

# Interim Report January–June 1998



- *Consolidated sales rose to SEK 3,814 M (3,626)*
- *Operating profit amounted to SEK 650 M (741)*
- *Net profit amounted to SEK 356 M (528)*
- *Intensified efforts to increase efficiency of production plants*
- *Items affecting comparability against income amounted to SEK 108 M*
- *Continued sharp increase in sales and operating profit for snuff*

# Interim Report January–June 1998

Swedish Match sales during the first six months of 1998 rose 5% to SEK 3,814 M, compared with SEK 3,626 M during the corresponding period in 1997.

Operating profit declined to SEK 650 M, down from SEK 741 M. An item affecting comparability amounting to SEK 48 M was

charged against operating profit for the period.

The Snuff Division reported continued strong growth, with a sharp increase in sales and operating profit. The Cigarette Division's sales and operating profit declined due to lower volumes in the Swedish market.

## Summary of Consolidated Income Statement

SEK M	First six months	
	1998	1997
Sales	3,814	3,626
<b>Operating profit</b>	<b>650</b>	<b>741</b>
Profit after financial items	560	758
<b>Net profit</b>	<b>356</b>	<b>528</b>

## Sales by Division

SEK M	First six months		Percent change	12 months ended June 30, 1998	Full year 1997
	1998	1997			
Chewing Tobacco	532	556	- 4	1,125	1,149
Cigarettes*	690	779	- 11	1,457	1,546
Cigars	412	337	22	766	691
Lighters	380	437	- 13	777	834
Matches	667	652	2	1,314	1,299
Pipe Tobacco	105	78	35	193	166
Snuff	625	505	24	1,199	1,079
Group-wide operations and eliminations*	403	282	43	822	701
<b>Total</b>	<b>3,814</b>	<b>3,626</b>	<b>5</b>	<b>7,653</b>	<b>7,465</b>

\* 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-June 1998 period, which amounted to SEK 220 M, SEK 71 M was reported in the Cigarettes Division and SEK 149 M in Group-wide operations.

## Operating Profit by Division

MSEK	First six months		Percent change	12 months ended June 30, 1998	Full year 1997
	1998	1997			
Chewing Tobacco	180	197	- 9	403	420
Cigarettes *	184	238	- 23	483	537
Cigars	63	57	11	137	131
Lighters	17	23	- 26	47	53
Matches	65	69	- 6	143	147
Pipe Tobacco	21	14	50	35	28
Snuff	301	232	30	591	522
Group-wide operations and eliminations*	- 133	- 89		- 296	- 252
Item affecting Comparability	- 48	—	—	- 48	—
<b>Total</b>	<b>650</b>	<b>741</b>	<b>- 12</b>	<b>1,495</b>	<b>1,586</b>

\*) 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 six months of 1998 amounted to SEK 532 M, a decline of SEK 24 M, or 4%, compared with the first six months of 1997.

Expressed in local currencies, sales were down 10%. The decline in sales was due primarily to total market decline, somewhat lower market shares and hoarding (stockpiling) at the retail level during the fourth quarter of 1997. The market was characterized by more intense price pressure.

Operating profit declined 9% to SEK 180 (197), due mainly to volume decline.

Share of Group Sales, 14%



Share of Group Operating Profit, 22%



# Cigarettes



The Swedish market accounts for 75% of sales invoiced by the Cigarettes Division. The Division also sells cigarettes in Estonia and duty-free outlets, as well as filters and cigarette papers in the U.K.

Sales during the first six months of 1998 amounted to SEK 690 M, a decline of SEK 89 M, or 11%, compared with the first half 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. The new agreement regarding Prince cigarettes, which became effective on May 1, 1997, had a negative effect on sales from the Division of approximately SEK 110 M, compared with the first six months of 1997.

During 1997 the tobacco tax on cigarettes in Sweden was raised 63%, which caused a sharp increase of illegal trade. Regular deliveries to the total Swedish market declined from approximately SEK 3 billion cigarettes during the first half of 1997 (without the hoarding effect, the figure would have been approximately 3.35 billion) to about 2.5 billion cigarettes during the first half of 1998.

Operating profit was down 23% to SEK 184 M (238). The effects of hoarding on operating profit toward year-end 1996/1997 have been estimated at approximately SEK 45 M. Higher marketing costs caused by the re-launch of Blend cigarettes were charged against income for the period. Production rationalization measures had favorable effects on operating profit.

Share of Group Sales, 18%



Share of Group Operating Profit, 22%



# Cigars



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

Sales during the first six months of 1998 totaled SEK 412 M (337), an increase of 22% compared with the first

half of 1997. Two new operating units have been consolidated in 1998: cigar operations in Finland and Swedish Match Australia Pty. The operations contributed sales of SEK 60 M during the first half of 1998.

Operating profit amounted to SEK 63 M (57). Substantial costs for intensified marketing in the U.S. had a negative effect on operating profit.

Share of Group Sales, 11%



Share of Group Operating Profit, 7%



# 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 half of

1998 declined 13% to SEK 380 M (437). Volumes fell in Asia/Pacific and in North America and prices were down in Asia/Pacific.

Operating profit declined by SEK 6 M to SEK 17 M. Productivity improvements did not compensate fully for the negative effects of lower prices and volumes on earnings.

Share of Group Sales, 10%



Share of Group Operating Profit, 2%



# 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 six months of 1998 amounted to SEK 667 M (652). Lower volumes of match sales, particularly in Europe, were offset in part by higher sales invoiced by Arenco.

Operating profit was down SEK 4 M to SEK 65 M. Productivity improvements yielded favorable effects on profit, which were offset by lower volumes.

During the period under review, additional shares in

PLAM Bulgarski Kibrit JSCO were acquired, bringing Swedish Match's holding to more than 90%. Sales by the Bulgarian company during the first half of 1998 amounted to approximately SEK 10 M.

Swedish Match Kav, the Turkish match company, was consolidated for two months during the period. Sales in the first half of 1998 totaled SEK 11 M.

Additional shares have been acquired in the two investment companies in Singapore that own 39% of the shares in Wimco Ltd., India. The holding in the investment companies is thereafter 94%. Wimco is included in this interim report as an associated company.

Swedish Match intends to terminate production of advertising matches in Geraardsbergen, Belgium. Production is being transferred to the factory in Szeged, Hungary. Total costs of the transfer are estimated at SEK 48 M.

# Pipe Tobacco



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

Sales rose 35% to SEK 105 M (78). Operating profit improved by SEK 7 to SEK 21 M. The takeover of the right to market Borkum Riff in the U.S. had a favorable impact on the Division's sales and operating profit.

# Snuff



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

Sales during the first six months of 1998 amounted to SEK 625 M (505), an increase of 24% over sales in the year-earlier period.

Swedish Match's share of the U.S. market continued to increase during the first half of 1998, rising to 4.1% (2.8). At year-end 1997 the market share was 3.2%. The Swedish market, including duty-free sales, rose in volume by about 4% compared with the year-earlier period.

The price of Timber Wolf in the U.S. market was raised from USD 0.70 to USD 0.90 during the first quarter of the year, in line with a price hike previously implemented by US Tobacco. The corresponding price during the first half of 1997 was USD 1.10, which was reduced in August of the same year due to intensified price competition.

Operating profit rose 30% to SEK 301 M (232) on the strength of higher volumes in Sweden (including duty-free) and the U.S., as well as improvements in the Swedish product mix. Stronger focus was placed on marketing in both Sweden and the U.S. during the second quarter.

## Group-wide operations

The net costs for the Group-wide operations increased to SEK 133 M (89). The figure includes sponsorship costs for participation in the Whitbread Round the World Race and costs incurred for the Swedish Match Global Challenge, an internal project. The sponsorship will be terminated during the third quarter 1998.

## Acquisitions

Swedish Match has established its own operation in Australia during the first half of 1998 through Swedish Match Australia Pty. Limited. The company has acquired an extensive, national distribution network for sales of tobacco and tobacco-related products from the Alexander Group. Sales from operations in 1997 amounted to SEK 60 M.

Share of  
Group Sales,  
17%

Share of  
Group Operating  
Profit, 8%

Share of  
Group Sales,  
3%

Share of  
Group Operating  
Profit, 3%

Share of  
Group Sales,  
16%

Share of  
Group Operating  
Profit, 36%

Swedish Match has also acquired the match, lighters and fireplace matches operations of Bryant & May, another Australian company. The acquisition includes inventories, equipment, goodwill, trademarks and the Bryant & May company name. The acquisition is expected to increase consolidated sales by about SEK 50 M annually.

*Financial Results*

Net interest expense during the first half of 1998 totaled SEK -17 M (expense: 7). Other financial items, a net expense of SEK 13 M (income: 24), are attributable primarily to exchange rate movements related to financial assets and liabilities, as well as costs incurred for the redemption program. In addition, a provision was reported for risks totaling SEK 60 M to cover the Group's financial exposure in Southeast Asia.

*Investments, Financing and Liquidity*

Group investments during the first half of 1998 amounted to SEK 261 M (121). Depreciation according to plan totaled SEK 159 M (142). Cash and bank balances, including short-term investments, totaled SEK 862 M at the close of the period, compared with SEK 563 M at the beginning of 1998. Net debt at the close of the period totaled SEK 1,016 M, an increase of SEK 545 M since December 1997.

*Average Number of Group Employees*

The average number of Group employees during the first half of 1998 was 7,057, compared with 6,272 in the first half of 1997. The average number of employees in Sweden was 1,467, compared with 1,475 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 9,812 M (9,197).

*Significant Events after the End of the Reporting Period*

**Reduction of tobacco tax in Sweden**

Swedish Parliament has resolved to reduce the tobacco tax imposed on cigarettes in Sweden, effective August 1, 1998. As a result, the unit price per cigarette will be reduced from SEK 0.85 to SEK 0.20, while that portion of taxes related to the retail price will be raised from 17.8% to 39.2%. Swedish Match will adjust its prices at the same time. Price cuts for major products are shown below.

*Blend Gul Cigarettes  
(highest fixed price)*

SEK	Before 1 Aug.	After 1 Aug.
Sales Price Swedish Match	5.28	5.17
Retail sales margin	5.40	4.91
Sales and value added tax	33.82	24.42
Price paid by consumer	44.50	34.50

**Redemption**

On July 7, 1998, an extraordinary general meeting of Swedish Match resolved to approve the redemption of 34,752,689 shares at a redemption price of SEK 35 per share. The total redemption amount, accordingly, is SEK 1,216 M, which was transferred to shareholders who had applied for redemption at the end of July. The extraordinary general meeting also approved a bonus issue of shares to be effected by increasing the par value of Swedish Match shares from SEK 2.00 to SEK 2.20. In conjunction with redemption, a special issue of new shares in the amount of SEK 69.5 M was also effected. After the transactions reviewed above, the total number of shares outstanding was 431,339,663.


**Outlook**

Efforts to increase the efficiency of Group production plants have been intensified this year. Decisions on additional rationalization measures are expected during the second half of 1998. Costs for the proposed structural changes have been estimated at approximately SEK 100 M. Savings from the rationalization program will yield favorable effects on income beginning in 1999. Within the framework of its declared business strategies, Swedish Match also plans to assume an active role in the search for suitable structural transactions in the tobacco industry.

*Other Information*

This report has not been reviewed by Swedish Match auditors.

The interim report for operations during the nine-month period ended September 30, 1998 will be published on October 23, 1998.



Göran Lindén  
*President and Chief Executive Officer*

## Consolidated Income Statement in summary

SEK M	First six months		Percent change	12 months ended June 30, 1998	Full year 1997
	1998	1997			
Sales, incl. tobacco tax	7,719	7,175	8	15,775	15,231
Less tobacco tax	- 3,905	- 3,549	- 10	- 8,122	- 7,766
<b>Sales</b>	<b>3,814</b>	<b>3,626</b>	<b>5</b>	<b>7,653</b>	<b>7,465</b>
Cost of goods sold	- 1,886	- 1,775	6	- 3,726	- 3,615
<b>Gross profit</b>	<b>1,928</b>	<b>1,851</b>	<b>4</b>	<b>3,927</b>	<b>3,850</b>
Sales and administration costs, etc	- 1,236	- 1,119	10	- 2,398	- 2,281
Shares of earnings in associated companies	6	9	- 33	14	17
	<b>698</b>	<b>741</b>	<b>- 6</b>	<b>1,543</b>	<b>1,586</b>
Item effecting comparability*	- 48	—	—	- 48	—
<b>Operating profit</b>	<b>650</b>	<b>741</b>	<b>- 12</b>	<b>1,495</b>	<b>1,586</b>
Net interest expense	- 17	- 7		- 27	- 17
Other financial items, net	- 13	24		- 48	- 11
Risk exposure	- 60	—		- 60	—
Net financial items	- 90	17		- 135	- 28
<b>Profit after financial items</b>	<b>560</b>	<b>758</b>	<b>- 26</b>	<b>1,360</b>	<b>1,558</b>
Taxes	- 206	- 226	9	- 492	- 512
Minority interest	2	- 4		5	- 1
<b>Net profit</b>	<b>356</b>	<b>528</b>	<b>- 33</b>	<b>873</b>	<b>1,045</b>

\* Transfer of production from Geraardsbergen, Belgium.

## Consolidated Balance Sheet in summary

SEK M	June 30, 1998	Dec 31, 1997
Intangible fixed assets	876	757
Tangible fixed assets	2,410	2,226
Financial fixed assets	296	308
Current operating assets	3,242	3,125
Current financial receivables	143	153
Cash and bank	862	563
<b>Total assets</b>	<b>7,829</b>	<b>7,132</b>
Shareholders' equity	2,787	2,972
Minority interests	79	20
Provisions	752	656
Long-term loans	655	209
Other long-term liabilities	33	27
Short-term borrowings	1,223	825
Other current liabilities	211	290
Current operating liabilities	2,089	2,133
<b>Total equity, provisions and liabilities</b>	<b>7,829</b>	<b>7,132</b>
Operating capital	4,439	3,975
Net debt	1,016	471

## Key Data

	12 month ended June 30, 1998	Full year 1997
Operating margin, %*	20.2	21.2
Return on operating capital, %*	38.8	42.7
Return on shareholders' equity, %	33.1	39.5
Interest coverage ratio, times	16.0	24.9
Debt/equity ratio, %	35.5	15.7
Equity/assets ratio, %	36.6	41.9
Investments, SEK M	294	292
Average number of employees	7,057**	6,467
<i>Share data</i>		
Income per share after full tax, SEK		
Before items affecting comparability	2.07	2.25
After items affecting comparability	1.88	2.25
Shareholders' equity per share, SEK	6.01	6.41
Number of shares outstanding	463,558,252	463,558,252

\* Before item affecting comparability.

\*\* First six months 1998.

## Key Data and Data per Share, pro forma

In view of the share redemption program, the Group's key data has been calculated pro forma in the table below. In the calculation, the redemption amount has been treated as paid in the beginning of the period.

	Actual result, rolling 12-months through June 30, 1998	Adjustments	Pro forma, rolling 12-months
Number of shares	463,558,252	- 32,218,589	431,339,663
Income per share, SEK	1.83*)		1.93
Shareholders' equity per share, SEK	5.87*)		3.80
Equity/assets ratio, %	36.6		22.0
Return on shareholders equity, %	33.1		56.0

\* Since the redemption price per share exceeds the share price, rolling-12-month income per share and shareholders' equity through June 30, 1998 have been adjusted to facilitate comparisons with income per share and shareholders' equity

per share prior to redemption. Without the adjustments, income per share and shareholders' equity per share during the 12-month period under review amounted to SEK 1.88 and SEK 6.01, respectively.

## Quarterly Data

SEK M	97Q1	97Q2	97Q3	97Q4	98Q1	98Q2
Sales, incl. tobacco tax	3,181	3,994	4,173	3,883	3,741	3,978
Les tobacco tax	- 1,497	- 2,052	- 2,219	- 1,998	- 1,902	- 2,003
<b>Sales</b>	<b>1,684</b>	<b>1,942</b>	<b>1,954</b>	<b>1,885</b>	<b>1,839</b>	<b>1,975</b>
Cost of goods sold	- 807	- 968	- 959	- 881	- 894	- 992
<b>Gross profit</b>	<b>877</b>	<b>974</b>	<b>995</b>	<b>1,004</b>	<b>945</b>	<b>983</b>
Sales and administration costs, etc	- 548	- 571	- 540	- 622	- 596	- 640
Shares of earnings in associated companies	5	4	5	3	3	3
	334	407	460	385	352	346
Item affecting comparability	—	—	—	—	—	- 48
<b>Operating profit</b>	<b>334</b>	<b>407</b>	<b>460</b>	<b>385</b>	<b>352</b>	<b>298</b>
Net interest expense	- 3	- 4	- 6	- 4	- 4	- 13
Other financial items, net	21	3	- 17	- 18	- 7	- 6
Risk exposure	—	—	—	—	—	- 60
Net financial items	18	- 1	- 23	- 22	- 11	- 79
<b>Profit after financial items</b>	<b>352</b>	<b>406</b>	<b>437</b>	<b>363</b>	<b>341</b>	<b>219</b>
Income taxes	- 116	- 110	- 155	- 131	- 111	- 95
Minority interests	- 2	- 2	2	1	0	2
<b>Net profit</b>	<b>234</b>	<b>294</b>	<b>284</b>	<b>233</b>	<b>230</b>	<b>126</b>

## Sales by Division

SEK M	97Q1	97Q2	97Q3	97Q4	Full year 1997	98Q1	98Q2
Chewing Tobacco	295	261	312	281	1,149	267	265
Cigarettes	349	430	414	353	1,546	328	362
Cigars	151	186	161	193	691	187	225
Lighters	211	226	210	187	834	196	184
Matches	303	349	297	350	1,299	324	343
Pipe Tobacco	37	41	44	44	166	48	57
Snuff	238	267	281	293	1,079	295	330
Group-wide operations and eliminations	100	182	235	184	701	194	209
<b>Total</b>	<b>1,684</b>	<b>1,942</b>	<b>1,954</b>	<b>1,885</b>	<b>7,465</b>	<b>1,839</b>	<b>1,975</b>

## Operating Profit by Division

SEK M	97Q1	97Q2	97Q3	97Q4	Full year 1997	98Q1	98Q2
Chewing Tobacco	104	93	123	100	420	86	94
Cigarettes	94	144	175	124	537	92	92
Cigars	30	27	39	35	131	31	32
Lighters	10	13	16	14	53	14	3
Matches	26	43	40	38	147	30	35
Pipe Tobacco	5	9	9	5	28	12	9
Snuff	115	117	138	152	522	149	152
Group-wide operations and eliminations	- 50	- 39	- 80	- 83	- 252	- 62	- 71
Item affecting comparability	—	—	—	—	—	—	- 48
<b>Total</b>	<b>334</b>	<b>407</b>	<b>460</b>	<b>385</b>	<b>1 586</b>	<b>352</b>	<b>298</b>

# Addresses

Swedish Match  
Chewing Tobacco Division  
*P.O. Box 11588*  
*Richmond, Virginia*  
*23230-1588*  
USA  
Tel. +1 804 287 3220  
Fax +1 804 287 3282

Swedish Match  
Cigarette Division  
*SE-118 85 Stockholm*  
*Sweden*  
Tel. +46 8 658 0200  
Fax +46 8 668 7217

Swedish Match  
Cigar Division  
*P.O. Box 1*  
*NL-5505 AA Valkenswaard*  
*The Netherlands*  
Tel. +31 40 208 5555  
Fax +31 40 208 5501

Swedish Match  
Lighter Division  
*P.O. Box 222*  
*CH-1260 Nyon 1*  
*Switzerland*  
Tel. +41 22 363 9111  
Fax +41 22 361 9912

Swedish Match  
Match Division  
*P.O. Box 222*  
*CH-1260 Nyon 1*  
*Switzerland*  
Tel. +41 22 363 9111  
Fax +41 22 363 9172

Swedish Match  
Pipe Tobacco Division  
*P.O. Box 11588*  
*Richmond*  
*Virginia 23230-1588*  
USA  
Tel. +1 804 287 3220  
Fax +1 804 287 3208

Swedish Match  
Snuff Division  
*Box 77*  
*SE-401 21 Göteborg*  
*Sweden*  
Tel. +46 31 80 86 00  
Fax +46 31 15 61 04

Swedish Match  
North European Sales Region  
*SE-118 85 Stockholm*  
*Sweden*  
Tel. +46 8 658 0200  
Fax +46 8 720 6928

Swedish Match  
West European Sales Region  
*P.O. Box 1*  
*NL-5550 AA Valkenswaard*  
*The Netherlands*  
Tel. +31 40 208 5555  
Fax +31 40 208 5507

Swedish Match  
East European Sales Region  
*SE-118 85 Stockholm*  
*Sweden*  
Tel. +46 8 658 0200  
Fax +46 8 84 20 15

Swedish Match  
North American Sales Region  
*P.O. Box 11588*  
*Richmond*  
*Virginia 23230-1588*  
USA  
Tel. +1 804 287 3220  
Fax +1 804 287 3208

Swedish Match  
Latin American Sales Region  
*P.O. Box 70052*  
*22422-970*  
*Rio de Janeiro, RJ*  
*Brazil*  
Tel. +55 21 522 1122  
Fax +55 21 522 1904

Swedish Match  
Asia/Pacific Sales Region  
*P.O. Box 222*  
*CH-1260 Nyon 1*  
*Switzerland*  
Tel. +41 22 363 9111  
Fax +41 22 361 9912

Swedish Match  
Africa/Middle East Sales Region  
*Centro Comercial*  
*Gran Via de Hortaleza*  
*C/Arequipa, 1*  
*E-28043 Madrid*  
*Spain*  
Tel. +34 1 381 6400  
Fax +34 1 381 7873

Swedish Match  
Advertising Products  
*P.O. Box 222*  
*CH-1260 Nyon 1*  
*Switzerland*  
Tel. +41 22 363 9111  
Fax +41 22 361 9912

☆☆☆  
**SWEDISH MATCH**

Swedish Match AB (publ) | SE-118 85 Stockholm, Sweden | Visitingaddress: Rosenlundsgatan 36  
Telephone +46 8 658 02 00 | Telefax +46 8 658 35 22 | [www.swedishmatch.se](http://www.swedishmatch.se)