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Interim Report January–June 1999

- ★ *Sales increased 16 percent, to SEK 4,440 M*
- ★ *Operating income rose 36 percent, to SEK 884 M*
- ★ *Net income rose 53 percent, to SEK 543 M*
- ★ *Continued strong organic growth for Snuff and Cigars*
- ★ *Clearly apparent and lasting cost reductions*
- ★ *Agreement to sell the cigarette business for SEK 4,800 M*
- ★ *Swedish Match number two in the world in Cigars, after acquisition in the US*

Interim Report

January–June 1999

Swedish Match's sales during the first half of 1999 increased by 16 percent, to SEK 4,440 M (3,814), of which acquisitions accounted for 10 percent. Operating income rose by 36 percent, from SEK 650 M to SEK 884 M, and Net income increased from SEK 356 M to SEK 543 M or 53 percent.

Snuff continued to show a strong increase in volume of business, notably in the North American market. Snuff's operating income rose 23 percent, to SEK 371 M (301).

Cigars reported a sharp increase in both sales (44%) and operating income (52%) based on organic growth, primarily in Western Europe and on an acquisition in the United States.

The ongoing cost-savings program has resulted in lasting reductions in expenses.

In line with the new strategy, which involves a sharper focus on product areas with good growth potentials, such as smokeless tobacco (primarily snuff) and brown tobacco (cigars and pipe

tobacco), acquisitions and divestments were made by Swedish Match. An agreement was reached covering the sale of the cigarette business to Austria Tabak for SEK 4,800 M. The cigarette operations were included in Swedish Match's accounts up to and including June 30, 1999. A significant part of General Cigar's business in the U.S., with annual sales of SEK 800 M, was acquired during the first half of 1999. This business was consolidated effective May 1. Swedish Match then made a supplementary acquisition of premium cigars in the U.S. The latter operation is expected to be consolidated as of September 1.

Summary of Consolidated Income Statement

MSEK	First six months	
	1999	1998
Sales	4,440	3 814
Operating income	884	650
Income after financial items	833	560
Net income	543	356

Sales by product area

MSEK	First six months			12 months ended June 30, 1999	Full year 1998
	1999	1998	Percent change %		
Chewing Tobacco	539	532	1	1,075	1,068
Cigarettes	729	690	6	1,507	1,468
Cigars	594	412	44	1,084	902
Lighters	338	380	-11	693	735
Matches	849	667	27	1,755	1,573
Pipe Tobacco	108	105	3	221	218
Snuff	778	625	24	1,490	1,337
Other operations	505	403	25	995	893
Total	4,440	3,814	16	8,820	8,194

Operating income by product area

MSEK	First six months		Percent change %	12 months ended June 30, 1999	Full year 1998
	1999	1998			
Chewing Tobacco	146	180	-19	297	331
Cigarettes	255	184	39	509	438
Cigars	96	63	52	150	117
Lighters	-6	17		-5	18
Matches	63	65	-3	132	134
Pipe Tobacco	28	21	33	45	38
Snuff	371	301	23	711	641
Other operations	-69	-133		-164	-228
Subtotal	884	698	27	1,675	1,489
Items affecting comparability	—	-48	—	-60	-108
Total	884	650	36	1,615	1,381



Chewing Tobacco

Chewing tobacco operations are conducted mainly in the North American market, primarily in the U.S.

Sales in the first half of 1999 amounted to SEK 539 M (532). Stated in local currency, sales declined by 2 percent. Sales in the second quarter rose by 5

percent, to SEK 278 M (265). The total market for chewing tobacco is continuing to decline.

Operating income fell by 19 percent, to SEK 146 M (180). Operating income in the second quarter of 1999 amounted to SEK 71 M (94).



Share of Group sales, 12%



Share of Group income, 17%



Cigarettes

Cigarettes are sold in the Swedish and Estonian markets and in the tax-free market.

During the second quarter an agreement was reached covering the sale of Swedish Match's cigarette business to Austria Tabak for SEK 4,800 M. The operation was sold as of July 1, 1999.

Sales in the first half of the year increased by 6 percent, to

SEK 729 M (690). Sales in the second quarter rose 5 percent, to SEK 379 M (362).

The increase was attributable to larger volumes of sales of cigarettes, primarily in the Swedish market.

Operating income for the six-month period increased by 39 percent, to SEK 255 M (184), and income in the second quarter rose to SEK 128 M (92). The increases were attributable to the larger volumes of business and cost reductions.



Share of Group sales, 16%



Share of Group income, 29%



Cigars

Swedish Match is one of the world's largest producers of cigars. The Group's largest markets are Western Europe and the U.S. During the first quarter of 1999 an agreement was concluded covering the acquisition of a substantial portion of General Cigar's operations in the U.S. The acquired business comprises two production plants, machinery and equipment, plus inventories, and brand names, together with a sales force of approximately 70 persons and a total of about 1,000 employees. The business was consolidated effective May 1. As a result of the acquisition, Swedish Match is gaining annual SEK 800 M in annual sales and the increase in the Group's profit per share is expected to

amount to between SEK 0.15 and SEK 0.20 beginning in the year 2000. Garcia y Vega, White Owl, Tiparillo and Tijuana Smalls are among the brands included in the acquisition.

Cigar sales in the first half of 1999 amounted to SEK 594 M (412), an increase of 44 percent. The acquired operation contributed sales of SEK 143 M during the period. The organic growth is primarily the result of increases in volumes of business in Western Europe and Australia. Sales in the second quarter increased to SEK 370 M (225).

Operating income during the six-month period increased by 52 percent, to SEK 96 M (63), and to SEK 57 M (32) in the second quarter, mainly the result of acquisitions and larger volumes of business.



Share of Group sales, 13%



Share of Group income, 11%



Lighters

Swedish Match is one of the world's largest manufacturers of disposable lighters. Its largest markets are Europe, parts of Asia, and the U.S.

Sales declined to SEK 338 M (380) in the first half

of the year, and to SEK 173 M (184) in the second quarter.

Lighters incurred an operating loss of SEK 6 M (17) for the first half of the year, and a loss of SEK 8 M (3) in the second quarter. Losses in efficiency as a result of the closing of the plant in Lyon, France, had a negative impact on results.



Share of Group sales, 8%



Share of Group income, neg



Matches

Swedish Match is the world's only global manufacturer of matches. The Group's principal markets are Europe, South America and Asia. Operations include

Swedish Match Arenco, which produces machinery used in the manufacture of matches.

In the beginning of 1999 Swedish Match concluded an agreement to acquire 40 percent of Indonesia's largest match producer, P. T. Java Match Factory.

Sales increased by 27 percent, to SEK 849 M (667), in the first half of the year, and to SEK 401 M (343) in the second quarter. The increase in sales was attributable primarily to acquisitions and consolidations of new units.

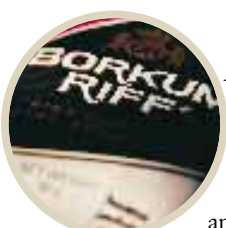
Operating income in the six-month period declined to SEK 63 M (65), and to SEK 34 M (35) in the second quarter. The devaluation of the Brazilian real affected operating income negatively in the amount of SEK 10 M, compared with income in the first half of 1998.



Share of Group sales, 19%



Share of Group income, 7%



Pipe Tobacco

Swedish Match is one of the world's largest manufacturers of pipe tobacco. The principal markets are North America and Northern and Western Europe.

Sales for the six-month period amounted to SEK

108 M (105), and to SEK 53 M (57) in the second quarter.

Operating income for the six-month period rose by 33 percent, to SEK 28 M (21), and to SEK 11 M (9) in the second quarter.



Share of Group sales, 2%



Share of Group income, 3%



Snuff

Swedish Match is the leading producer of snuff in the Swedish and Norwegian markets, and one of four leading manufacturers in the U.S.

Sales in the first half of 1999 increased by 24 percent, to SEK 778 M (625), and by 22 percent, to SEK 402 M (330) in the second quarter. The volume of business in the

U.S. rose by 51 percent, compared with first-half 1998 operations. The increase in volume in the Nordic market, including tax-free sales, amounted to 7 percent.

Operating income in the six-month period increased by 23 percent, to SEK 371 M (301), and by 17 percent, to SEK 178 M (152) in the second quarter.



Share of Group sales, 18%



Share of Group income, 42%

Key data

	12 months ended June 30, 1999	Full year 1998
Operating margin, % *	19.0	18.2
Return on operating capital, % *	34.5	33.2
Return on shareholders' equity, %	38.7	28.3
Interest coverage ratio, times	6.6	7.6
Debt/equity ratio, %	147.8	63.0
Equity/assets ratio, %	20.8	21.9
Investments in tangible assets, MSEK	522	393
Average number of employees	11,752	10,314

	12 months ended June 30, 1999	Full year 1998
<i>Share data</i>		
Income per share after full tax		
Before items affecting comparability, SEK	2:32	1:96
After items affecting comparability, SEK	2:10	1:59
Shareholders' equity per share, SEK	4:48	5:00
Number of shares outstanding	431,339,663	431,339,663

Income per share after full tax during the first half of 1999, 1:26 SEK (0:75)

* Before items affecting comparability

Other Operations

The net of Other Operations was a loss of SEK 69 M (-133) in the first half of 1999. Sustained cost savings were achieved.

Net financial expense

Net financial expense in the first half of the year amounted to SEK 69 M (-17). The increase was attributable primarily 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 18 M (-13).

Investments

The Group's direct investments in tangible fixed assets amounted to SEK 283 M (154). The investments pertained mainly to replacement and rationalization expenditures and to the take over of fixed assets amounting to SEK 130 M in connection with acquisitions of assets and liabilities. In addition, SEK 1,486 M (133) 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 in the U.S. Depreciation according to plan totaled SEK 182 M (159).

Investments in associated companies amounted to SEK 50 M.

Financing and liquidity

Net debt at the end of the period amounted to SEK 3,079 M, an increase of SEK 1,624 M since December 1998. Cash and bank deposits, including short-term investments, amounted to SEK 858 M at the end of the period, compared with SEK 2,876 M at the beginning of the year. Liquid funds are placed with banks in short-term negotiable Government securities.

Tobacco tax

During the past 12 months, total tobacco tax and value-added tax for tobacco products paid by Swedish Match in Sweden amounted to SEK 8,810 M (9,812).

Acquisitions and divestments

Swedish Match sold its cigarette operations to Austria Tabak for SEK 4,800 M. The deal was approved by the Swedish Competition Authority by July 21, 1999. Part of the total purchase price, SEK 1,000 M was paid at the end of July. The deal is expected to be finally closed by August 31, 1999. The capital gain is estimated to SEK 4,200 M and the tax on the purchase price is estimated to 1 percent. The cigarette operations will be transferred to Austria Tabak effective July 1, 1999.

On July 2, 1999 Swedish Match concluded an agreement to acquire El Credito Cigars in the U.S.; the company manufactures and markets premium cigars, mainly

for the American market. Its largest-selling brand is La Gloria Cubana. The acquisition includes production units with 350 employees in the Dominican Republic and in Miami, Florida. The company had sales of USD 11 M in 1998. With this company and the earlier acquisition of the "mass market" cigar operations of General Cigar, all price segments in the North American market are now being covered. El Credito is expected to be consolidated as of September 1, 1999.

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 provide a more market-oriented organization with clearly defined responsibility for results, and to link Group management directly to the operating units.

The number of Group offices has been reviewed and, among other measures, it has been decided to close Swedish Match's office in Nyon, Switzerland.

Average number of Group employees

The Group had an average of 11,752 employees during the period, compared with 7,057 during the first half of 1998. The number during the first half of 1999 includes Wimco in India, with 4,487 employees. The average number of employees in Sweden was 1,404, compared with 1,467 a year earlier.

Preparation for the year 2000

Swedish Match has worked since the beginning of 1997 to ensure that the Group's computer systems will be able to handle the transition to the new millennium without problems. A seven-step examination of slightly more than 250 systems is being conducted. As of June 30, 1999, more than 95 percent of the systems had undergone the greater part of the examination. Plans call for all systems to be tested and in production during September 1999. The view is that the Group is well prepared for the millennium.

Additional information

Swedish Match auditors have not reviewed this report.

The interim report covering operations during the nine months ended September 30, 1999 will be released October 29, 1999.

Lennart Sundén
President and Chief Executive Officer

Consolidated Income Statement in summary

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MSEK	First six months		Percent change %	12 months ended June 30, 1999	Full year 1998
	1999	1998			
Sales, incl. tobacco tax	8,005	7,719	4	16,201	15,915
Less tobacco tax	-3,565	-3,905	-9	-7,381	-7,721
Sales	4,440	3,814	16	8,820	8,194
Cost of goods sold	-2,282	-1,886	21	-4,492	-4,096
Gross profit	2,158	1,928	12	4,328	4,098
Sales and administrations costs, etc.	-1,279	-1,236	4	-2,663	-2,620
Shares in earnings of associated companies	5	6	-19	10	11
	884	698	27	1,675	1,489
Items affecting comparability	—	-48	—	-60	-108
Operating income	884	650	36	1,615	1,381
Net interest expense	-69	-17		-134	-82
Other financial items, net	18	-13		-10	-41
Items affecting comparability	—	-60		—	-60
Net financial items	-51	-90		-144	-183
Income after financial items	833	560	49	1,471	1,198
Taxes	-288	-206	40	-564	-482
Minority interests	-2	2		6	10
Net profit for the period	543	356	53	913	726

Consolidated Balance Sheet in summary

MSEK	June, 30 1999	Dec 31, 1998
Intangible fixed assets	2,363	895
Tangible fixed assets	2,263	2,239
Participation in associated companies etc.	227	184
Financial fixed assets	187	279
Current operating assets	3,971	3,774
Current financial receivables	152	315
Current investments	12	1,386
Cash and bank balances	846	1,490
Total assets	10,021	10,562
Shareholders' equity	1,932	2,160
Minority interests	151	148
Provisions	1,116	1,165
Long-term loans	3,028	2,098
Other long-term liabilities	128	26
Short-term borrowings	909	2,233
Other current liabilities	414	340
Current operating liabilities	2,343	2,392
Total shareholders' equity, provisions and liabilities	10,021	10,562
Operating capital	6,481	4,700
Net debt	3,079	1,455

Consolidated Cash Flow Analysis in summary

MSEK	Jan-March 1999	Jan-March 1998
Cash flow from operations	706	355
<i>Investments</i>		
Investments in property, plant and equipment	-283	-154
Sales of property, plant and equipment	33	12
Investments in intangibles	-1,486	-133
Investment in associated companies and acquisition of companies	-50	-126
Changes in financial receivables etc.	189	16
Cash flow from investments	-1,597	-385
<i>Financing</i>		
Changes in loans	-613	840
Dividend to shareholders	-474	-510
Cash flow from financing	-1,087	330
Translation differences attributable to cash and bank balances	-40	-1
Change in liquid funds	-2,018	299
Liquid funds at January 1	2,876	563
Liquid funds at the end of the period	858	862

Quarterly data

MSEK	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2
Sales, incl. tobacco tax	3,883	3,741	3,978	4,155	4,041	3,838	4,167
Less tobacco tax	-1,998	-1,902	-2,003	-1,932	-1,884	-1,716	-1,849
Sales	1,885	1,839	1,975	2,223	2,157	2,122	2,318
Cost of goods sold	-881	-894	-992	-1,162	-1,048	-1,076	-1,206
Gross income	1,004	945	983	1,061	1,109	1,046	1,112
Sales and administrations costs, etc.	-622	-596	-640	-669	-715	-609	-670
Shares in earnings of associated companies	3	3	3	3	2	3	2
	385	352	346	395	396	440	444
Items affecting comparability	—	—	-48	—	-60	—	—
Operating income	385	352	298	395	336	440	444
Net interest expense	-4	-4	-13	-39	-26	-24	-45
Other financial items, net	-18	-7	-6	-22	-6	13	5
Items affecting comparability	—	—	-60	—	—	—	—
Net financial items	-22	-11	-79	-61	-32	-11	-40
Income after financial items	363	341	219	334	304	429	404
Income taxes	-131	-111	-95	-118	-158	-143	-145
Minority interests	1	0	2	6	2	4	-6
Net income for the period	233	230	126	222	148	290	253

Sales by product area

MSEK	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2
Chewing Tobacco	312	281	267	265	280	256	261	278
Cigarettes	414	353	328	362	401	377	350	379
Cigars	161	193	187	225	230	260	224	370
Lighters	210	187	196	184	177	178	165	173
Matches	297	350	324	343	473	433	448	401
Pipe Tobacco	44	44	48	57	55	58	55	53
Snuff	281	293	295	330	346	366	376	402
Other operations	235	184	194	209	261	229	243	262
Total	1,954	1,885	1,839	1,975	2,223	2,157	2,122	2,318

Operating income by product area

MSEK	97Q3	97Q4	98Q1	98Q2	98Q3	98Q4	99Q1	99Q2
Chewing Tobacco	123	100	86	94	73	78	75	71
Cigarettes	175	124	92	92	141	113	127	128
Cigars	39	35	31	32	32	22	39	57
Lighters	16	14	14	3	-3	4	2	-8
Matches	40	38	30	35	28	41	29	34
Pipe Tobacco	9	5	12	9	8	9	17	11
Snuff	138	152	149	152	182	158	193	178
Other operations	-80	-83	-62	-71	-66	-29	-42	-27
Subtotal	460	385	352	346	395	396	440	444
Items affecting comparability	—	—	—	-48	—	-60	—	—
Total	460	385	352	298	395	336	440	444