

Interim Report January–March 1998



- *Increase of 9% in consolidated sales*
- *Operating profit up 5%*
- *Net profit – same level as previous year*
- *Sharp rise in sales and operating profit for snuff*
- *Redemption proposal: each 13th share may be redeemed for SEK 35*

Interim Report January–March 1998

Swedish Match sales during the first three months of 1998 rose 9% to SEK 1,839 M, compared with SEK 1,684 M during the corresponding period of 1997.

Operating profit increased 5% from SEK 334 M to SEK 352 M.

The Snuff Division accounted for largest improvement, with sales rising by SEK 57 M to SEK 295 M and operating profit increasing 30% to SEK 149 M.

The Cigar and Pipe divisions also reported significant sales increases.

Summary of Consolidated Income Statement

SEK M	First three months	
	1998	1997
Sales	1,839	1,684
Operating profit	352	334
Profit after financial items	341	352
Net profit	230	234

Sales by Division

SEK M	First three months		Percent change	12 months ended March 31, 1998	Full year 1997
	1998	1997			
Chewing Tobacco	267	295	- 10	1,121	1,149
Cigarettes	328*	349	- 6	1,525	1,546
Cigars	187	151	24	727	691
Lighters	196	211	- 7	819	834
Matches	324	303	7	1,320	1,299
Pipe Tobacco	48	37	30	177	166
Snuff	295	238	24	1,136	1,079
Group-wide operations and eliminations	194	100	94	795	701
Total	1,839	1,684	9	7,620	7,465

* After May 1, 1997, external invoicing of Prince cigarettes is reported under Group-wide operations. Subcontracted production remains within the Cigarettes Division. The change means that of total sales of Prince during the January–March 1998 period, which amounted to SEK 108 M, SEK 35 M are reported in the Cigarettes Division and SEK 73 M in Group-wide operations.

Operating Profit by Division

SEK M	First three months		Percent change	12 months ended March 31, 1998	Full year 1997
	1998	1997			
Chewing Tobacco	86	104	- 17	402	420
Cigarettes	92*	94	- 2	535	537*
Cigars	31	30	3	132	131
Lighters	14	10	40	57	53
Matches	30	26	15	151	147
Pipe Tobacco	12	5	140	35	28
Snuff	149	115	30	556	522
Group-wide operations and eliminations	- 62*	- 50		- 264	- 252*
Total	352	334	5	1,604	1,586

* Most of the contribution from sales of Prince cigarettes is reported under the Cigarette Division.

Chewing Tobacco



The Chewing Tobacco Division operates solely in the North American market, primarily in the U.S.

Sales during the first three months of 1998 declined SEK 28 M or 10%, compared with the corresponding period of 1997, to SEK 267 M. Ex-

pressed in local currencies, the decline was 17%. The sales decline was mainly attributable to lost volume due to hoarding (stockpiling) at the retail level during last quarter of 1997, decline in the chewing tobacco market and to slightly lower market shares. The market was characterized by more intense price pressure.

Operating profit during the period under review fell 17% to SEK 86 M (104), due to the sales decline.

Share of Group Sales, 15%



Share of Group Operating Income, 21%



Cigarettes



The Swedish market accounts for 77% of sales invoiced by the Cigarettes Division. The Division also sells cigarettes in Estonia and at duty-free outlets, as well as filters and cigarette papers in the U.K.

Sales during the first three months of 1998 amounted to SEK 328 M, down SEK 21 M compared with the first quarter of 1997. Hoarding in the Swedish market toward year-end 1996 had an adverse impact, estimated at SEK 75 M, on sales during the first quarter of 1997. Of the sales decrease, a lower price level for deliveries of Prince cigarettes from the Division to the Tobacco Product Importing unit (external invoicing is posted in the Tobacco Product Importing unit, which is reported among Group-wide operations) accounted

for SEK 65 M. The new agreement regarding Prince became effective on May 1, 1997.

The total market in Sweden declined from sales of approximately SEK 1.25 billion cigarettes during the first quarter of 1997 (without the hoarding effect, the figure would have been approximately 1.6 billion cigarettes) to 1.2 billion cigarettes during the first quarter of 1998. Sharp volume increases were noted for rolling tobacco in Sweden and cigarette sales to Estonia.

Operating profit remained virtually unchanged at SEK 92 M (94). The effects of hoarding on operating profit toward year-end 1996/1997 have been estimated at approximately SEK 45 M. The new Prince agreement had an adverse effect of slightly more than SEK 30 M on the division's operating profit compared with the year-earlier period. Production rationalization measures had a favorable effect on operating profit.

Share of Group Sales, 18%



Share of Group Operating Income, 22%



Cigars



The Cigar Division is one of the world's largest manufacturers of cigars and cigarillos. Western Europe is the most important market for the Division.

Sales during the first three months of 1998 totaled SEK 187 M (151), an increase of 24% compared with the corresponding period of 1997. The increase was mainly attributable to a volume increase in the Dutch market and to consolidation of two new operations: cigar ope-

rations in Finland, which were acquired on December 1, 1997, and Swedish Match Australia Pty, which is consolidated as of mid-February. During the quarter, these operations contributed sales of SEK 23 M.

The relocation of production to new premises in Valkenswaard, Holland resulted in certain delivery problems during the period.

Operating profit amounted to SEK 31 M, in line with the year-earlier period. The cost of intensified marketing in the U.S. had an adverse impact on operating profit and the operating margin.

Share of Group Sales, 10%



Share of Group Operating Income, 8%



Lighters



Swedish Match is the world's third-largest manufacturer of disposable lighters. The most important markets are Western Europe, Eastern Europe, the U.S. and parts of Asia. Sales during the first three months of the year declined

7% to SEK 196 M (211). Volumes during the period decreased slightly compared with the year-earlier period, particularly in Eastern Europe and North America.

Operating profit rose by SEK 4 M to SEK 14 M. Productivity improvements and exchange-rate effects offset the negative impact that lower volumes had on earnings.

Share of Group Sales, 11%



Share of Group Operating Income, 3%



Matches



The Match Division is the world's only global manufacturer of matches. Sales by the Division are concentrated primarily in Europe and Brazil, although large export volumes are sold to approximately 100 other countries. The Division also manufactures match production equipment through Swedish Match Arenco.

Sales during the first three months of 1998 rose 7% to SEK 324 M (303), mainly as a result of a better price level and higher volumes.


Operating profit rose 15% to SEK 30 M (26). The increase in sales combined with productivity improvements offset a slightly weaker product mix.

During the period under review, additional shares in PLAM Bulgarski Kibrit JSCO were acquired, bringing Swedish Match's holding to slightly more than 90%. The company's sales during the quarter amounted to slightly more than SEK 5 M.

Swedish Match intends to terminate production of advertising matches at the plant in Geraardsbergen, Belgium. The intention is that production of these matches will be transferred to the plant in Szeged, Hungary, during 1998 and the beginning of 1999.



Share of
Group Sales,
18%



Share of
Group Operating
Income, 7%

Pipe Tobacco



The Pipe Tobacco Division is one of the world's largest manufacturer of pipe tobacco. The principal markets for the Division are the U.S., Sweden and the rest of Western Europe.


Sales rose by SEK 11 M to SEK 48 M (37). The takeover of the right to market Bork-

um Riff in the U.S. had a favorable impact of SEK 7 M on sales.

Operating profit improved to SEK 12 M (5), as a result of volume and price increases.



Share of
Group Sales,
3%



Share of
Group Operating
Income, 3%

Snuff



The Snuff Division's largest markets are Sweden (incl. duty-free sales) and the U.S.

Sales during the first three months of 1998 amounted to SEK 295 M (238), up 24% compared with the year-earlier period.

The Division is continuing to increase its market share in North America, which amounted to 3.7% on March 31, compared with 3.2% at year-end 1997. The Swedish market, including duty-free sales, rose in volu-

me by slightly more than 4% compared with the year-earlier period.

During the first quarter of the year, the price of Timber Wolf in the U.S., market was raised from USD 0.70 to USD 0.90, in line with the price hike previously implemented by US Tobacco.

Operating profit improved 30% to SEK 149 M (115), due to increased volumes in Sweden (including duty-free) and the U.S., as well as higher prices and an improved product mix in Sweden.

Preliminary Agreement in the U.S.

It appears unlikely at present that the preliminary agreement reached during 1997 between five tobacco companies and 39 states in the U.S. (the "Global Settlement") will result in legislation of the type proposed. Accordingly, it is currently impossible to predict the extent to which the new legislation will nonetheless be enacted in the U.S. and, in such case, when it will become effective.

Financial Results

Net interest expense during the first quarter of the year amounted to SEK 4 M (expense: 3). Other financial


items, an expense of SEK 7 M (income: 21), net, are attributable primarily to exchange-rate movements related to financial assets and liabilities. During the first quarter of 1997, major exchange-rate gains were made as a result of the strong appreciation of the USD during the period.

Investments, Financing and Liquidity

Group investments in tangible assets during the first quarter of the year totaled SEK 41 M (53). Depreciation and amortization according to plan amounted to SEK 78 M (70). Cash and bank balances, including short-term investments, totaled SEK 696 M at the close



Share of
Group Sales,
16%



Share of
Group Operating
Income, 36%

of the period, compared with SEK 563 M at the beginning of 1998. Net debt at the close of the period was SEK 491 M, an increase of SEK 20 M since December 1997.

Average Number of Group Employees

The average number of Group employees during the first quarter of 1998 was 7,122, compared with 6,321 during the first quarter of the preceding year. The average number of employees in Sweden was 1,426, compared with 1,410 last year.

Tobacco Tax

During the past 12-month period, total tobacco tax and value-added tax on tobacco products paid by Swedish Match in Sweden amounted to SEK 9,876 M (8,965).

Significant Events after the End of the Reporting Period

Acquisitions

Additional shares were acquired in the investment companies in Singapore, which hold 39% of the shares in Wimco Ltd, India. The holding in the investment companies is thereafter 94%.

Swedish Match has established its own operation in Australia, Swedish Match Australia Pty Limited. The company has acquired an extensive national distribution network from the Alexander Group for sales of tobacco and tobacco-related products. During 1997, sales amounted to approximately SEK 60 M, with operating profit of about SEK 8 M.

Reduction of Tobacco Tax in Sweden

In its budget bill, the Swedish government has proposed that tobacco tax on cigarettes be reduced as of August 1, 1998. The proposal will result in the unit tax per cigarette being reduced from SEK 0.85 to SEK 0.20, while that portion of the tax related to the retail

price will be raised from 17.8% to 39.2%. Assuming a price reduction that has no impact on the margins of the retail sector and Swedish Match, the tax cut will correspond to 27% and the consumer price will be reduced by 19%.

Redemption

On April 22, 1998, Swedish Match's 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 29th, 1998. According to the proposal all shareholders in Swedish Match will be offered an opportunity to redeem each 13th share for SEK 35 in cash. One redemption right will be received for each Swedish Match share held. Thirteen redemption rights will entitle the holder to redeem one Swedish Match share. Assuming full exercise of the redemption rights, a maximum of 35.66 million shares will be redeemed and a maximum of approximately SEK 1,248 M will be transferred to shareholders. It is proposed that at an extraordinary General Meeting of Swedish Match on July 7, 1998, the necessary resolutions will be adopted for redemption of shares pursuant to applications for redemption. Detailed information will be distributed to all shareholders in conjunction with the start of the application period, which is May 13, 1998.

Other Information

This report has not been reviewed by Swedish Match auditors. The interim report for the first six months of 1998 will be published on August 10, 1998.



Göran Lindén
President and Chief Executive Officer

Consolidated Income Statement in summary

SEK M	First three months		Percent change	12 months ended March 31, 1998	Full year 1997
	1997	1996			
Sales, incl. tobacco tax	3,741	3,181	18	15,791	15,231
Less tobacco tax	- 1,902	- 1,497	- 27	- 8,171	- 7,766
Sales	1,839	1,684	9	7,620	7,465
Cost of goods sold	- 894	- 807	- 11	- 3,702	- 3,615
Gross profit	945	877	8	3,918	3,850
Sales and administration costs, etc	- 596	- 548	- 9	- 2 329	- 2,281
Share of earnings in associated companies	3	5	- 40	15	17
Operating profit	352	334	5	1,604	1,586
Net interest expense	- 4	- 3		- 18	- 17
Other financial items, net	- 7	21		- 39	- 11
Net financial items	- 11	18		- 57	- 28
Profit after financial items	341	352	- 3	1,547	1,558
Taxes	- 111	- 116	4	- 507	- 512
Minority interest	0	- 2		1	- 1
Net profit	230	234	- 2	1,041	1,045

Consolidated Balance Sheet in summary

SEK M	March 31, 1998	Dec. 31, 1997
Intangible fixed assets	794	757
Tangible fixed assets	2,240	2,226
Financial fixed assets	297	308
Current operating assets	3,159	3,125
Current financial receivables	140	153
Cash and bank	696	563
Total assets	7,326	7,132
Shareholders' equity	3,185	2,972
Minority interests	18	20
Provisions	662	656
Long-term loans	204	209
Other long-term liabilities	34	27
Short-term borrowings	983	825
Other current liabilities	191	290
Current operating liabilities	2,049	2,133
Total equity, provisions and liabilities	7,326	7,132
Operating capital	4,144	3,975
Net debt	491	471

Key Data

	12 month ended March 31, 1998	Full year 1997
Operating margin, %	21.0	21.2
Return on operating capital, %	42.1	42.7
Return on shareholders' equity, %	35.4	39.5
Interest coverage ratio, times	23.3	24.9
Debt/equity ratio, %	15.3	15.7
Equity/assets ratio, %	43.7	41.9
Investments, SEK M	280	292
Average number of employees	6,667	6,467
<i>Share data</i>		
Income per share after full tax	2.25	2.25
Shareholders' equity per share, SEK	6.87	6.41
Number of shares outstanding	463,558,252	463,558,252



Quarterly Data

SEK M	97Q1	97Q2	97Q3	97Q4	98Q1
Sales, incl. Tobacco tax	3,181	3,994	4,173	3,883	3,741
Less tobacco tax	- 1,497	- 2,052	- 2,219	- 1,998	- 1,902
Sales	1,684	1,942	1,954	1,885	1,839
Cost of goods sold	- 807	- 968	- 959	- 881	- 894
Gross profit	877	974	995	1,004	945
Sales and administration costs, etc.	- 548	- 571	- 540	- 622	- 596
Shares of earnings in associated companies	5	4	5	3	3
Operating profit	334	407	460	385	352
Net interest expense	- 3	- 4	- 6	- 4	- 4
Other financial items, net	21	3	- 17	- 18	- 7
Net financial items	18	- 1	- 23	- 22	- 11
Profit after financial items	352	406	437	363	341
Income taxes	- 116	- 110	- 155	- 131	- 111
Minority interests	- 2	- 2	2	1	0
Net profit	234	294	284	233	230

Sales by Division

SEK M	97Q1	97Q2	97Q3	97Q4	Full year 1997	98Q1
Chewing Tobacco	295	261	312	281	1,149	267
Cigarettes	349	430	414	353	1,546	328
Cigars	151	186	161	193	691	187
Lighters	211	226	210	187	834	196
Matches	303	349	297	350	1,299	324
Pipe Tobacco	37	41	44	44	166	48
Snuff	238	267	281	293	1,079	295
Group-wide operations and eliminations	100	182	235	184	701	194
Total	1,684	1,942	1,954	1,885	7,465	1,839

Operating Profit by Division

SEK M	97Q1	97Q2	97Q3	97Q4	Full year 1997	98Q1
Chewing Tobacco	104	93	123	100	420	86
Cigarettes	94	144	175	124	537	92
Cigars	30	27	39	35	131	31
Lighters	10	13	16	14	53	14
Matches	26	43	40	38	147	30
Pipe Tobacco	5	9	9	5	28	12
Snuff	115	117	138	152	522	149
Group-wide operations and eliminations	- 50	- 39	- 80	- 83	- 252	- 62
Total	334	407	460	385	1,586	352

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