

Interim Report *January–March 2000*

- Sales increased 13 percent to 2,394 MSEK (2,122)
- EBITDA increased to 536 MSEK (524)
- Operating income, excluding divested business, increased 33 percent to 415 MSEK (313)
- Operating income, including divested business, decreased to 415 MSEK (440)
- Proposed redemption program: One share out of 14 at 35 SEK
- Launch of share repurchase program

Swedish Match sales increased by 13 percent in the first quarter versus the same period last year.

Snuff continued to show strong organic growth. Acquired businesses added significantly to sales, offsetting lower volume in Other operations and reduced match sales. Smokeless tobacco (snuff and chewing tobacco) and brown tobacco (cigars and pipe tobacco) continued to show strong performance. Both sales and operating income improved versus same period last year for all product categories except matches, which is currently involved in a restructuring program.

An increased annual dividend is proposed, to 1.25 SEK per share (1.10). A program to redeem 1,000 MSEK, as well as a buy-back program of up to 5% of outstanding shares, is also proposed.

The announced 64 percent investment in General Cigar Holdings, Inc. is proceeding according to plan, awaiting final approval by the shareholders of General Cigar. The announced acquisition of National Tobacco's chewing tobacco brands is currently under review by US regulatory authorities.

Summary of Consolidated Income Statement

MSEK	JANUARY–MARCH	
	2000	1999
Sales	2,394	2,122
Operating income before divested business	415	313
Divested business	—	127
Operating income	415	440
Net income for the period	264	290

Sales by product area

MSEK	JANUARY–MARCH		CHANGE	APRIL 1999–	FULL YEAR	CHANGE
	2000	1999	%	MARCH 2000	1999	%
Snuff	459	376	22	1,771	1 688	5
Chewing Tobacco	282	261	8	1,089	1 068	2
Cigars	405	224	81	1,619	1 438	13
Pipe Tobacco & Accessories	173	55	215	538	420	28
Matches	391	448	–13	1,616	1,673	–3
Lighters	175	165	6	672	662	2
Other operations	509	243		2,008	1,742	
Subtotal	2,394	1,772	35	9,313	8,691	7
Divested business	—	350		379	729	
Total	2,394	2,122	13	9,692	9,420	3

Operating income by product area

MSEK	JANUARY–MARCH		CHANGE	APRIL 1999–	FULL YEAR	CHANGE
	2000	1999	%	MARCH 2000	1999	%
Snuff	209	193	8	844	828	2
Chewing Tobacco	89	75	19	311	297	5
Cigars	52	39	33	219	206	6
Pipe Tobacco & Accessories	49	17	188	141	109	29
Matches	25	29	–14	103	107	–4
Lighters	16	2	700	28	14	100
Other operations	(25)	(42)		(110)	(127)	
Subtotal	415	313	33	1,536	1,434	7
Divested business	—	127	—	128	255	
Items affecting comparability	—	—	—	3,707	3,707	0
Total	415	440	–6	5,371	5,396	0

Smokeless Tobacco (Snuff and Chewing Tobacco)

Swedish Match has a broad presence in smokeless tobacco, with significant market positions in the US, the Nordic countries, and South Africa. Smokeless tobacco accounts for 72 percent of Swedish Match operating income in the first quarter.

Brown Tobacco (Cigars and Pipe Tobacco)

Along with smokeless tobacco, brown tobacco has been identi-

fied as one of the key growth opportunity areas for Swedish Match. Acquisitions, which have been made in this area over the past year, provide a significant portion of sales and operating income growth. Swedish Match is the second largest worldwide cigar company.

Lights (Matches and Lighters)

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

Smokeless Tobacco

Snuff



Share of Group sales, 19%



Share of Group income, 50%

Swedish Match is the leading manufacturer of snuff in the Nordic Market and South Africa, and has the largest share of the fast growing value price segment in the United States. Major brands include General, Catch and Ettan in Sweden, Timber Wolf in the US, and Taxi in South Africa. Sales in the first three months increased 22 percent, to 459 MSEK (376). Volume in

the US increased 25 percent over the first quarter 1999. Volume in the Nordic market increased 4 percent.

Operating income increased 8 percent versus the first quarter last year, to 209 MSEK (193), despite increases in product development costs and promotional expenses.

Smokeless Tobacco

Chewing Tobacco



Share of Group sales, 12%



Share of Group income, 21%

Chewing tobacco is sold primarily in the North American market. Major brands include Red Man and Southern Pride. Swedish Match is the leading producer of chewing tobacco in the US. Sales in the first three months amounted to 282 MSEK (261), an increase of 8 percent. Sales in local currency was flat. Operating income in the first three months was up 19 percent, to 89 MSEK (75). Operating income in local currency im-

proved 12 percent, driven by cost savings and lower promotional spending.

The chewing tobacco market in the US has declined at an annual rate of 3 to 4 percent over the past several years. Swedish Match share of market has improved since the same period last year.

Brown Tobacco

Cigars



Share of Group sales, 17%



Share of Group income, 13%

Swedish Match is one of the world's largest manufacturers and distributors of cigars and cigarillos, and ranks number two in terms of sales value. Its largest markets are North America and Western Europe, where about 75 percent of the world cigar market exists. The company markets its broad portfolio of brands worldwide, with both premium and popularly priced products. Major brands include La Paz, La Gloria Cubana, Garcia Y Vega, Justus van Maurik, and Wings.

Sales in the first three months amounted to 405 MSEK (224), an increase of 81 percent over the same period last year, primarily attributable to recent acquisitions in North America. The North American region showed weak sales in the beginning of the year with some improvements in March. In Western Europe, excluding the UK, the cigar market increased. Operating income, for cigars grew 33 percent to 52 MSEK (39) in the first quarter.

Brown Tobacco

Pipe Tobacco and Accessories



Share of Group sales, 7%



Share of Group income, 12%



Swedish Match is the third largest manufacturer of pipe tobacco in the world, and its products are marketed worldwide. Major brands include Borkum Riff, Boxer, and Half and Half. The main markets for pipe tobacco are in North America, North Europe and Western Europe. The company also has a significant presence in South Africa.

Sales for the three-month period increased to 173 MSEK (55), mainly due to consolidation of the recently acquired South African business. Operating income increased to 49 MSEK (17).

Lights

Matches



Share of Group sales, 16%



Share of Group income, 6%



Swedish Match has the number one worldwide share position. Brands are mostly local, and very strong in their home countries. Major brands include Swan, Three Stars, and Redheads. Sales for the first three months declined 13 percent versus same period last year, to 391 MSEK (448). The European markets

continued to decline. Operating income declined to 25 MSEK (29). A restructuring program was previously announced with the objective to improve operating margins to 10 percent over the next three years.

Lights

Lighters



Share of Group sales, 7%



Share of Group income, 4%



Swedish Match is the third largest lighter manufacturer in the world, and its main brand is Cricket. Sales in the first three months grew 6 percent, to 175 MSEK (165). Operating income

improved significantly, to 16 MSEK (2). Income and margin improvements follow a major restructuring in 1999 and greater focus on the more profitable markets and product lines.

Other Operations

Other operations include, among other things, the distribution of tobacco products on the Swedish market as well as corporate overheads. For the first quarter, net expenses were reduced to -25 MSEK (-42).

Net financial expense

Net financial expense in the first quarter amounted to -10 MSEK (-24). Other financial items, net, amounted to -5 MSEK (13).

Taxes

Taxes for the first quarter were 137 MSEK (143) corresponding to a 34% tax rate.

Investments

The Group's direct investments in tangible fixed assets amounted to 53 MSEK (65).

In addition, 8 MSEK (0) was invested in intangible fixed assets during the period.

Total depreciation and amortization amounted to 121 MSEK (84), of which depreciation on tangible assets amounted to 65 MSEK (61) and amortization of intangibles amounted to 56 MSEK (23).

Financing and liquidity

At the end of the period, the Group had liquid funds 999 MSEK in excess of interest-bearing liabilities, as compared with 1,267 MSEK on December 31, 1999.

Cash and bank balances, including short term investments, amounted to 6,862 MSEK at the end of the period, compared with 7,296 MSEK at the beginning of the year. The liquid funds are primarily invested in short-term securities.

Tobacco tax

During the past 12 months, total tobacco tax and value-added tax on tobacco tax paid by Swedish Match in Sweden amounted to 9,075 MSEK (9,023).

Average number of Group employees

The average number of employees in the Group during the 12 month period ending March 31 was 11,615, compared with 11,797 for the full year 1999.

Redemption of shares and share repurchase program

On April 12, 2000 the Swedish Match Board of Directors provided more precise details regarding its redemption proposal, which is subject to the approval of the company's shareholders

at the Annual General Meeting on April 27th, 2000. According to the proposal, all shareholders in Swedish Match will be offered an opportunity to redeem each 14th share for 35 SEK in cash. One redemption right will be received for each Swedish Match share held. Fourteen redemption rights will entitle the holder to redeem one Swedish Match share. Assuming full exercise of the redemption rights, a maximum of 30.8 million shares will be redeemed, and 1,078 MSEK will be transferred to the shareholders. Detailed information will, assuming approval of the Annual General Meeting, be distributed to all shareholders in conjunction with the start of the application period, which is May 8, 2000.

Additional information

This report has not been reviewed by the Company's auditors.

The interim report for the first six months of 2000 will be released July 25, 2000.

Stockholm, April 27, 2000

Lennart Sundén

President and Chief Executive Officer

Key data

MSEK	JAN-MARCH 2000	JAN-MARCH 1999	APRIL 1999- MARCH 2000	FULL YEAR 1999
Operating margin, %*	17.3	20.7	17.2	17.9
Return on operating capital, %*			27.7	30.6
Return on shareholders' equity, %			112.3	115.0
Net debt/equity ratio, %	Positive	52,2	Positive	Positive
Equity/assets ratio, %	38.3	22.5		36.6
Investments in tangible assets, MSEK	53	65	439	452
EBITDA (before items affecting comparability)	536	524	2,081	2,070
EBITDA (after items affecting comparability)	536	524	5,788	5,777
Average number of employees			11,615	11,797
Share data				
Earnings per share after tax				
Before items affecting comparability, SEK	0:61	0:67	2:25	2:31
After items affecting comparability, SEK	0:61	0:67	10:74	10:79
Shareholders' equity per share, SEK	14:09	5:03		13:77
Number of shares outstanding at end of period	431,339,663	431,339,663	431,339,663	431,339,663

* Before items affecting comparability

Consolidated Income Statement in summary

MSEK	JANUARY–MARCH		CHANGE	APRIL 1999–	FULL YEAR	CHANGE
	2000	1999	%	MARCH 2000	1999	%
Sales, including tobacco tax	4,188	3,838	9	17,303	16,953	2
Less tobacco tax	(1,794)	(1,716)	4	(7,611)	(7,533)	1
Sales	2,394	2,122	13	9,692	9,420	3
Cost of goods sold	(1,385)	(1,076)		(5,447)	(5,138)	
Gross profit	1,009	1,046	-4	4,245	4,282	-1
Sales and administrative expenses	(602)	(609)	1	(2,629)	(2,636)	0
Shares in earnings of associated co.	8	3	167	48	43	12
	415	440	-6	1,664	1,689	-1
Items affecting comparability	—	—		3,707	3,707	0
Operating income	415	440	-6	5,371	5,396	0
Net interest expense	(10)	(24)	58	(114)	(131)	13
Other financial items, net	(5)	13		(6)	15	
Items affecting comparability		—				
Net financial items	(15)	(11)	-36	(120)	(116)	-3
Income before taxes and minority interests	400	429	-7	5,251	5,280	-1
Taxes	(137)	(143)	4	(632)	(638)	1
Minority interests	1	4	-75	11	14	-21
Net income for the period	264	290	-9	4,630	4,656	-1

Consolidated Balance Sheet in summary

MSEK	31 MARCH	31 DEC
	2000	1999
Intangible fixed assets	3,204	3,268
Tangible fixed assets	1,855	1,866
Financial fixed assets	432	432
Current operating assets	3,805	3,808
Liquid Funds	6,862	7,296
Total assets	16,158	16,670
Shareholders' equity	6,078	5,940
Minority interests	109	162
Provisions	1,171	1,195
Long-term loans	5,006	5,093
Other long-term liabilities	189	210
Short-term loans	857	936
Other current liabilities	2,748	3,134
Total shareholders' equity, provisions and liabilities	16,158	16,670
Operating capital	6,555	6,352
Net debt	(999)	(1,267)

Consolidated Cash Flow Statement in summary

MSEK	JAN–MAR	JAN–MAR
	2000	1999
Cash flow from operations	(53)	272
<i>Investments</i>		
Investments in property, plant and equipment	(53)	(65)
Sales of property, plant and equipment	3	
Sales of cigarette operations		
Investments in intangibles	(8)	—
Investments in consolidated companies	(56)	(47)
Changes in financial receivables etc.	11	209
Cash flow from investments	(103)	97
<i>Financing</i>		
Changes in loans	(165)	(144)
Cash flow from financing	(165)	(144)
Cash flow for the year	(321)	225
Liquid funds at the beginning of the period	7,296	2,876
Translation differences attributable to liquid funds	(113)	(41)
Liquid funds at the end of the period	6,862	3,060

Quarterly data

MSEK	Q1/98	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00
Sales, including tobacco tax	3,741	3,978	4,155	4,041	3,838	4,167	4,545	4,403	4,188
Less tobacco tax	(1,902)	(2,003)	(1,932)	(1,884)	(1,716)	(1,849)	(2,127)	(1,841)	(1,794)
Sales	1,839	1,975	2,223	2,157	2,122	2,318	2,418	2,562	2,394
Cost of goods sold	(894)	(992)	(1,162)	(1,048)	(1,076)	(1,206)	(1,413)	(1,443)	(1,385)
Gross profit	945	983	1,061	1,109	1,046	1,112	1,005	1,119	1,009
Sales and administrative expenses	(596)	(640)	(669)	(715)	(609)	(670)	(609)	(748)	(602)
Shares in earnings of associated co.	3	3	3	2	3	2	11	27	8
	352	346	395	396	440	444	407	398	415
Items affecting comparability	—	(48)	—	(60)	—	—	4,102	(395)	—
Operating income	352	298	395	336	440	444	4,509	3	415
Net interest expense	(4)	(13)	(39)	(26)	(24)	(45)	(24)	(38)	(10)
Other financial items, net	(7)	(6)	(22)	(6)	13	5	12	(15)	(5)
Items affecting comparability	—	(60)	—	—	—	—	—	—	—
Net financial items	(11)	(79)	(61)	(32)	(11)	(40)	(12)	(53)	(15)
Income after financial items	341	219	334	304	429	404	4,497	(50)	400
Income taxes	(111)	(95)	(118)	(158)	(143)	(145)	(201)	(149)	(137)
Minority interests	0	2	6	2	4	(6)	3	13	1
Net income for the period	230	126	222	148	290	253	4,299	(186)	264

Sales by product area

MSEK	Q1/98	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00
Snuff	295	330	346	366	376	402	430	480	459
Chewing Tobacco	267	265	280	256	261	278	270	259	282
Cigars	187	225	230	260	224	370	407	437	405
Pipe Tobacco & Accessories	48	57	55	58	55	53	100	212	173
Matches	324	343	473	433	448	401	406	418	391
Lighters	196	184	177	178	165	173	170	154	175
Other operations	194	209	261	229	243	262	635	602	509
Subtotal	1,511	1,613	1,822	1,780	1,772	1,939	2,418	2,562	2,394
Divested business	328	362	401	377	350	379	—	—	—
Total	1,839	1,975	2,223	2,157	2,122	2,318	2,418	2,562	2,394

Operating income by product area

MSEK	Q1/98	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00
Snuff	149	152	182	158	193	178	236	221	209
Chewing Tobacco	86	94	73	78	75	71	78	73	89
Cigars	31	32	32	22	39	57	55	55	52
Pipe Tobacco & Accessories	12	9	8	9	17	11	22	59	49
Matches	30	35	28	41	29	34	30	14	25
Lighters	14	3	(3)	4	2	(8)	8	12	16
Other operations	(62)	(71)	(66)	(29)	(42)	(27)	(22)	(36)	(25)
Subtotal	260	254	254	283	313	316	407	398	415
Divested business	92	92	141	113	127	128	—	—	—
Items affecting comparability	—	(48)	—	(60)	—	—	4,102	(395)	—
Total	352	298	395	336	440	444	4,509	3	415



☆☆☆
SWEDISH MATCH

Swedish Match AB (publ) ■ SE-118 85 Stockholm ■ Visiting Address: Rosenlundsgatan 36

Telephone +46-(0)8-658 02 00 ■ Fax +46-(0)8-658 35 22 ■ www.swedishmatch.com