during the period amounted to 136 MSEK (71).

Proposed distribution of earnings

According to the consolidated balance sheet, the Company's unrestricted shareholders' equity is 3,971 MSEK, of which 4,656 MSEK is the net income for the fiscal year. No allocations to restricted funds is proposed.

As shown in the Parent Company's balance sheet, 7,474 MSEK in retained earnings, of which 1,567 MSEK is 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 7,474 MSEK at the disposal of the Annual General Meeting be allocated so that shareholders receive a dividend of 1.25 SEK per share for a total dividend of 539 MSEK and that the remaining earnings be brought forward.

The Board of Directors further propose May 3, 2000 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

Stockholm, February 9, 2000

Bernt Magnusson
Board Chairman

Arne R. Bennborn

Jan Blomberg

Kenneth Ek

Mats Jansson

Eva Larsson

Gull-Britt Larsson

Meg Tivéus

Klaus Unger

Lennart Sundén
President

Our audit report was submitted on February 24, 2000

Göran Tidström
Authorized Public Accountant

Åke Danielsson
Authorized Public Accountant

Auditors' Report

*To the Annual General Meeting of Swedish Match AB
Organization number: 556015-0756*

We have audited the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Swedish Match AB (publ) for 1999. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

Our audit has been conducted in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that we 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 President, as well as evaluating the overall presentation of information in the financial statements. We 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 President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

In our opinion, the Parent Company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and, consequently, provide a fair presentation of the Company's and the Group's earnings and financial position in accordance with generally accepted auditing principles in Sweden.

We recommend that the income statements and the balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, February 24, 2000

Göran Tidström
Authorized Public Accountant

Åke Danielsson
Authorized Public Accountant

Definitions

Swedish Match, which was previously a subsidiary within the Volvo Group, was spun off in 1996 to Volvo shareholders, and the company was listed on the Stockholm Stock Exchange. Certain operations which are currently part of Swedish Match were previously not legal subsidiaries of the Swedish Match Group, but were incorporated into the Group at December 31, 1995 as a preparatory step prior to a spin-off. The information in this annual report for 1995 and previous years is presented pro forma. These pro forma accounts consolidate all financial statements for subsidiaries owned by Swedish Match at December 31, 1995 as if they had been members of the Swedish Match Group during the years presented.

DEBT/EQUITY RATIO

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

DIRECT RETURN

Paid dividend as a percentage of the market price for the share at the beginning of the year.

EARNINGS PER SHARE AFTER TAX

Net income for the year divided by the average number of shares. Adjusted for items affecting comparability where appropriate.

EBIT-MULTIPLE

Market capitalization plus net debt plus minority interest divided by operating profit.

EQUITY/ASSETS RATIO

The sum of shareholders' equity and minority interests divided by total assets.

NET DEBT

Interest-bearing liabilities less liquid funds.

OPERATING MARGIN

Operating profit before items affecting comparability divided by net sales.

OPERATING CAPITAL

Current operating assets, intangible assets, property, plant and equipment and other long-term operating assets, less current operating liabilities.

P/E RATIO AFTER TAX

The share price divided by earnings per share after items affecting comparability.

RETURN ON OPERATING CAPITAL

Operating profit before items affecting comparability divided by average operating capital. Average operating capital is calculated by dividing the sum of the year's opening and closing balances by two.

RETURN ON SHAREHOLDERS' EQUITY

Net income for the year divided by average shareholders' equity. Average shareholders' equity is calculated by dividing the sum of the year's opening and closing balances by two.

TOTAL RETURN

The share trend, plus the dividend and any redemption payments, divided by the share price at the beginning of the year.

Six year summary

CONSOLIDATED INCOME STATEMENTS

MSEK	1994	1995	1996	1997	1998	1999
Net sales	7,760	7,435	7,416	7,465	8,194	9,420
Gross profit	3,872	3,674	3,763	3,850	4,098	4,282
Items affecting comparability	144	189	-123	-	-108	3,707
Operating income	1,723	1,683	1,600	1,586	1,381	5,396
Items affecting comparability					-60	-
Net financial items	-98	-107	-70	-28	-183	-116
Income after financial items	1,625	1,576	1,530	1,558	1,198	5,280
Net income	1,123	1,097	1,109	1,045	726	4,656
Operating income before depreciation	2,009	1,977	1,870	1,854	1,713	5,777
Operating income before items affecting comparability and depreciation	1,865	1,788	1,993	1,854	1,821	2,070
Earnings per share after full tax before items affecting comparability, SEK	2:15	1:84	2:53	2:20	1:96	2:31
Earnings per share after full tax after items affecting comparability, SEK	2:36	2:31	2:33	2:20	1:59	10:79

CONSOLIDATED BALANCE SHEETS

MSEK	1994	1995	1996	1997	1998	1999
Assets						
Intangible fixed assets	640	563	516	757	895	3,268
Tangible fixed assets	2,048	2,002	1,939	2,050	2,239	1,866
Financial fixed assets	193	178	372	484	463	432
Inventories	1,735	1,532	1,388	1,584	1,902	1,732
Current receivables	1,946	1,567	1,720	1,694	2,187	2,076
Liquid funds	961	804	942	563	2,876	7,296
Total assets	7,523	6,646	6,877	7,132	10,562	16,670
Equity and liabilities						
Equity	1,760	1,557	2,314	2,972	2,160	5,940
Minority interests	121	105	54	20	148	162
Provisions	574	630	663	656	1,165	1,195
Long-term liabilities	62	44	33	236	2,124	5,303
Current liabilities	5,006	4,310	3,813	3,248	4,965	4,070
Total equity and liabilities	7,523	6,646	6,877	7,132	10,562	16,670
Share capital	408	408	927	927	949	949
Dividend per share			1.07	1.07	1.10	1.25*
Average number of employees	7,658	7,306	6,580	6,467	10,314	11,797

* Board proposal

CASH FLOW

MSEK	1994	1995	1996	1997	1998	1999
Cash flow from current operations	1,769	772	1,806	773	794	1,329
Cash flow from investment activities	-104	93	-340	-652	82	2,005
Cash flow from financing activities	-1,210	-970	-1,312	-531	1,427	1,181
Cash flow for the year	455	-105	154	-410	2,303	4,515
Liquid funds at beginning of the year	535	961	804	942	563	2,876
Translation difference in liquid funds	-29	-52	-16	31	10	-95
Liquid funds at year-end	961	804	942	563	2,876	7,296

KEY DATA

MSEK	1994	1995	1996	1997	1998	1999
Operating capital at year end	3,749	3,497	3,224	3,975	4,700	6,352
Net debt	943	1,195	77	471	1,455	-1,267
Investments	376	302	217	292	393	452
Operating margin, %	20.3	20.1	23.2	21.2	18.2	17.9
Return on operating capital, %	39.9	41.3	49.9	42.7	33.2	30.6
Return on shareholders equity, %	63.9	66.1	57.3	39.5	28.3	115.0
Debt/equity ratio, %	50.1	71.9	3.2	15.7	63.0	pos
Equity/assets ratio, %	25.0	25.0	34.4	41.9	21.9	36.6

Definitions, page 55.

KEY FIGURES BY PRODUCT AREA

MSEK	1994	1995	1996	1997	1998	1999
Net sales						
Chewing Tobacco	1,233	1,173	1,043	1,149	1,068	1,068
Cigars	729	729	678	691	902	1,438
Lighters	796	835	846	834	735	662
Matches	1,754	1,358	1,241	1,299	1,573	1,673
Pipe Tobacco and accessories	222	182	196	166	218	420
Snuff	640	729	900	1,079	1,337	1,688
Other operations	452	488	529	701	893	1,742
Sub-total	5,826	5,494	5,433	5,919	6,726	8,691
Divested operations	1,934	1,941	1,983	1,546	1,468	729
Total	7,760	7,435	7,416	7,465	8,194	9,420
Operating income						
Chewing Tobacco	277	336	368	420	331	297
Cigars	114	109	136	131	117	206
Lighters	-5	-3	48	53	18	14
Matches	303	93	118	147	134	107
Pipe Tobacco and accessories	35	31	41	28	38	109
Snuff	224	281	431	522	641	828
Other operations	-144	-139	-208	-252	-228	-127
Sub-total	804	708	934	1,049	1,051	1,434
Divested operations	775	786	789	537	438	255
Items affecting comparability	144	189	-123	-	-108	3,707
Total	1,723	1,683	1,600	1,586	1,381	5,396
Operating margin, %						
Chewing Tobacco	22.5	28.6	35.3	36.6	31.0	27.8
Cigars	15.6	15.0	20.1	19.0	13.0	14.3
Lighters	-0.6	-0.4	5.7	6.4	2.4	2.1
Matches	17.3	6.8	9.5	11.3	8.5	6.4
Pipe Tobacco and accessories	15.8	17.0	20.9	16.9	17.4	26.0
Snuff	35.0	38.5	47.9	48.4	47.9	49.1

Swedish Match share

Share capital

The Swedish Match share is listed on the OM Stockholm Exchange and on NASDAQ, US. Share capital amounts to 949 MSEK, distributed among 431,339,663 shares, each with a par value of SEK 2.20. Each share carries one vote. A round lot is 1,000 shares.

Turnover

Total turnover in 1999 was approximately 196 million (275) Swedish Match shares on the OM Stockholm Exchange, with a daily average turnover of about 0.8 million (1.1) shares. The turnover rate, or the liquidity of the share on the OM Stockholm Exchange, amounted to 46 percent during the year, compared with the market average of 60 percent. The volume of trading on NASDAQ declined during the year, and the number

of outstanding American Depository Receipts (with each ADR corresponding to 10 shares) declined to 297,310 (331,000). The depository bank is the Bank of New York.

Price performance in 1999

Swedish Match's market capitalization at year-end 1998 amounted to 12,800 MSEK, compared with 12,700 MSEK at the beginning of the year. The share price increased during the year by 1 percent. The Affärsvärlden General Index showed an increase of 57 percent.

The highest daily closing price during the year was 33.80 SEK on August 20, and the lowest daily closing price was 25.20 SEK on February 17, 1999.

Ownership structure

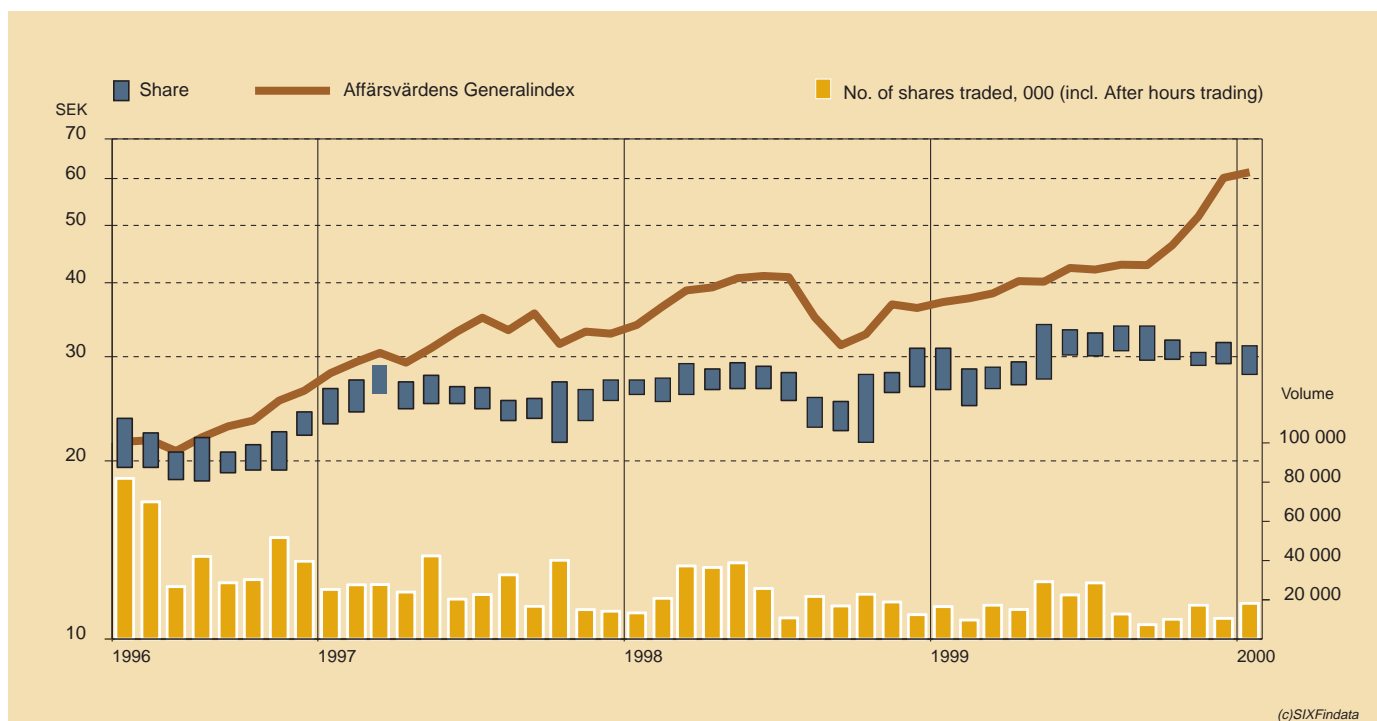
Foreign ownership makes up 52 percent

of the share capital, in line with 1998. The US accounts for 37 percent and UK for 6 percent.

The nine largest registered direct shareholders account for 47 percent of capital, and institutional owners for more than 86 percent.

Dividend policy

Swedish Match's policy is to pay dividends equivalent to 40 to 50 percent of Group net income. The size of the dividend and the timing depend on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors which need to be taken into account. The Board of Directors has proposed a dividend for 1999 to the Annual General Meeting of SEK 1.25 (1.10).



SHARE DISTRIBUTION, DECEMBER 31, 1999

Size of holdings	Number of owners	%	Number of shares	Share of votes and capital, %
1 – 1,000	105,196	91.5	19,717,690	4.6
1,001 – 5,000	8,246	7.1	17,474,960	4.1
5,001 – 20,000	1,139	1.0	10,599,717	2.8
20,001 – 50,000	223	0.2	7,026,179	1.6
50,001 – 100,000	68	<0.1	5,040,051	1.2
100,001 –	147	0.1	371,481,066	86.1
Total	115,019	100.0	431,339,663	100.0

Source: VPC

LARGEST REGISTERED DIRECT SHAREHOLDERS, DECEMBER 31, 1999

Owner	Number of shares	Share of votes and capital, %
Roburs aktiefonder	52,852,755	12.3
Fidelity	41,243,596	9.6
Fjärde AP-fonden	21,713,314	5.0
Harbor Funds Inc.	19,368,974	4.5
Zenit fond	15,284,000	3.5
Capital Group	15,076,924	3.5
Ratos	14,953,000	3.5
SPP	14,779,547	3.4
Principal Group	12,983,000	3.0
Ivy Funds	9,100,000	2.1
Other		49.6
Total		100.0

PER-SHARE DATA¹⁾

	1995	1996	1997	1998	1999
Income after tax					
before nonrecurring items, SEK	1.84	2.53	2.20	1.96	2.31
after nonrecurring items, SEK	2.31	2.33	2.20	1.59	10.79
Dividend, SEK	–	1.07	1.07	1.10	1.25 ²⁾
Market price at year-end, SEK	–	23.40	25.90	29.50	29.70
Shareholders' equity, SEK	3.28	4.87	6.26	5.00	13.77
P/E ratio after tax	–	10.0	11.8	18.7	2.8
EBIT multiple	–	7.0	8.1	10.4	6.9
Price/equity	–	4.8	4.1	5.9	2.2
Direct return, %	–	4.6	4.2	3.7	4.2
Total return, %			15.0	17.0	4.4
Average number of shares		463,558,252	463,558,252	450,133,840	431,339,663
Number of shareholders		167,062	142,859	127,710	115,019

Definitions: see page 55.

¹⁾ Where appropriate, adjusted for bonus issue element on 1998 share redemption.

²⁾ Board proposal.

SHARE CAPITAL DEVELOPMENT

		Par value per share, SEK	Change in share capital, SEK	Number of shares issued	Total share capital, SEK	Total number of shares
April 11, 1994	New issue	10	3,448,260	344,826	407,948,360	40,794,836
January 9, 1996	New issue and split	2	519,168,144	259,584,072	927,116,504	463,558,252
July 22, 1998	New issue	2	5,068,200	2,534,100	932,184,704	466,092,352
July 22, 1998	Redemption	2	–69,505,378	–34,752,689	862,679,326	431,339,663
July 22, 1998	Bonus issue	2.2	86,267,933		948,947,259	431,339,663

Board of Directors

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 and CISCO Sweden Advisory Council.

Shares: 4,935



◀ **Bernt Magnusson**

born 1941. Chairman, member since 1993. Chairman of AssiDomän AB. Other Board assignments: Vice Chairman of Avesta Sheffield AB and Net Insight AB. Member of the Board of Volvo Car Corp., MeritaNordbanken Abp, Burmah Castrol Plc, Höganäs AB, Emtunga International, the Federation of Swedish Industries and Förvaltnings AB Statum. Advisor to the European Bank for Reconstruction and Development.

Shares: 10,616



Jan Blomberg ▶

born 1939. Member since 1996. Other Board assignments: Vice Chairman of Drott AB, Member of the Boards of Besam AB, Skandia Investment, Haldex AB, Investment AB Bure, Byggelit AB, Svenska Spel AB, Mellanskog Industrier AB and Handelsbanken Regionbank City, Stockholm.

Shares: 3,638



Klaus Unger ▶

born 1934. Member since 1984. Other Board assignments: Member of the Board of Arnold André GmbH & Co KG. Member of the Royal Swedish Academy of Engineering Sciences.

Shares: 4,614

Mats Jansson ▶

born 1951. Member since 1998. President and CEO of Oy Karl Fazer Ab. Other Board assignments: Member of the Boards of Lindex AB and Hufvudstaden AB.

Shares: 1,500



◀ **Lennart Sundén**

Born 1952. President and CEO of Swedish Match AB since November 1998. Shares: 60,000. Call options: 105,000

Meg Tivéus ▶

Born 1943. Member since 1999. President of Svenska Spel AB. Other Board assignments: Member of the Board of Swedish Railways, Operan, ARK Resebyrå AB and Nordbanken Kapitalförvaltning.

Shares: 4,000



**EMPLOYEE REPRESENTATIVES,
ORDINARIE**

Eva Larsson ▶

born 1958. Member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Matches Industries AB. Shop steward at the match factory in Tidaholm, Sweden.

Shares: 0



Kenneth Ek ▼

born 1953. Member since 1999. Appointed by 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 Gothenburg, Sweden.

Shares: 0



▶ **Gull-Britt Larsson**

born 1947. Member since 1999. Appointed by the Swedish Trade Union Confederation (LO). Co-determination negotiator at the snuff factory in Gothenburg, Sweden.

Shares: 0



**EMPLOYEE REPRESENTATIVES,
DEPUTIES**

Stig Karlsson ▼

born 1941. Deputy member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK). Shop steward for the Swedish Industrial Salaried Employees' Association (SIF) at Swedish Match Arencö, Kalmar Sweden.

Shares: 249



▶ **Lennart Johansson**

born 1951. Deputy member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK) within Swedish Match. Shop steward for the Associate of Graduate Engineers at Swedish Match.

Shares: 0



Joakim Lindström ▶

born 1965. Deputy member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Vice President of the Swedish Food Workers' Association (Livs) in Solna, Stockholm, Sweden.

Shares: 0



Group management



Top row, from left: Massimo Rossi, Lennart Freeman, Bo Aulin, Göran Streiffert, Stefan Gelkner.

Middle row, from left: Frans Vogels, Lennart Sundén, Sven Hindrikes, Peter Nilsson.

Bottom row, from left: Graham Jones, Ingemar Olsson.

Lennart Sundén*President and CEO*

Began position at Swedish Match AB on November 1, 1998.

Born 1952. MSc. Engineering, MBA.

Employed at AB Electrolux in 1977. President of Electrolux industrial operations for white goods in Europe 1991-1993. President of Electrolux global vacuum cleaner and small appliance operations 1993-1998.

Shareholding in Swedish Match: 60,000.
Call options: 105,000.

Massimo Rossi*Executive Vice President and Deputy CEO*

Employed at Swedish Match 1975. Member of Group management since 1992.

Born 1942. MSc.

Board assignments: Chairman of Duni AB, member of Stiftelsen Solstickan, CityMail Sweden AB, EQT Scandinavia and Phimco Industries Inc. in the Philippines.

Shareholding in Swedish Match: 101,400.
Call options: 60,000.

Sven Hindrikes*Executive Vice President and Chief Financial Officer*

Began position as CFO and member of Swedish Match Group management in June 1998.

Born 1950. MBA. Previously with ABB in Mexico and vice president of ABB Canada. Executive Vice President of Linjebuss AB 1994.

Shareholding in Swedish Match: 60,000.
Call options: 60,000.

Bo Aulin*Senior Vice President, Corporate Affairs, Secretary and General Counsel.*

Employed at Swedish Match 1990. Member of Group management since 1996.

Born 1948. Graduated from Uppsala University, Law school. Previously worked as corporate lawyer at Swedish National Forest Enterprise and chief legal counsel for the Swedish Association of Wholesalers.

Shareholding in Swedish Match: 2,700.
Call options: 60,000.

Lennart Freeman*President, North America Division*

Employed at Swedish Match 1975. President of Cigarette Division 1996. Member of Group management since 1999.

Born 1951. MBA. Previously worked for SAAB Cars and Exxon.

Shareholding in Swedish Match: 300.
Call options: 30,000.

Stefan Gelkner*President, North Europe Division*

Employed at Swedish Match 1977. President of Snuff Division 1996. Member of Group management since 1999.

Born 1944. MSc. Engineering. Previously worked for Ericsson as plant manager.

Shareholding in Swedish Match: 1,000.
Call options: 30,000.

Graham Jones*President, Match Division*

Employed at Swedish Match 1978. President of Match Division 1996. Member of Group management since 1999.

Born 1949. MBA. Previously worked for De Beers Prospecting Ltd, Arthur Anderson & Co, Mars Ltd, Scot Bowyers Ltd and Bryant & May Ltd.

Shareholding in Swedish Match: 6,000.
Call options: 30,000.

Peter Nilsson*President, Lighter Division*

Employed at Swedish Match 1987. President of Lighter Division 1996. Member of Group management since 1999.

Born 1962. MBA.

Shareholding: 6,554.
Call options: 30,000.

Ingemar Olsson*President, Overseas Division*

Employed at Swedish Match 1983. President of Sales Region Latin America 1996. Member of Group management since 1999.

Born 1953. MSc. Engineering. Previously worked for Sandvik Coromant.

Shareholding in Swedish Match: 19,500.
Call options: 30,000.

Göran Streiffert*Senior Vice President, Group Human Resources and IS/IT*

Employed at Swedish Match and member of Group management since 1997.

Born 1946. MSc. Previously worked for Gullspång, PLM and Scancem.

Shareholding in Swedish Match: 2,000.
Call options: 60,000.

Frans Vogels*President, Continental Europe Division*

President of Sales Region Continental Europe 1996. Member of Group management since 1999.

Born 1950. MBA.

Shareholding: 0.
Call options: 30,000.

Information to our shareholders

Annual General Meeting

The Annual General Meeting will be held at 4.30 p.m. on Thursday, April 27, 2000 in Hall K1, of the Stockholm International Trade Fairs (Stockholmsmässan), Älvsjö in Stockholm. Participation in Swedish Match's Annual General Meeting is limited to shareholders who are recorded in the Shareholders' Register on April 17, 2000 and have advised Swedish Match of their intention to participate.

Listing in Shareholders' register

The Swedish Match Shareholders' Register is maintained by 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 ensure that their shares are temporarily re-registered in their own name not later than Monday, April 17, 2000, if they intend to participate in the meeting.

Notice of participation

Notice of intention to participate in the Annual General Meeting will be accepted as from Monday, March 27, 2000.

Notice may be submitted by:

- ★ telephone +46-8-658 53 62
- ★ fax +46-8-658 63 64
- ★ www.swedishmatch.com/stamman
- ★ mail Swedish Match AB
Legal Department
SE-118 85 Stockholm
Sweden

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. (Swedish local time) on Thursday, April 20, 2000, which is the expiration date for receipt by Swedish Match of notification. The Board of Directors has proposed May 3, 2000 as the record date for dividend entitlement. Payment of the dividend is expected to occur through VPC AB on May 10, 2000.

Nominating Committee

The Nominating Committee prepares and submits proposals to the Annual General Meeting for the election of the Board of Directors and auditors and for fees for members of the Board and the auditors.

The Committee, which is appointed by the Annual General Meeting, comprises Bernt Magnusson (Chairman of the Board), Bo Eklöf (President of SPP) and Björn Franzon (Vice President of the National Pension Insurance Fund, Fourth Fund Board).

Address: Swedish Match AB
Nominating Committee
SE-118 85 Stockholm
Sweden

FINANCIAL REPORTS SCHEDULE

Interim report for January 1 - March 31, 2000	April 27, 2000
Interim report for January 1 - June 30, 2000	July 25, 2000
Interim report for January 1 - September 30, 2000	October 26, 2000
Report on Operations 2000	February 2001
Annual Report 2000	March 2001
Form 20-F 1999	June 2000
Form 20-F 2000	June 2001

Financial reports may be downloaded or ordered on the Internet:

www.swedishmatch.com

or from:

Swedish Match AB
Investor Relations
SE-118 85 Stockholm
Sweden
Telephone: +46 8-658 01 45
Fax: +46 8-658 02 62
E-mail: investorrelations@swedishmatch.se

Swedish Match AB

SE-118 85 Stockholm, Sweden
 Visiting address: Rosenlundsgatan 36
 Telephone: +46-8-658 02 00
 Fax: +46-8-658 62 63
www.swedishmatch.com

North Europe Division

118 85 Stockholm, Sweden
 Visiting address: Rosenlundsgatan 36
 Telephone: +46-8-658 02 00
 Fax: +46-8-84 06 07

Continental Europe Division

P.O. Box 1, NL-5550 AA Valkenswaard, The Netherlands
 Visiting address: John F. Kennedylaan 3
 NL-5555 XC Valkenswaard
 Telephone: +31 40 208 55 55
 Fax: +31 40 208 55 07

North America Division

P.O. Box 11588, Richmond, Virginia 23230-1588, US
 Visiting address: 6600 West Broad Street
 Telephone: +1 804 287 32 00
 Fax: +1 804 287 32 08

Overseas Division

P.O. Box 70052, 22422-970 Rio de Janeiro, Brazil
 Visiting address: Rua Visconde de Pirajá, 250, 5th fl. Ipanema
 BR-22410-002 Rio de Janeiro, RJ, Brazil
 Telephone: +55 21 522 11 22
 Fax: +55 21 522 19 04
 RJ Fax: +55 21 522 19 80

Match Division

Sword House, Totteridge Road, High Wycombe
 GB-Bucks HP13 6EJ, Great Britain
 Telephone: +44 1494 895 900
 Fax: +44 1494 895 911

Lighter Division

P.O. Box 152, NL-9400 AB Assen, The Netherlands
 Visiting address: A.H.G. Fokkerstraat 5
 NL-9403 AM Assen
 Telephone: +31 592 376 888
 Fax: +31 592 342 139

☆☆☆
SWEDISH MATCH

Swedish Match AB (publ)
SE-118 85 Stockholm, Sweden
Telephone +46-8-658 02 00
Fax 08-658 62 63
www.swedishmatch.com