

Interim Report January–September 1999

- ★ *Sales increased 14 percent, to SEK 6,858 M*
- ★ *Operating income increased by 60 percent to SEK 407 M in the third quarter (excluding Cigarettes)*
- ★ *Income before taxes, including capital gain of SEK 4,102 M, rose by SEK 4,436 M to SEK 5,330 M*
- ★ *Strong increase in sales and earnings for Snuff and Cigars*
- ★ *All product areas improved operating income in the third quarter compared with prior year*
- ★ *Sustained cost reductions have been achieved*
- ★ *Acquisitions will add annual sales of SEK 1,200 M*

Interim Report

January–September 1999

In line with the new strategy of focusing on smokeless tobacco, cigars and pipe tobacco, the Group has been restructured during the first nine months of the year.

★ The cigarette business was sold for SEK 4,800 M, resulting in a capital gain of SEK 4,102 M.

★ Cigar operations in both the mass-market and premium segments have been acquired in the United States. These acquisitions are contributing SEK 850 M in annual sales.

★ The snuff and pipe-tobacco company Dingler in South Africa with annual sales of SEK 360 M has been acquired after the close of the period.

★ A more cost-efficient management structure has been implemented.

The Group balance sheet has been strengthened substantially. The equity/assets ratio has increased to 46 percent and the net debt is positive in the amount of SEK 1,746 M. Thus, the Group has substantial financial freedom of action, with the financial capacity to both make additional acquisitions and redeem or repurchase shares.

Swedish Match's sales during the first nine months of the year increased by 14 percent, to SEK 6,858 M (6,037), of which acquisitions accounted for 7 percent. Sales in the third quarter rose by SEK 195 M, to SEK 2,418 M.

Operating income, excluding capital gain and cigarette business, increased by 35 percent, to SEK 1,036 M (767), in the nine-month period and operating income excluding

the cigarette operations, increased by 60 percent, from SEK 254 M to SEK 407 M, in the third quarter.

Snuff is continuing to show a strong increase in volume and improvement in margins, in the North American market in particular. Operating income for the nine-month period rose by 26 percent, to SEK 607M (483).

Cigars reported strong growth in both sales, up 56 percent, and operating income, up 61 percent. The strong increase was due in part to acquisitions in the U.S. and in part to organic growth, notably in Western Europe.

Continuing cost reduction programs have resulted in sustained savings. The lighter plant in Lyon and a match plant in Brazil, were shut down during the third quarter.

Summary of Consolidated Income Statement

MSEK	July–September		January–September	
	1999	1998	1999	1998
Sales	2,418	2,223	6,858	6,037
Income before items affecting comparability	407	254	1,036	767
Divested business	—	141	255	326
Items affecting comparability	4,102	—	4,102	–48
Operating income	4,509	395	5,393	1,045
Net profit for the period	4,299	222	4,842	578

Sales by product area

MSEK	July–September		January–September		Change %	Oct 1998– Sept 1999	Full year 1998
	1999	1998	1999	1998			
Chewing Tobacco	270	280	809	812	0	1,065	1,068
Cigars	407	230	1,001	642	56	1,261	902
Lighters	170	177	508	557	–9	686	735
Matches	406	473	1,255	1,140	10	1,688	1,573
Pipe Tobacco & Accessories	100	55	208	160	30	266	218
Snuff	430	346	1,208	971	24	1,574	1,337
Other operations	635	261	1,140	664		1,369	893
Subtotal	2,418	1,882	6,129	4,946	24	7,909	6,726
Divested business	—	401	729	1,091		1,106	1,468
Total	2,418	2,223	6,858	6,037	14	9,015	8,194

Operating income by product area

MSEK	July–September		January–September		Change %	Oct 1998– Sept 1999	Full year 1998
	1999	1998	1999	1998			
Chewing Tobacco	78	73	224	253	-11	302	331
Cigars	55	32	151	94	61	174	117
Lighters	8	-3	2	14	-85	6	18
Matches	30	28	93	94	0	133	134
Pipe Tobacco & Accessories	22	8	50	28	79	60	38
Snuff	236	182	607	483	26	765	641
Other operations	-22	-66	-91	-199		-120	-228
Subtotal	407	254	1,036	767	35	1,320	1,051
Divested business	—	141	255	326		367	438
Items affecting comparability	4,102	—	4,102	-48		4,042	-108
Total	4,509	395	5,393	1,045	416	5,729	1,381



Chewing Tobacco

Chewing tobacco operations are conducted in the North American market, mainly in the United States.

Sales in the first nine months of the year amounted to SEK 809 M (812). Stated in local currency, sales declined 4 percent. Sales in the third quarter

decreased to SEK 270 M (280). The total market for chewing tobacco is continuing to decline. Swedish Match's share has increased slightly during the year.

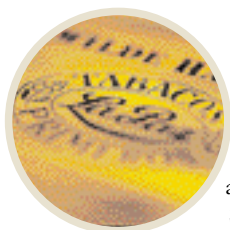
Operating income for the nine-month period fell by 11 percent, to SEK 224 M (253). Operating income in the third quarter increased to SEK 78 M (73).



Share of Group sales, 13%



Share of Group income, 22%



Cigars

Swedish Match ranks second in the world in the cigar market. The largest markets are Western Europe and the United States.

Sales in the first nine months of the year amounted to SEK 1,001 M (642), an increase of 56 percent. Sales in acquired companies in the U.S. accounted for SEK 299 M of the increase amounting to SEK 359 M. Sales in the Western European market rose by 9 percent. Sales in the cigar segment increased to SEK 407 M (230) in the third quarter.

Operating income increased by 61 percent, to SEK 151 M (94), for the nine-month period, and to SEK 55 M (32) in the third quarter, due primarily to acquisitions and organic growth.

Swedish Match has acquired a significant portion of General Cigar's operations in the U.S. during the year. The acquired business comprises two production units, machinery and equipment, inventories and brand names, together

with a sales force of approximately 70 people and a total of about 1,000 employees. "Garcia y Vega," "White Owl," "Tiparillos" and "Tijuana Smalls" are among the brands included in the acquisition. Integration of the business is proceeding according to plan. The acquired operation has been consolidated as of May 1.

El Credito Cigars, in the United States, was acquired during the third quarter; the company manufactures and markets premium cigars, primarily for the American market. The company's largest brand is "La Gloria Cubana." The acquisition includes production units with a total of 350 employees in the Dominican Republic and in Miami, Florida. The acquisition is expected to increase Swedish Match's sales by approximately SEK 90 M. The company was consolidated as of September 1.

Together with the acquisition of the cigar business from General Cigars all price segments are now covered in the North American market.



Share of Group sales, 16%



Share of Group income, 15%



Lighters

Swedish Match is one of the world's largest manufacturers of disposable lighters. The largest markets are Europe, parts of Asia and the United States.

Sales declined by 9 percent, to SEK 508 M (557) in the first nine months of the year, and by 4 percent, to SEK 170 M (177) during the third quarter. The decrease

was due primarily to lower sales in the Russian market.

Operating income decreased to SEK 2 M (14) for the first nine months of the year.

During the third quarter operating income improved to SEK 8 M (-3). The improvement was attributable to lower fixed costs following restructuring.



Share of Group sales, 8%



Share of Group income, 0%



Matches

Swedish Match is the only global match manufacturer. The Group's principal markets are Europe, South America and Asia. Operations also include Swedish Match Arenco, which produces machinery used to manufacture matches.

Sales increased by 10 percent, to SEK 1,255 M (1,140), during the nine-month period. The increase was attributable to acquisitions. Sales in the third quarter declined to SEK 406 M (473). The third-quarter sales figure in 1998 included six months' operations in Wimco in India.

Operating income amounted to SEK 93 M (94) and operat-

ing income in the third quarter amounted to SEK 30 M (28).

The production facility in Sao Laurenco, Brazil, was closed down during the third quarter.

Some of the recently acquired units continue to show unsatisfactory profitability. A review of the production structure is now in progress.

In the beginning of 1999 Swedish Match concluded an agreement to acquire a 40-percent interest in P.T. Java Match Factory, Indonesia's largest manufacturer of matches. During the third quarter an agreement was reached covering the acquisition of the remaining 40 percent of Swedish Match KAV in Turkey.



Share of Group sales, 20%



Share of Group income, 9%



Pipe Tobacco and Accessories

Swedish Match is one of the world's largest producers of pipe tobacco. The principal markets are North America, Northern Europe and Western Europe. Since July 1 the sale of smoking accessories have been reported under Pipe Tobacco and Accessories.

Sales for the nine-month period increased 30 percent, to SEK 208 M (160). Sales in the third quarter increased to SEK 100 M (55).

Operating income in the first three quarters rose to SEK 50 M (28) and to SEK 22 M (8) in the third quarter.



Share of Group sales, 3%



Share of Group income, 5%



Snuff

Swedish Match is the leading manufacturer of snuff in the Nordic market and one of the four leading producers in the United States.

Sales in the first nine months of 1999 increased 24 percent, to SEK 1,208 M (971). The volumes of business in the U.S. were 49 percent higher than in the preceding year and the operating margin improved substantially. The incre-

ase in volume in the Nordic market, including tax-free sales, amounted to 6 percent.

Sales in the third quarter rose 24 percent, to SEK 430 M (346).

Operating income in the first nine months of the year increased 26 percent, to SEK 607 M (483), and by 30 percent, to SEK 236 M (182) in the third quarter. The price of Timber Wolf, Swedish Match's leading brand in the U.S., was increased from USD 1.00 to USD 1.10 per can in September.



Share of Group sales, 20%



Share of Group income, 59%

Key data

	Oct 1998- Sept 1999	Full year 1998
Operating margin, % *	18.7	18.2
Return on operating capital, % *	32.8	33.2
Return on shareholders' equity, %	122.9	28.3
Interest coverage ratio, times	20.8	7.6
Net debt/equity ratio, %	positive	63.0
Equity/assets ratio, %	45.5	21.9
Investments in tangible assets, MSEK	524	393
Average number of employees	11,740	10,314

	Oct 1998- Sept 1999	Full year 1998
<i>Share data</i>		
Income per share after full tax		
Before items affecting comparability, SEK	2.39	1.96
After items affecting comparability, SEK	11.57	1.59
Shareholders' equity per share, SEK	14.34	5.00
Number of shares outstanding	431,339,663	431,339,663

Income per share after full tax during the first nine months, 11.23 SEK (1.24) and for the third quarter 9.96 SEK (0.50)

* Before items affecting comparability

Other Operations

Other operations include the distribution of tobacco products in the Swedish market, as well as Corporate overheads.

A net expense of SEK 91 M was incurred compared with a net expense of SEK 199 M in the first three quarters of 1998. Sustained cost reductions have been achieved.

Divested operations

As of July 1, the Company's cigarette business was sold for SEK 4,800 M. After the deduction of the net book value the capital gain for Swedish Match amounted to SEK 4,102 M. The transaction was completed on August 19, 1999.

Taxation of the capital gain is limited to the stamp duty, which amounts to 1 percent of the selling price.

Net financial expense

Net interest expense in the first nine months amounted to SEK 93 M (expense 56). The increased interest expense was attributable mainly to increased borrowing in connection with the SEK 1,216 M share-redemption program implemented in 1998, and to acquisitions. Other financial items amounted to net income of SEK 30 M (-35).

Investments

The Group's direct investments in tangible fixed assets amounted to SEK 334 M (203). Of the investments amounting to SEK 334 M, SEK 130 M consisted of fixed assets in connection with acquisitions of assets and liabilities and the remaining SEK 204 M pertained to replacement and efficiency-improvement investments. In addition, SEK 1,802 M (202) was invested in long-term intangible assets during the period. These investments pertained mainly to brand names and goodwill related to the acquisition of General Cigar's business and El Credito Cigars in the U.S.

Depreciation according to plan totalled SEK 272 M (245). Investments in associated companies amounted to SEK 51 M.

Financing and liquidity

Liquid funds less interest-bearing liabilities at the end of the period amounted to SEK 1,746 M, an improvement of SEK 3,201 M since December 31, 1998. Cash and bank deposits, including short-term investments, amounted to SEK 5,465 M at the end of the period, compared with SEK 2,876 M at the beginning of the year. Liquid funds are primarily invested in short-term Government securities.

Acquisitions

Following the close of the report period Swedish Match concluded an agreement covering the acquisition of 80 percent of Leonard Dingler (Proprietary) Limited in South Africa. The company manufactures, sells and distributes tobacco products in South Africa, with 25 percent of its volume pertaining to snuff and the remainder to pipe tobacco. Annual sales amount to SEK 360 M. Swedish Match's

operating income is expected to improve by more than SEK 100 M on an annual basis after deductions for amortization of acquired goodwill and brand names. The Dingler company will be consolidated in the fourth quarter.

Tobacco tax

In Sweden during the most recent 12-month period Swedish Match has paid tobacco taxes, plus value-added taxes on tobacco, amounting to SEK 9,074 M (9,453).

New organization

Swedish Match has had a new organization and a new Group management since February 1, 1999. The Group has been reorganized in six divisions: North Europe, Continental Europe, North America, Overseas, Matches and Lighters. The division managers report directly to the President and are members of the Group Executive Committee. The reorganization is designed to result in a more market-oriented structure with clearly defined responsibility for results, and to link Group management directly to the operating units.

Average number of Group employees

The average number of employees in the Group during the period was 11,740, compared with 9,199 in the 1998 period. The average number of employees in Sweden was 1,278, compared with 1,456 in the year-earlier period.

Preparation for the year 2000

Swedish Match has been working since 1997 to ensure that the Group's computer systems will be able to handle the changeover to the new millennium without problems. Slightly more than 250 systems have been checked. Virtually all systems have been subjected to final tests and are in production. The Group judges that it is well prepared for the millennium shift.

Legal situation in US

The uncertainty concerning the legal situation for the American cigarette industry remains, despite settlements with the states in the so-called Medicaid cases. Swedish Match is not affected by this. The American subsidiary Pinkerton Tobacco Company has, during recent years, been named as a defendant in a number of individual product-liability cases related to the use of smokeless tobacco. None of these cases have as yet gone to trial.

Additional information

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

The preliminary report covering operations during full-year 1999 will be released on February 9, 2000.

Lennart Sundén
President and Chief Executive Officer

Consolidated Income Statement in summary

MSEK	July–September		January–September		Change %	Oct 1998– Sept 1999	Full year 1998
	1999	1998	1999	1998			
Sales, incl. tobacco tax	4,545	4,155	12,550	11,874		16,591	15,915
Less tobacco tax	-2,127	-1,932	-5,692	-5,837		-7,576	-7,721
Sales	2,418	2,223	6,858	6,037	14	9,015	8,194
Cost of goods sold	-1,413	-1,162	-3,695	-3,048	21	-4,743	-4,096
Gross profit	1,005	1,061	3,163	2,989	6	4,272	4,098
Sales and administrations costs, etc.	-609	-669	-1 888	-1 905	-1	-2,603	-2,620
Shares in earnings of associated co.	11	3	16	9	82	18	11
	407	395	1,291	1,093	18	1,687	1,489
Items affecting comparability	4,102	—	4 102	-48		4,042	-108
Operating income	4,509	395	5,393	1,045	416	5,729	1,381
Net interest expense	-24	-39	-93	-56		-119	-82
Other financial items, net	12	-22	30	-35		24	-41
Items affecting comparability	—	—	—	-60		—	-60
Net financial items	-12	-61	-63	-151		-95	-183
Income before taxes and minority interests	4,497	334	5,330	894	496	5,634	1,198
Taxes	-201	-118	-489	-324	51	-647	-482
Minority interests	3	6	1	8		3	10
Net profit for the period	4,299	222	4,842	578	738	4,990	726

Consolidated Balance Sheet in summary

MSEK	Sept 30, 1999	Dec 31, 1998
Intangible fixed assets	2,612	895
Tangible fixed assets	1,955	2,239
Participation in associated companies etc.	284	184
Financial fixed assets	151	279
Current operating assets	3,346	3,774
Current financial receivables	167	315
Current investments	4,949	1,386
Cash and bank balances	516	1,490
Total assets	13,980	10,562
Shareholders' equity	6,184	2 160
Minority interests	171	148
Provisions	1,024	1,165
Long-term loans	3,126	2,098
Other long-term liabilities	23	26
Short-term borrowings	593	2,233
Other current liabilities	458	340
Current operating liabilities	2,401	2,392
Total shareholders' equity, provisions and liabilities	13,980	10,562
Operating capital	5,796	4,700
Net debt	-1,746	1,455

Consolidated Cash Flow Statement in summary

MSEK	Jan-Sept 1999	Jan-Sept 1998
Cash flow from operations	993	714
<i>Investments</i>		
Investments in property, plant and equipment	-334	-203
Sales of property, plant and equipment	66	46
Sales of cigarette operations	4,798	
Investments in intangibles	-1,802	-202
Investment in associated companies and acquisition of companies	-51	-143
Changes in financial receivables etc.	154	50
Cash flow from investments	2,831	-452
<i>Financing</i>		
Changes in loans	-644	1,981
Dividend to shareholders	-474	-510
Share redemption		-1,147
Cash flow from financing	-1,118	324
Translation differences attributable to liquid funds	-117	1
Change in liquid funds	2,589	587
Liquid funds at January 1	2,876	563
Liquid funds at the end of the period	5,465	1,150

Quarterly data

MSEK	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3
Sales, incl. tobacco tax	3,741	3,978	4,155	4,041	3,838	4,167	4,545
Less tobacco tax	-1,902	-2,003	-1,932	-1,884	-1,716	-1,849	-2,127
Sales	1,839	1,975	2,223	2,157	2,122	2,318	2,418
Cost of goods sold	-894	-992	-1,162	-1,048	-1,076	-1,206	-1,413
Gross profit	945	983	1,061	1,109	1,046	1,112	1,005
Sales and administrations costs, etc.	-596	-640	-669	-715	-609	-670	-609
Shares in earnings of associated companies	3	3	3	2	3	2	11
	352	346	395	396	440	444	407
Items affecting comparability	—	-48	—	-60	—	—	4,102
Operating income	352	298	395	336	440	444	4,509
Net interest expense	-4	-13	-39	-26	-24	-45	-24
Other financial items, net	-7	-6	-22	-6	13	5	12
Items affecting comparability	—	-60	—	—	—	—	—
Net financial items	-11	-79	-61	-32	-11	-40	-12
Income after financial items	341	219	334	304	429	404	4,497
Income taxes	-111	-95	-118	-158	-143	-145	-201
Minority interests	0	2	6	2	4	-6	3
Net income for the period	230	126	222	148	290	253	4,299

Sales by product area

MSEK	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3
Chewing Tobacco	281	267	265	280	256	261	278	270
Cigars	193	187	225	230	260	224	370	407
Lighters	187	196	184	177	178	165	173	170
Matches	350	324	343	473	433	448	401	406
Pipe Tobacco & Accessories	44	48	57	55	58	55	53	100
Snuff	293	295	330	346	366	376	402	430
Other operations	184	194	209	261	229	243	262	635
Subtotal	1,532	1,511	1,613	1,822	1,780	1,772	1,939	2,418
Divested business	353	328	362	401	377	350	379	—
Total	1,885	1,839	1,975	2,223	2,157	2,122	2,318	2,418

Operating income by product area

MSEK	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2	99Q3
Chewing Tobacco	100	86	94	73	78	75	71	78
Cigars	35	31	32	32	22	39	57	55
Lighters	14	14	3	-3	4	2	-8	8
Matches	38	30	35	28	41	29	34	30
Pipe Tobacco & Accessories	5	12	9	8	9	17	11	22
Snuff	152	149	152	182	158	193	178	236
Other operations	-83	-62	-71	-66	-29	-42	-27	-22
Subtotal	261	260	254	254	283	313	316	407
Divested business	124	92	92	141	113	127	128	—
Items affecting comparability	—	—	-48	—	-60	—	—	4,102
Total	385	352	298	395	336	440	444	4,509



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