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Production: Corporate staff functions
Corporate Affairs and Finance,
Swedish Match AB

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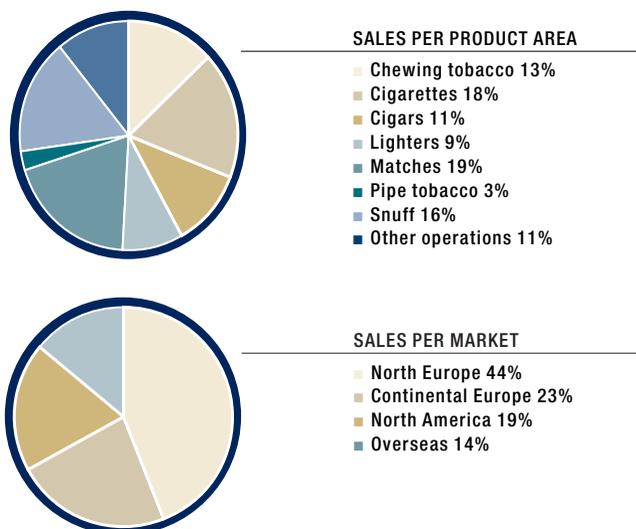
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SWEDISH MATCH 1998

- Group sales increased to SEK 8,194 million (7,465)
- Operating income declined to SEK 1,381 million (1,586), including items affecting comparability of SEK -108 million
- Costs for restructuring and new Group organization are included in items affecting comparability - costs-savings of SEK 200 million
- Continuing strong growth for snuff
- Favorable trend of sales of cigarettes during the second half following reduction of tax
- The Board of Directors proposes unchanged dividend of SEK 1.10 per share



KEY RATIOS		
SEK M	1998	1997
Net sales	8,194	7,465
Operating income	1,381	1,586
Income after financial items	1,198	1,558
Income for the year	726	1,045
Income per share after tax, SEK	1.59	2.20**
Dividend per share, SEK	1.10*	1.07**
Return on shareholders' equity, %	28.3	39.5

* Board proposal.

** Adjusted for bonus issue element in 1998 share redemption.

See page 51 for definitions.

SWEDISH MATCH in brief

Swedish Match is a Sweden based international Group which manufactures and markets a wide range of tobacco products, matches and disposable lighters. The company's product areas are:

- Snuff
- Chewing tobacco
- Cigars
- Pipe tobacco
- Cigarettes
- Matches
- Lighters

Swedish Match's business focus is based on the company's broad and deep know-how in the smokeless (snuff and chewing tobacco) and brown (cigars and pipe tobacco) tobacco product areas. Swedish Match has long experience of snuff operations and has a technical lead in the product development and manufacturing process. Swedish Match has strong market positions with specific products in selected geographical markets. The Group is well-positioned, with high market shares and well-known brands. The supplementary operations, primarily matches, give the Group a unique distribution network. Swedish Match is the only global player in this field, with unique experience and market knowledge.

Swedish Match's products are manufactured in 30 plants in 15 countries. The Group's largest sales organizations are in Western Europe, the United States and Northern Europe. Swedish Match also has extensive sales in other markets, and the Group's products are sold in 140 countries. Matches, lighters, cigars and pipe tobacco are sold in most of these markets.

Swedish Match's operations focus on fast-moving consumer goods and, as a result, are not normally sensitive to cyclical fluctuations. However, other factors, such as changes in consumer patterns and legislation, may have a considerable impact on the Group's operations.

OBJECTIVES

Swedish Match will achieve value growth mainly by being a major player in niche tobacco products – snuff, chewing tobacco, cigars and pipe tobacco.

STRATEGY

The Group's principal strategies are

- to concentrate most of its resources and future-oriented investments on smokeless products and cigars,
- to maintain its expertise and its unique wide coverage in different types of tobacco products,
- to utilize cross-border sales channels and its wide distribution network.

FINANCIAL OBJECTIVES

Return requirement for acquisitions and new investments

Acquisitions and investments involving expansion which are designed to achieve organic growth in existing operations must provide a return on the invested capital of at least 13 percent before tax. Assuming an equity/assets ratio of 30 percent, this means a return of 22 percent on shareholders' equity after tax. This requirement is based on an investment in Swedish kronor at current rates of inflation and interest. The return requirement for individual investments and acquisitions varies in accordance with the type of investment, the product area and the geographical market. An individual risk premium is assigned to each major investment, based on specific circumstances.

The debt/equity and interest coverage ratios
The aim is that the debt/equity ratio should not exceed 100 percent in the long term. Given the current balance sheet structure, this corresponds to an equity/assets ratio of about 30 percent. At current interest levels, interest coverage should not be less than a multiple of 10.

SHAREHOLDERS' PROGRAM

The Board has made the following program statement for transfer of surplus funds to the shareholders:

Under the condition that the goals set for the Groups' financial risk-taking are fulfilled, the Board will, in addition to the ordinary dividend, consider transfer in a proper manner of the surplus funds, which are considered not to be necessary for the Group's expansion and consolidation, to the shareholders. The form for the transfer will be determined at any given time based on a combined assessment of available methods and the total effects for the Swedish Match Group and its shareholders.

Dividend policy

The Company's dividend policy to date remains valid. Accordingly, Swedish Match intends to distribute long-term 40-50 per cent of the Group's net income. The size and timing of the dividend depends on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors which must be considered.



President's statement

Swedish Match's income continued to be highly satisfactory in 1998, with an operating margin of about 18 percent and an operating income of almost SEK 1.4 billion. In addition, Swedish Match was able to transfer approximately SEK 1.2 billion to the shareholders during the year in a share redemption program.

But the fact is that sales declined in several important areas, costs increased and income dropped for the second year in a row. This is something, which we can change, and we will! Basically, Swedish Match has a good starting point and good prospects for the future. The income level is high and we have a strong financial position. We have a good product range, well-developed market channels and, in addition, strong market positions in the product areas where the global growth outlook is most promising. In the later part of 1998 we initiated an in-depth review of our operations, our strategies, our cost structure and our organization,

in order to exploit these advantages in an optimum manner. The results of this project will start to bear fruit in 1999.

THE PAST YEAR

Cigarettes had a turbulent year. As we foresaw, the dramatic tax increases in Sweden had a substantial impact on the legal market, with a heavy reduction in sales. At the same time, according to all the information available, there was a dramatic increase in illegal trade. As a result, the Swedish Government's decision to cancel a considerable proportion of the tax increases as from August 1, 1998 was welcome for several reasons. Sales of Swedish Match's products returned to more normal levels.

In the case of snuff developments continue to be favorable. Smokeless tobacco, where snuff is the most significant product, has now become our most important product area, both in terms of sales and income.

Another crucial product category is Cigars, with a growing market. We have a

strong position in this field, and there was satisfactory sales growth during the year. Pipe tobacco is a much smaller product area, but since profitability is good, it is nonetheless important. Both product areas are also useful because they give us access to interesting market channels.

Match sales increased in a satisfactory manner, although there was some decline in profits. In the next few years, however, I expect to see an improvement, for example as we gradually integrate our new acquisitions in Bulgaria, India, Turkey and Indonesia into our global match operations. But in the case of lighters, 1998 was a year of setbacks. The economic crises in Asia and Russia had a serious impact, both on sales and profitability. We are currently applying an objective approach in our review of this operation.

THE INDUSTRY

The political and legal turbulence in the tobacco industry in the United States is also affecting the industry elsewhere. The preliminary "Global Settlement" reached in 1997 failed to achieve sufficient support in the US Congress. Instead, it was replaced to some extent by agreements between the major American tobacco companies and all the various states. This partly clarifies the legal and economic frameworks that the industry has to live with in the US. Swedish Match has not been a party to these agreements, or participated in any other way.

Following the agreements with the states, there were signs in early 1999 of renewed restructuring of the industry.

In a global context, Swedish Match is a small tobacco company. However, in contrast to most other companies of a similar size, Swedish Match has a virtually unique broadness in its product range, and also has international leadership in two areas that are continuing to grow namely smokeless tobacco and cigars. We have a strong position, as developments continue to unfold.

PRIORITIES AND CONCENTRATION

The strategy review we have conducted will lead to the establishment of priorities between our various operations, and the concentration of a high proportion of our resources, in the form of capital and expertise, on areas in which we have the greatest competitive advantage. In particular, this means snuff and cigars. As a result, we established a new organization structure as from February 1, 1999, which is designed to rationalize our activities and which will also radically clarify responsibility for sales and profits.

SMOKELESS TOBACCO AND CIGARS – OUR GROWTH AREAS

Snuff sales are continuing to develop favorably, both in Northern Europe and North America. In Scandinavia, we are consolidating our strong position, with an active product development program. During the year, we also reviewed and concentrated our product range, and introduced new products.

In the United States, Swedish Match increased its market share from 3 to 5 percent. To reinforce our market positions in the US, we are currently implementing a systematic marketing program and an intelligent strategy for the development and profiling of our products.

In India, for example, and certain parts of Africa, there is a tradition of high-volume consumption of products that resemble snuff. We are currently investigating the various opportunities open to Swedish Match in these markets in the long term. We can use the match operation's sales and distribution network, for example.

In the case of cigars, Swedish Match is one of the market leaders in Europe, and we believe that we have excellent growth opportunities, both in Europe and in other markets. As in the case of snuff, new patterns of consumer behavior can be observed. New groups are discovering cigars – or rediscovering them – and the market is growing. We will participate in

this growth by implementing a carefully conceived marketing and product program.

CIGARETTES AND OTHER TOBACCO PRODUCTS

Cigarettes have been our largest field of operations for many years, but are now being outpaced by smokeless tobacco. In the future, our focus will be on our Nordic home market where we have strong positions and considerable established values that we will cultivate and develop in the most efficient manner.

In the case of pipe tobacco and chewing tobacco, we anticipate declining markets, with limited opportunities for expansion. Chewing tobacco operations, which are totally centered on the United States, are very extensive, however, with sales of more than SEK 1 billion. Both operations make useful contributions to Group income and, if properly managed, will continue to do so for some time to come.

MATCHES AND LIGHTERS

We are the global market leader in matches, and the only company with well-established operations on all five continents. Operating margins and incomes declined slightly in 1998, however, and this trend must be reversed. During 1999, we expect to be able to benefit from our new acquisitions. I regard a substantial improvement in margins in a few years' time as both feasible and necessary.

Finally, profitability on lighter operations is unacceptably low, and radical measures are called for. In the short term, we have decided to shut down one of our four plants in order to reduce costs and improve efficiency. We will evaluate the long-term potential of the lighter operation during 1999.

COST SAVINGS

We have initiated a cost-saving program to improve Group profitability. Cost savings and restructuring are expected to achieve a

full impact of about SEK 200 million annually, as from the second half of the year 2000.

ENVIRONMENT

In 1999, as from the New Year, we are devoting greater resources at the central level to environmental issues. We are developing a more consistent approach and strategy for environmental aspects of all our operations. This will enable us to monitor and control the environmental impact of our operations.

The first stage in this process is an environmental impact assessment of our global operations. When this study has been completed, we will prepare an environmental strategy for the company that will help us to achieve our business objectives with as little impact on the environment as possible.

A GOOD STARTING POINT

Prior to taking up my duties as President of Swedish Match, I was convinced that the company had excellent prerequisites for successful development. Nothing I have seen or learned during my first few months gives me cause to change this view. We are starting from a position of strength!

We will use this starting point in a systematic, purposeful and intelligent manner. We will invest where we have the greatest chances of achieving success. And we will concentrate the major proportion of our resources and future-oriented investments on smokeless products and cigars. We are rationalizing our activities, and becoming increasingly cost conscious in all our operations. We are maintaining our expertise and our unique broad range in our various tobacco product areas.

We are increasing our demands in all areas.

Lennart Sundén
President and Chief Executive Officer

SWEDISH MATCH share

TURNOVER

The Swedish Match Share is listed on the Stockholm Stock Exchange, and has also been traded on NASDAQ in the US since May 15, 1996. During 1998, there was total turnover of approximately 275 million (308) Swedish Match shares on the Stockholm Stock Exchange, with a daily average turnover of 1.1 million (1.2) shares. The turnover rate, or the liquidity of the share on the Stockholm Stock Exchange, amounted to 61 percent during the year, compared with the market average of 76 percent. The volume of trading on NASDAQ declined during the year, and the number of outstanding American Depository Receipts (with each ADR corresponding to 10 shares) declined to 331,000 (550,000). The depository bank is the Bank of New York.

MARKET TREND IN 1998

Swedish Match's market capitalization at year-end 1998 amounted to SEK 12.7 billion, compared with SEK 12.3 billion at the beginning of the year. In addition, a

total of SEK 1.7 billion was paid to shareholders in the form of dividends and redemption.

The share price increased during the year by 14 percent. The Affärsvärlden General Index showed an increase of 10.5 percent. The highest price paid during the year was SEK 31 on December 16 and 17, and the lowest price paid was SEK 21.50 on October 9. A round lot is 1,000 shares. Each share carries one vote.

OWNERSHIP STRUCTURE

During 1998, foreign investors increased their net ownership of Swedish Match shares to 52.6 percent (47.8) of the share capital, of which the US accounted for 39.9 percent and Great Britain for 7.1 percent.

The ten largest shareholders account for more than 48.6 percent of capital and institutional owners for more than 87 percent.

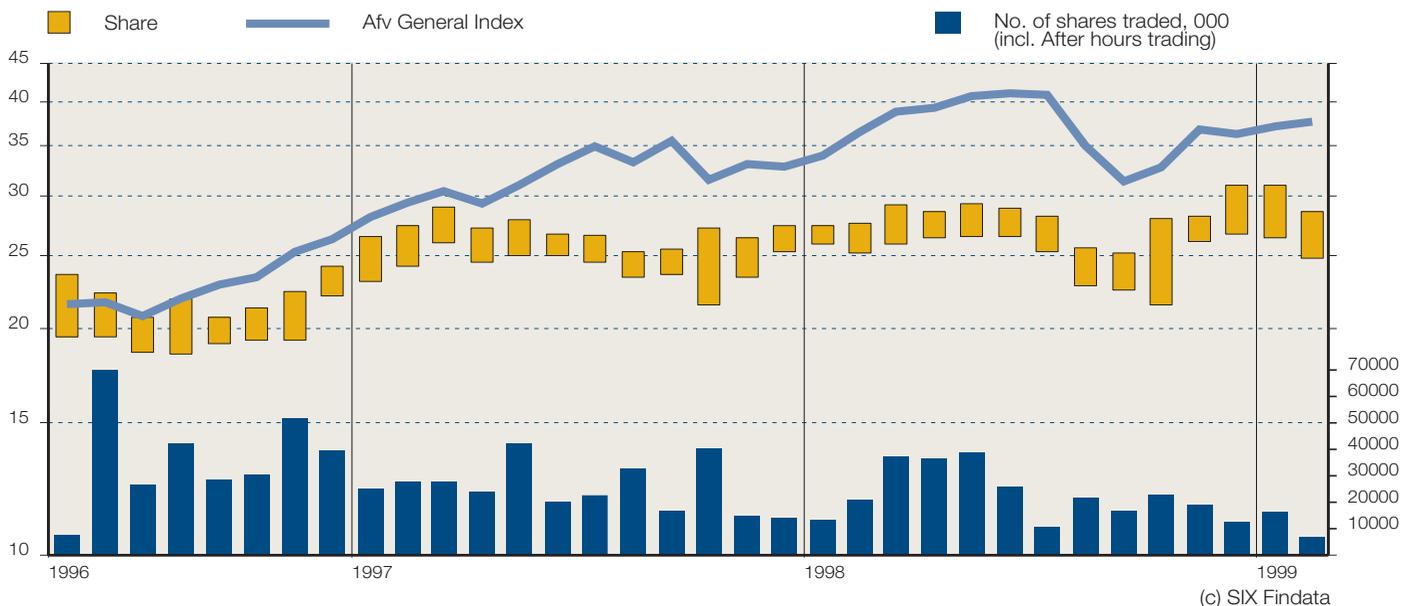
DIVIDEND AND REDEMPTION PROGRAM

Swedish Match's policy is to pay dividends equivalent to 40 to 50 percent of

Group net income. The size of the dividend and the timing depend on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments, expansion plans and other factors which need to be taken into account. The Board has proposed a dividend to the Annual General Meeting of SEK 1.10 (1.07, after adjustment for the bonus issue element in the 1998 share redemption) per share to the shareholders for 1998. The proposed annual dividend corresponds to 65 percent of net income.

In order to achieve a more optimal capital structure, the Annual General Meeting held on April 29, 1998 approved a redemption offer to shareholders. Thirteen redemption rights (one redemption right per Swedish Match share) entitled the holder to redeem one Swedish Match share for SEK 35. A total of SEK 1.2 billion was paid to the shareholders and the number of shares was reduced by 32,218,589 to 431,339,663.

SHARE PRICE TREND AND SHARE TURNOVER



SHARE DISTRIBUTION, DECEMBER 31, 1998

Size of holdings	Number of owners	%	Number of shares	Share of votes and capital, %
1 – 1,000	116,771	91.4	22,184,967	5.2
1,001 – 5,000	9,299	7.3	19,423,329	4.5
5,001 – 20,000	1,220	1.0	11,334,099	2.6
20,001 – 50,000	208	0.2	6,581,868	1.5
50,001 – 100,000	68	<0.1	4,853,383	1.1
100,001 –	144	0.1	366,962,017	85.1
Total	127,710	100.0	431,339 663	100.0

LARGEST SHAREHOLDERS, DECEMBER 31, 1998

Owner	Number of shares	Share of votes and capital, %
Föreningsparbankens fonder	52,798,768	12.2
Fidelity Funds	46,574,819	10.8
Allmänna Pensionsfonden, Fjärde fondstyrelsen	21,713,314	5.0
Försäkringsbolaget SPP	16,572,547	3.8
Ratos	13,473,570	3.1
Scudder Funds	13,014,737	3.0
Zenit fond	13,000,000	3.0
Principal Group	12,983,000	3.0
Capital Group	11,076,924	2.6
Ivy Funds	9,000,000	2.1

PER-SHARE DATA*

	1994	1995	1996	1997	1998
Income after tax					
before nonrecurring items, SEK	2.15	1.84	2.53	2.20	1.96
after nonrecurring items, SEK	2.36	2.31	2.33	2.20	1.59
Dividend, SEK	–	–	1.07	1.07	1.10**
Market price at year-end, SEK	–	–	23.40	25.90	29.50
Shareholders' equity, SEK	3.71	3.28	4.87	6.26	5.00
P/E ratio after tax	–	–	10.0	11.8	18.7
EBIT multiple	–	–	7.0	8.1	10.4
Price/equity	–	–	4.8	4.1	5.9
Direct return, %	–	–	4.6	4.2	3.7
Total return, %				15.0	17.0
Average number of shares			463,558,252	463,558,252	450,133,840
Number of shareholders			167,062	142,859	127,710

Definitions: see page 51.

* Where appropriate, adjusted for bonus issue element on 1998 share redemption.

** Board proposal.

SHARE CAPITAL DEVELOPMENT

	Par value per share, SEK	Change in share capital, SEK	Number of shares issued	Total share capital, SEK	Total number of shares
April 11, 1994 New issue	10	3,448,260	344,826	407,948,360	40,794,836
January 9, 1996 New issue and split	2	519,168,144	259,584,072	927,116,504	463,558,252
July 22, 1998 New issue	2	5,068,200	2,534,100	932,184,704	466,092,352
July 22, 1998 Redemption	2	-69,505,378	-34,752,689	862,679,326	431,339,663
July 22, 1998 Bonus issue	2.20	86,267,933		948,947,259	431,339,663

SWEDISH MATCH

Group review

BOARD OF DIRECTORS' REPORT

NET SALES

The Swedish Match Group's net sales in 1998 increased by 10 percent and amounted to SEK 8,194 million, compared with SEK 7,465 in the preceding year. Recently acquired operations accounted for 7 percent of this 10 percent increase. Changes in currency rates only had a marginal impact on net sales. Snuff, Cigars, Pipe Tobacco and Matches reported increased sales.

In the case of Snuff, the volume increased by 14 percent. Swedish Match's market share for Snuff in the US continued to rise, and amounted to 5 percent in 1998, compared to 3 percent in 1997.

Improved match sales are largely due to the consolidation of recently acquired units. During the year, further shares were acquired in the PLAM Bulgarski Kibrit JSCo company in Bulgaria. Swedish

Match's holding subsequently amounted to 92.5 percent. The Turkish Swedish Match KAV match company, in which Swedish Match has a holding of 60 percent, was consolidated as from May 1998. Swedish Match's holding in Wimco Ltd. in India amounts to 39 percent. Since Swedish Match exercises decisive influence over the company, operations were consolidated as from April 1, 1998.

During the year, Swedish Match acquired the Alexander Group in Australia. This company has an extensive national distribution network for cigars, other tobacco products and tobacco-related products. During the year, Swedish Match acquired the match, lighter and firelighter operations of the Australian Bryant & May company, with distribution operations in Australia and New

Zealand. As a result of this acquisition, Swedish Match has access to key distribution channels.

In early 1999, Swedish Match concluded an agreement for the acquisition of 40 percent of Indonesia's largest match manufacturer, P.T. Java Match Factory.

OPERATING INCOME

Operating income declined to SEK 1,381 million (1,586). Operating income was charged with a net expense for items affecting comparability. Lower volumes for Chewing Tobacco and Cigarettes in combination with higher marketing costs, particularly for Cigarettes and Cigars, had a negative impact on income. The operating income for Snuff improved by 23 percent as a result of higher volumes and a changed product mix.

NET SALES BY PRODUCT AREA			
SEK M	1998	1997	%
Chewing tobacco	1,068	1,149	-7
Cigarettes	1,468	1,546	-5
Cigars	902	691	31
Lighters	735	834	-12
Matches	1,573	1,299	21
Pipe tobacco	218	166	31
Snuff	1,337	1,079	24
Other operations	893	701	27
Net Group sales	8,194	7,465	10

OPERATING INCOME BY PRODUCT AREA			
SEK M	1998	1997	%
Chewing tobacco	331	420	-21
Cigarettes	438	537	-18
Cigars	117	131	-11
Lighters	18	53	-66
Matches	134	147	-9
Pipe tobacco	38	28	36
Snuff	641	522	23
Other operations	-228	-252	
	1,489	1,586	-6
Items affecting comparability	-108	-	
Group operating income	1,381	1,586	-13

The net of Other operations improved to SEK -228 million (-252). This amount includes a capital gain of SEK 45 million, the costs of sponsor participation in the Whitbread Round the World Race and other Group expenses.

A review of the Group's strategic focus and an analysis of the value of the various product areas from a shareholder perspective has been conducted. There will be a greater focus and concentration in product areas where the prerequisites for growth and profitability are considered to be greatest. A cost-saving program will be initiated in the Group, in parallel with this strategy. Cost savings and restructuring is estimated to have a full impact of about SEK 200 million annually, as from the second half of 2000. The cost of implementation of these cost-saving programs has been charged to 1998 under items affecting comparability.

Net items affecting comparability amounted to an expense of SEK 108, of which SEK 266 million represented a capital gain on the sale of Swedish Match's head office in Stockholm. This property was divested at the end of the year for SEK 725 million. At the same time the company entered into a long-term leasing agreement with the purchaser. Items affecting comparability also include SEK 177 million for the cost of restructuring production, SEK 97 million for the write-off of intangible assets, and SEK 100 million in connection with the implementation of a new Group organizational structure.

NET FINANCIAL ITEMS

The net financial items for 1998 amounted to an expense of SEK 82 million (17). Interest expense increased, for example as a result of borrowing in connection to the redemption of shares. Other financial items, amounting to a net expense of SEK 41 million (11), include the cost of the share redemption program and exchange rate differences. In addition, there is a

provision for risk of SEK 60 million for the Group's financial exposure in South-east Asia.

TAXES

The Group's reported taxes consist of income tax, including deferred income tax and withholding taxes. Total tax for 1998 amounted to SEK 482 million (512), corresponding to 40 percent (33) of income before tax. The rate of tax increased since it was not possible to claim the cost of the ongoing restructuring program during 1998 for tax purposes in certain countries. In 1999, the tax charge is expected to be 32 percent.

INCOME PER SHARE AND PROPOSED DIVIDEND

Income per share amounted to SEK 1.59 (2.20). The Board has decided to propose to the Annual General Meeting that a dividend of SEK 1.10 per share should be distributed to shareholders for the 1998 financial year, (SEK 1.07 adjusted for the bonus issue element in connection with the redemption of shares in 1998). The proposed dividend for the year is equivalent to 65 percent of income for the year.

INVESTMENTS

The Group's investments in tangible assets amounted to SEK 393 million (292), primarily for replacement and rationalization purposes. Depreciation according to plan totaled SEK 332 million (268). Investment in intangible assets amounted to SEK 213 million (249). In addition, SEK 157 million were invested during the year in the acquisition of companies.

FINANCING

The Group's principal borrowing financing consisted of a Swedish short-term commercial paper program, of which SEK 1,382 million were utilized at year-end 1998, and a Swedish bond program,

of which SEK 1,561 million were utilized at the same date.

Greater emphasis will now be placed on increasing the proportion of long-term financing in the Group. In this connection, an agreement has been signed concerning the issue of bonds in the Euro market. The credit limit for this agreement was fully unutilized at year-end.

At the end of the period, net liabilities were SEK 1,455 million, an increase of SEK 984 million from December 31, 1997, mainly due to the share redemption of SEK 1,216 million during the year.

LIQUIDITY

At the end of the period, cash and bank, including current investments, amounted to SEK 2,876 million, compared with SEK 563 million at the beginning of the year. Liquid funds of SEK 725 million for the sale of properties at the year-end are included.

Swedish Match's liquidity flows are considerably greater than the 1998 sales of SEK 8,194 million. This is because Swedish Match also charges tobacco taxes and VAT on sales prices for sales to customers. Tobacco tax and VAT booked on sales in the Swedish operation amounted to SEK 9,266 million during 1998.

At year-end 1998, SEK 991 million of the Group's liquid funds were deposited in bank accounts, SEK 499 million in investment loans in banks, SEK 988 million in Swedish treasury bills and SEK 398 million in commercial paper, making a total of SEK 2,876 million. Investment of the liquidity surplus is made in accordance with the finance policy determined by the Board.

In addition to existing liquid funds, Swedish Match has unutilized lines of credit amounting to SEK 1,425 million, with terms until 2001.

BORROWING

The maturity structure for the Group's interest-bearing liabilities is as follows:

YEAR	SEK M
1999	2,370
2000	614
2001	487
2002	360
2003–	500
Total	4,331

The Group's long-term objective is to have 60 percent of borrowing at a variable rate of interest and 40 percent at fixed interest. At any particular point in time, however, the relationship between variable and fixed interest may deviate from this distribution. At December 31, 1998, approximately 75 percent of borrowing were at variable interest and 25 percent at fixed interest.

SHARE REDEMPTION

On July 7, a Special General Meeting of Swedish Match approved the redemption of 34,752,689 shares for a redemption amount of SEK 35 per share. The total redemption amount thus amounted to SEK 1,216 million, and was transferred at the end of July to shareholders who applied for redemption. The Special General Meeting also approved a bonus issue by raising the par value of the share from SEK 2.00 to SEK 2.20. In connection with the redemption, a new issue of SEK 69.5 million was also implemented. Following these transactions, the number of shares amounts to 431,339,663.

EQUITY/ASSETS RATIO

At the end of the fiscal year, the Group's equity/assets ratio amounted to 21.9 percent compared with 41.9 percent in the preceding year.

NEW PRESIDENT AND CHIEF EXECUTIVE OFFICER

On August 10, 1998, the Board of Directors of Swedish Match appointed Lennart Sundén as the new President and CEO of Swedish Match, to take effect as of November 1, 1998.



FINANCIAL RISKS

FOREIGN EXCHANGE RISK

Translation exposure

Group income is affected when the profits and shareholders' equity of foreign subsidiaries are translated into Swedish kronor. This is known as translation exposure. Of the Group's shareholders' equity in foreign currency at year-end, 53 percent consisted of Euro currencies, 8 percent of GBP, 6 percent of USD and 33 percent of other currencies. Swedish Match decides in each individual case whether the equity in subsidiaries is to be hedged.

COMMERCIAL TRANSACTION EXPOSURE

The currency flows which occur in the buying and selling of goods and services in currencies other than those of the relevant subsidiary's domestic currency give rise to commercial transaction exposure. In accordance with the Group's foreign exchange policy, 40–60 percent of the net exposure of contracted and expected net flows in currencies other than the domestic currency are to be hedged. Hedging is implemented in a rolling 12-month time perspective.

FINANCIAL TRANSACTION EXPOSURE

Currency flows which occur in connection with borrowing and investments in currencies other than the domestic currency of the subsidiary concerned give rise to financial transaction exposure. In accordance with the company's finance policy, the financing of subsidiaries must be achieved in a manner that avoids foreign exchange risks as far as possible. This is achieved by borrowing in the local currency of the subsidiary concerned. Borrowing is only undertaken in another currency if it is not possible to finance the subsidiary in local currency due to foreign exchange regulations or for other reasons. In this case the loan is hedged.

INTEREST RATE RISK

The time which elapses before a lasting change in the interest rate has an impact on the Group's net interest depends on the fixed interest term of the loan or the investment. The average fixed interest term for the Group's interest-bearing assets amounted to 286 days at December 31, 1998.

The average fixed interest term for interest-bearing liabilities amounted to 178 days. The average rate of interest on the Group's interest-bearing liabilities was 5.1 percent at December 31, 1998.

CREDIT RISK

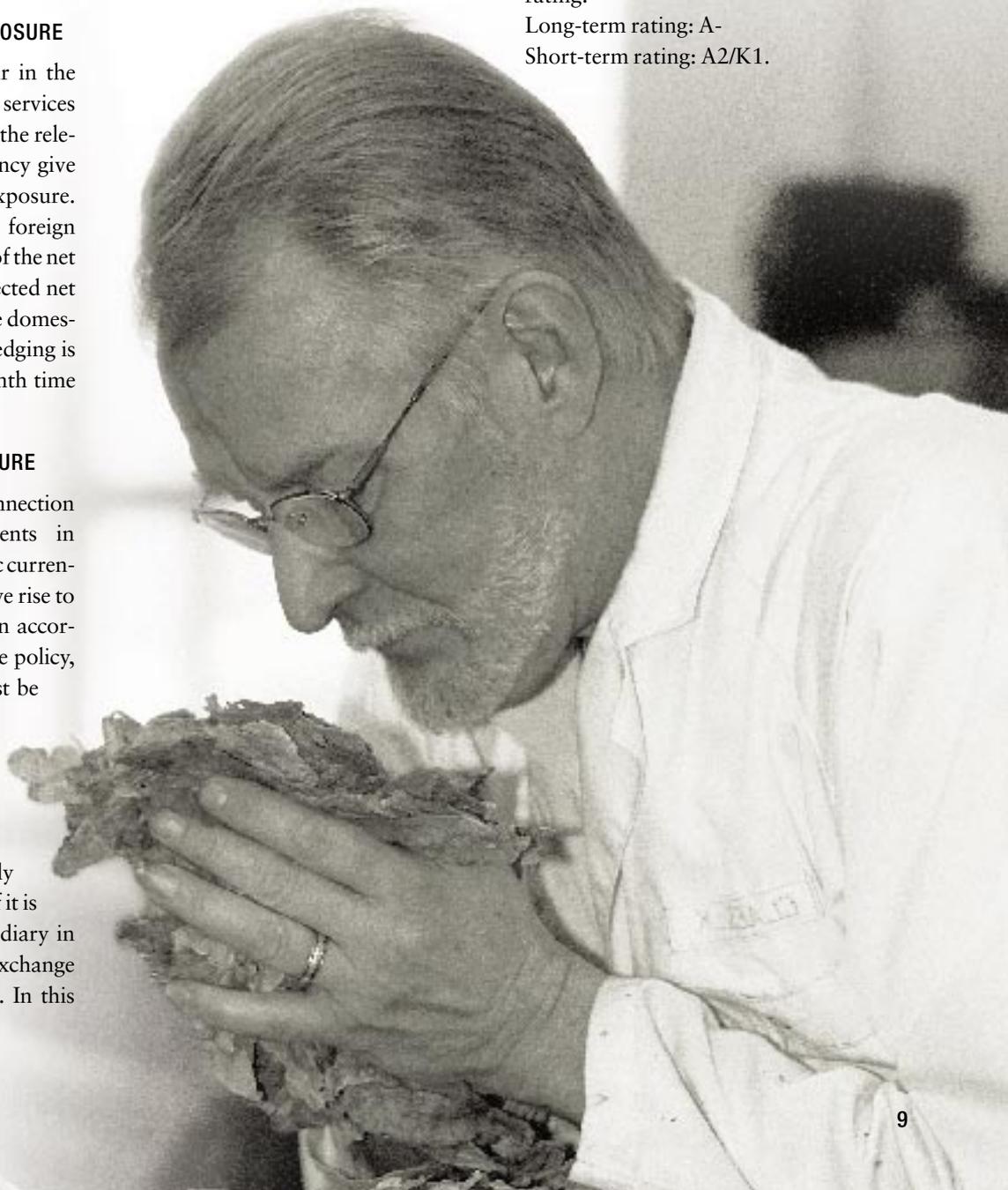
In accordance with Swedish Match's finance policy, investments, with the exception of bank account deposits, may only be made in Swedish government treasury bills and national bonds, and in securities issued by certain counter parties specified in a list of counter parties approved by management. All counter parties on this list have a Standard & Poor's long rating of at least A.

RATING

At December 31, 1998, Swedish Match had the following Standard & Poor's rating:

Long-term rating: A-

Short-term rating: A2/K1.



EXTERNAL FACTORS

TAX CHANGES – SWEDEN

According to the EU tobacco tax directive, excise duty on cigarettes must be at least 57 percent of the total consumer price of a pack of cigarettes. Due to a relatively high VAT level and exceptionally high retailer margins, Sweden was granted a respite in the course of its negotiations for EU membership, and was not required to impose this level until December 31, 1998.

In order to achieve the level determined by the EU, the tobacco tax on cigarettes was increased by more than 63 percent during 1997 in Sweden and the consumer price rose from about SEK 31 to SEK 45 per pack. This resulted in a substantial increase in illegal sales in Sweden at the expense of legal sales of cigarettes. In order to halt the growth in illegal sales, the Swedish Parliament decided to reduce the tobacco tax as from August 1, 1998 by approximately 30 percent of the price level that applied prior to this date. As a result of this reduction, the tax per cigarette was reduced from SEK 0.85 to SEK 0.20, while the proportion of the tax linked to the consumer price was increased from 17.8 percent to 39.2 percent. The consumer price was reduced to about SEK 34 per pack and substantial volumes of sales switched back to the legal market (for further information see the section on cigarettes).

Following the tax reduction on August 1, 1998, excise taxes on cigarettes represent about 51 percent of the total consumer price for a pack of cigarettes. Sweden has requested extension of exemption until 2003. No individual member state has objected to an exemption. If the exemption which has been requested is allowed, it will apply retroactively as from January 1, 1999.

TOBACCO SETTLEMENTS IN THE US

By 1997, thirty-nine states had filed suit against the major US cigarette producers. In addition, United States Tobacco Company (UST) was sued in a large percentage of these cases. The states were seeking to recover tobacco related healthcare costs, which they claimed to have incurred under the Medicaid Program in the United States. UST was named in the suits not as a result of its smokeless tobacco business, but principally because it once manufactured and sold cigarettes.

In addition to the Medicaid Suits, about the same time a large number of local governments, labour unions, other groups, and private individuals, filed similar lawsuits.

In June 1997 the parties in the Medicaid Suits announced an agreement called the “Global Tobacco Settlement,” which would resolve certain types of litigation against the tobacco industry and introduce certain restrictions on future litigation. In exchange the cigarette companies and UST agreed to pay significant sums of money both “up-front” and annually for an indefinite future, which for the next 25 years would correspond to an obligation to pay an aggregate amount of USD 368.5 billion. In addition, the companies undertook to fundamentally change the way tobacco products would be manufactured, marketed, and distributed in the U.S. Despite the substantial costs and the restrictions, the companies believed this settlement would provide a relatively stable business environment for many years ahead.

The Global Tobacco Settlement required implementing legislation to be passed by the United States Congress. This proved to be one of the most diffi-

cult legislative items that Congress has faced in many years, and was widely reported by the press and other media. The Global Tobacco Settlement failed to pass the Senate during 1998 and never reached the House of Representatives.

In the midst of Congressional debate on various tobacco proposals, the cigarette companies settled Medicaid Suits in Florida, Mississippi, Minnesota and Texas agreeing to pay nearly USD 40 billion to these states and to restrict certain sales and marketing practices in exchange for a release from liability for similar types of claims. In effect these state settlements implemented certain parts of the Global Tobacco Settlement.

In November 1998 an additional number of states settled their cases with the cigarette companies on essentially the same terms as the first four states had. The aggregated amount payable under this settlement corresponds to above USD 200 billion over the next 25 years. This settlement was structured such that all states could “sign on” and thereby accept the burdens and benefits of the settlement. Before the end of the year 1998, all of the states, in this manner, had settled with the major US tobacco companies.

In a separate agreement, UST, which is not active in the cigarette business any more, also settled with all of the states on financially, significantly less burdensome conditions. The maximum amount payable under this agreement corresponds to USD 400 million over 10 years.

Swedish Match has never been a party in any of the state lawsuits and therefore has not entered into a settlement like that agreed to by certain cigarette companies and UST. Swedish Match is, however, constantly closely monitoring the development of events in the US.

EMU AND THE EURO

As from January 1, 1999, eleven European countries formed a European Monetary Union (EMU), with the Euro as the new common currency. Swedish Match has a significant proportion of its operations in the EMU zone, particularly in the case of the cigar operation and parts of its lighter and match operations, and will thus be affected by the Euro in a number of different areas. The EMU countries account for about 15 percent of Group sales. The corresponding figure for sales in Northern Europe, excluding Finland, is 43 percent, while North American sales are 19 percent of the total. The Euro will be the third largest currency for Swedish Match, after SEK and USD.

The Euro will probably result in greater price transparency between the various EMU countries, which should change the competitiveness of different suppliers, setting relative costs levels in the various countries in focus. The impact on Swedish Match's operations will probably be limited.

Since Sweden was not a member of EMU from the start, the Group's consolidation currency will continue to be SEK, until Sweden decides to join. The Swedish Match share is listed in SEK on the Stockholm Stock Exchange, and in USD on NASDAQ.

All monthly financial reporting from Swedish Match subsidiaries in the EMU zone will be in the new currency as from January 1, 1999. A joint Group Euro account will be established for European subsidiaries in the EMU zone during the first six months of 1999, in order to extract maximum benefit from the common currency from a cash management viewpoint.

As regards financing, Swedish Match has prepared for restructuring of certain aspects of the company's borrowing in Euro by signing an agreement for the issue of bonds in the Euro market.

THE MILLENNIUM SHIFT

Swedish Match has been working since 1997 to ensure that the Group's data processing system will be able to handle the changeover to the new millennium. The program has also involved evaluating business partners' delivery capacity. The review covers more than 250 systems and all aspects of the transition to the new millennium, including production systems, electronic components, administrative systems, infrastructure and communication with customers and suppliers. The program involves a process in which seven steps for each area are identified: situation assessment, inquiries to

suppliers, analysis, an action plan, corrective action, testing, and operation. On January 1, 1999, 95 percent of the Group's systems had been "processed" up to and including stage four, and 50 percent had reached stage seven. The plan calls for 90 percent of the program to be completed by June, with the final systems tested and in operation by September 1999.

The preparations made by suppliers and business partners have been examined and evaluated. Alternative plans will be available for critical processes. It is considered that the Group is well prepared to handle any disturbances and that the millennium shift will not cause any significant problems.



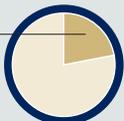
PROPORTION OF GROUP SALES

13 %

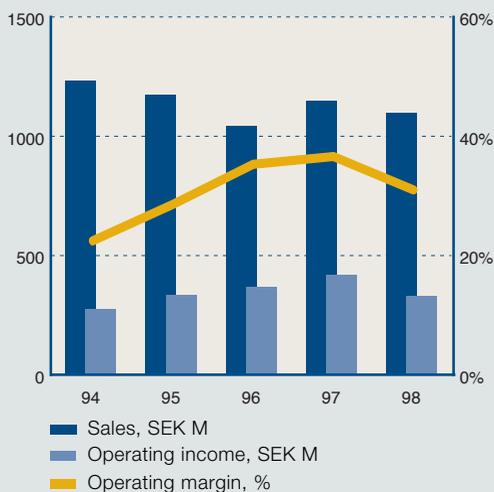


PROPORTION OF GROUP OPERATING INCOME

22 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	1,068	1,149
Operating income	331	420
Operating margin, %	31.0	36.6
Investments in tangible fixed assets	20	24
Average number of employees	504	525

PRODUCTION PLANT:

Owensboro (Kentucky, USA).

MAJOR BRANDS:

Red Man, Red Man Golden Blend, Red Man Select, Southern Pride, Granger Select, J.D.'s Blend.

CHEWING TOBACCO

Continued satisfactory profitability for chewing tobacco despite a weakening market

Swedish Match's chewing tobacco operations are conducted exclusively in the North American market, primarily in the US. The market share is nearly 40 percent. The Group's Red Man brand is the market leader in the premium product segment.

FISCAL 1998

Sales amounted to SEK 1,068 million (1,149), down 7 percent from the preceding year. Expressed in local currencies, the decrease amounted to 11 percent, mainly due to a decline in the total market and slightly lower market shares. The market was characterized by stiffer price competition. In August, Swedish Match launched a new product, Southern Pride.

Operating income amounted to SEK 331 million (420), a decline of 21 percent. Expressed in local currency, the decline was 24 percent, due to reduced volumes and pressure on prices.



THE MARKET

The use of chewing tobacco is an old custom in the US. Consumption is greatest in the southeastern states, particularly in North Carolina and Georgia.

Chewing tobacco is usually associated with outdoor and recreational activities in various forms, including farming, construction, hunting and fishing.



Four major producers dominate the chewing tobacco industry in the US. Swedish Match is the market leader with its Red Man family of brands (Red Man, Red Man Golden Blend and Red Man Select).

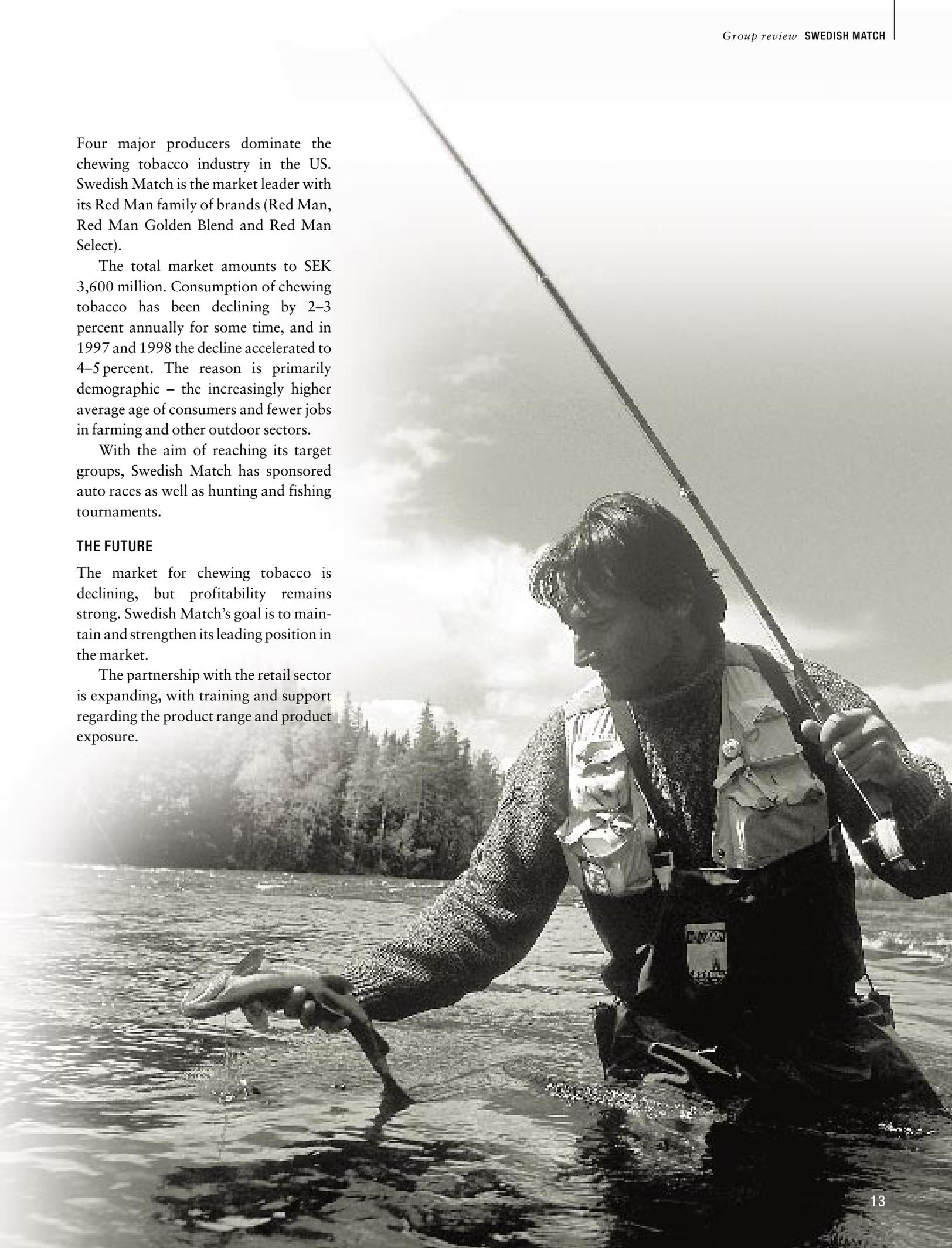
The total market amounts to SEK 3,600 million. Consumption of chewing tobacco has been declining by 2–3 percent annually for some time, and in 1997 and 1998 the decline accelerated to 4–5 percent. The reason is primarily demographic – the increasingly higher average age of consumers and fewer jobs in farming and other outdoor sectors.

With the aim of reaching its target groups, Swedish Match has sponsored auto races as well as hunting and fishing tournaments.

THE FUTURE

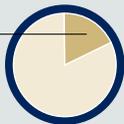
The market for chewing tobacco is declining, but profitability remains strong. Swedish Match's goal is to maintain and strengthen its leading position in the market.

The partnership with the retail sector is expanding, with training and support regarding the product range and product exposure.



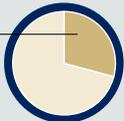
PROPORTION OF GROUP SALES

18 %

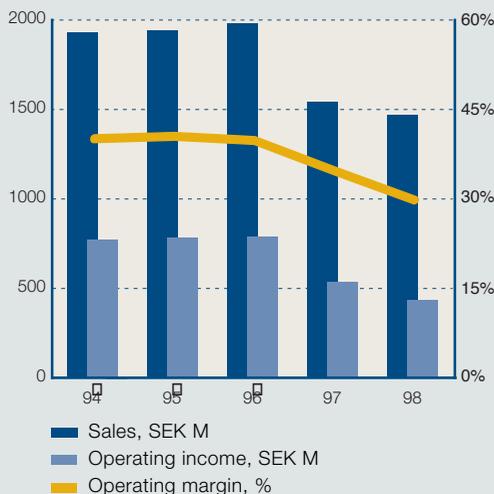


PROPORTION OF GROUP OPERATING INCOME

29 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	1,468	1,546
Operating income	438	537
Operating margin, %	29.8	34.7
Investments in tangible fixed assets	21	30
Average number of employees	495	609

PRODUCTION PLANT:

Malmö (Sweden).

MAJOR BRANDS:

Blend, John Silver, Right, Point, Rumba, Leek, Glenn, Commerce, Accent, Swan (cigarette papers and filters).

CIGARETTES

The tax on cigarettes in Sweden was reduced during 1998, resulting in an increase of approximately 25 percent in the total market for legally sold cigarettes. Swedish Match relaunched its Blend range, including a new packaging design for the brand.

Swedish Match manufactures cigarettes sold in the Swedish and Estonian markets and via tax-free outlets. The Group is the market leader in Sweden with its Blend, John Silver and Right brands, which have a total market share of 48 percent. The Group's main brand in Estonia is Rumba. Other products are Roll-your-own tobacco, sold under the John Silver, Rolling and Commerce names, and also cigarette papers and filters.



FISCAL 1998

During 1997, the cigarette tax increased by 63 percent in Sweden, resulting in a substantial increase in illegal sales. There was a decline in legal cigarette sales of about 25 percent in the first half of 1998 compared with the corresponding period in 1997. Following the illegal trading of cigarettes, the Swedish Parliament voted to reduce the tobacco tax as from August 1, 1998 by about 30 percent. In connection with this move Swedish Match also adjusted its prices (for further information see table on the next page).

During the first six months of 1998, legal sales in Sweden totaled 2.5 billion cigarettes, compared with 3.2 billion in

the second half of the year. For the full year, the total market was 5.7 billion cigarettes, compared with 6 billion in 1997.

Sales in 1998 amounted to SEK 1,468 million (1,546), a decline of 5 percent compared with 1997.

Operating income amounted to SEK 438 million (537), down 18 percent. Lower sales, substantially higher marketing expenses and the full year impact of renegotiated agreements for the Prince brand had a negative effect on operating income, while rationalization of production had a positive impact. Marketing expenses primarily involved relaunching of Blend and an export drive in the Russian market.

THE MARKET

The global market for cigarettes is growing by as much as 3 percent a year in volume terms. The percentage of smokers



has not changed appreciably, and is following the growth in population. Asia and Eastern Europe account for the largest proportion of the increase, while the markets in Western Europe and the United States are declining at a rate of 2–3 percent a year. In many countries, it is virtually impossible to introduce new brands of cigarettes due to severe restrictions on marketing. Consumers often have high brand loyalty, but global tobacco companies with well-known and well-established brands are achieving an increasingly dominant position as a result of international advertising.

Sweden

Cigarette consumption is declining at a rate of 2–3 percent a year in Sweden. There are three major players in the Swedish market: Swedish Match, which has 48 percent of the market, plus two international companies with shares of approximately 30 percent and 20 percent, respectively.

Swedish Match relaunched its Blend brand in 1998, with new packaging design for example. Blend Kings Light was added to the brand family.

Swedish Match is the market leader in Roll-your-own tobacco (RYO). Sales of RYO increased as a result of tax increases on cigarettes. Following the tax reduction in 1998, the price benefit enjoyed by consumers of RYO cigarettes reduced and sales declined.

Estonia

The Estonian market is stable and characterized by extensive international competition. Swedish Match has approximately 30 percent of the market, primarily due to its local Rumba brand.

During the second half of the year, Swedish Match established joint ventures with other companies handling fast-moving consumer products in Estonia as a means of achieving benefits of scale in distribution. As a result, retailers

BLEND GUL <i>cigarettes (fixed maximum price), SEK</i>	Before August 1, 1998	After August 1, 1998
Sales price Swedish Match	5.28	5.17
Retail margins	5.40	4.91
Excise tax and VAT	33.82	24.42
Consumer price	44.50	34.50

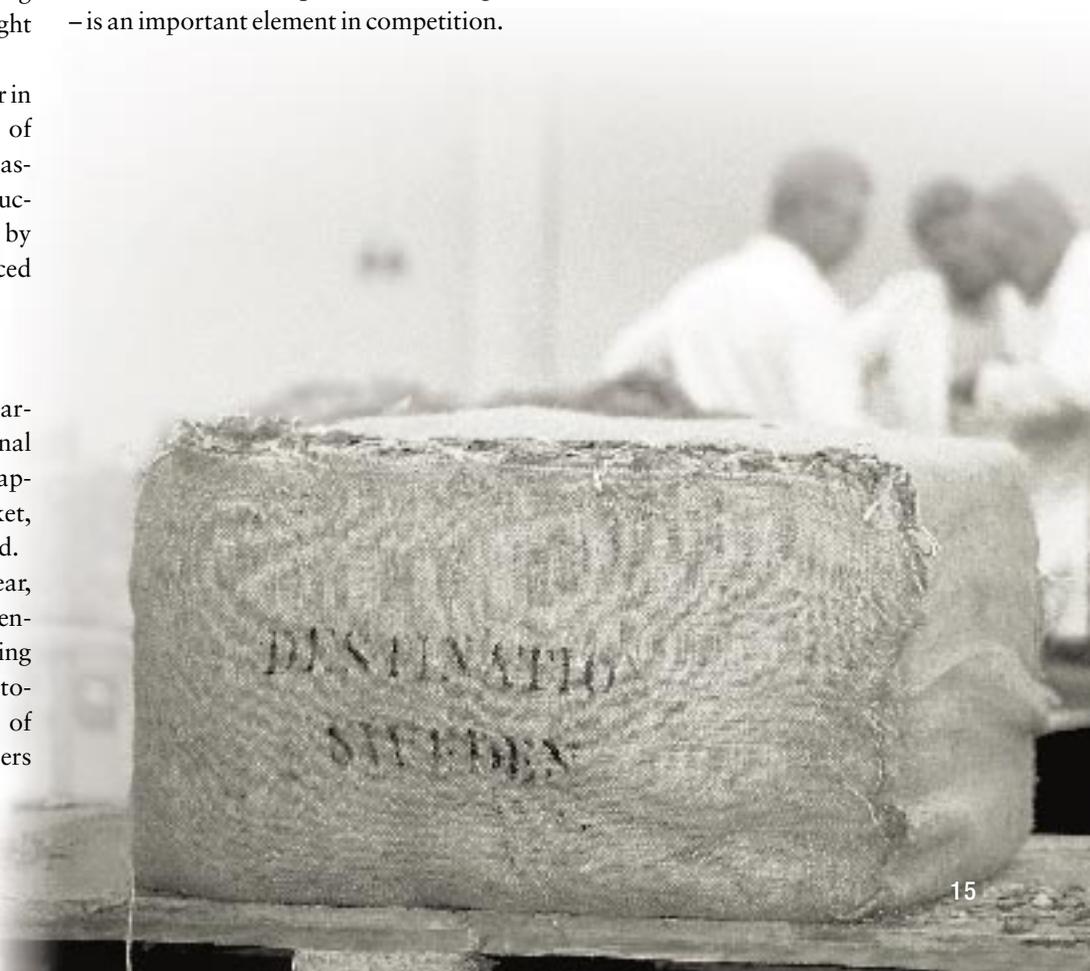
can be offered a more comprehensive product portfolio than in the past.

United Kingdom

The Cigarette Division markets cigarette papers and filters for RYO cigarettes in the UK under the Swan brand. Sales increased during the year.

THE FUTURE

The objective for cigarette operations is to consolidate positions in Sweden, Estonia and tax-free outlets and, in the UK, in the market for filters and cigarette papers. Brand management – the cultivation and modernization of brands as customers' preferences change – is an important element in competition.



PROPORTION OF GROUP SALES

11 %

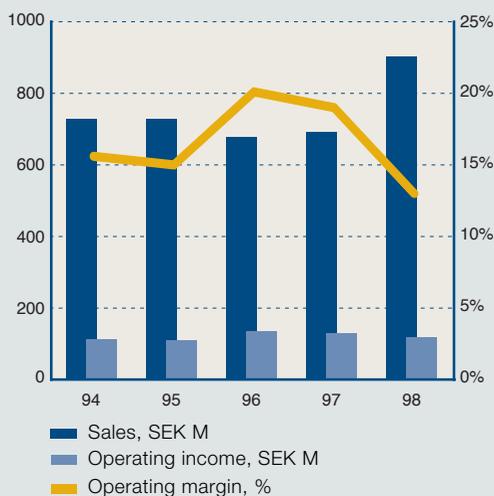


PROPORTION OF GROUP OPERATING INCOME

8 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	902	691
Operating income	117	131
Operating margin, %	13.0	19.0
Investments in tangible fixed assets	68	81
Average number of employees	1,842	1,369

PRODUCTION PLANTS:

Valkenswaard (Holland), Houthalen and Overpelt (Belgium), Pandaan (Indonesia). Via Arnold André: Bünde and Köningslutter (Germany).

MAJOR BRANDS: La Paz, Clubmaster, Willem II, Handelsgold, Wings, de Heeren van Ruysdael, Justus van Maurik, Montague, Bellman, Frans Suell.

CIGARS

1998 saw the integration of two new operations – cigar operations in Finland and the Alexander Group in Australia. Rationalization of production continued.



Swedish Match is one of the world's largest cigar manufacturers. Including the jointly owned German company, Arnold André, production amounts to more than one billion cigars per year. More than 20 brands are marketed in over 90 countries. The largest markets are Western and Northern Europe. The product range includes all types of cigars and cigarillos, from hand-rolled premium cigars to machine-made cigarillos.

FISCAL 1998

Sales amounted to SEK 902 million (691), an increase of 31 percent. Sales increased in virtually all markets. Two new operations were consolidated during 1998:

- The cigar operation in Finland acquired from R.J. Reynolds – as a result Swedish Match will have more than 60 percent of the Finnish cigar market.
- The Alexander Group in Australia – this company has an extensive national distribution network for sales of cigars, other types of tobacco and tobacco-related products.

Operating income amounted to SEK 117 million (131), down 11 percent. High marketing expenses, particularly in North America, affected operating income.

During 1998, manufacturing operations were transferred from the Pietarsaari plant in Finland to Swedish Match's production units in Belgium.

THE MARKET

During 1998, more than 15 billion cigars were sold throughout the world, with an estimated sales value of SEK 35 billion in 1998. Of this number, more than 6 billion were sold in Europe (40 percent), and the North America market accounted for over 5 billion cigars (35 percent).

Europe

Consumption of cigars in the Nordic countries increased marginally during the year. This also applied to Central Europe, where a declining trend was reversed, notably in Holland, Germany and Belgium. However, the largest increases in consumption occurred in France, Spain and Portugal. Exclusive brands of cigars and cigarillos achieved the greatest gains.

There are a large number of players in the market, with many small local companies operating in parallel with major manufacturers. Production and wholesaling are both being restructured. A number of wholesalers and small manufacturers merged in late 1997 and early 1998. The players are becoming fewer and larger.

Swedish Match's market share amounts to slightly more than 15 percent, and has been stable in recent years.

USA

Until 1997, the American cigar market was characterized by strong growth in the premium segment. In 1998, the very sharp market growth for cigars weakened. Large inventories had been built up by manufacturers and distributors, and this led to price competition in the premium segment.

Asia/Australia

Asia and Australia are growth markets for cigars. Strong sales were reported in New Zealand, Hong Kong and Singapore in 1998.

Swedish Match gained a foothold on the Australian continent early in 1998 when it acquired the Alexander Group, Australia's leading cigar distributor, with premium cigars as one of its main product areas.

Swedish Match further strengthened its position in the region through the acquisition of Beraha & Co., a Hong Kong distributor.

THE FUTURE

The world market for cigars is continuing to grow, but with considerable differences between markets. Rapid growth in the North American market leveled off in 1998. Growth is expected to continue in Southern Europe and in Belgium, Holland, Luxembourg and Germany.

The Scandinavian market is stable. A continuing increase in demand for premium cigars is also anticipated in the Asia in the immediate future.

An important growth product for Swedish Match is Cigars. The aim is to participate in growth in various markets.



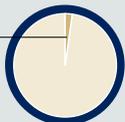
PROPORTION OF GROUP SALES

9 %

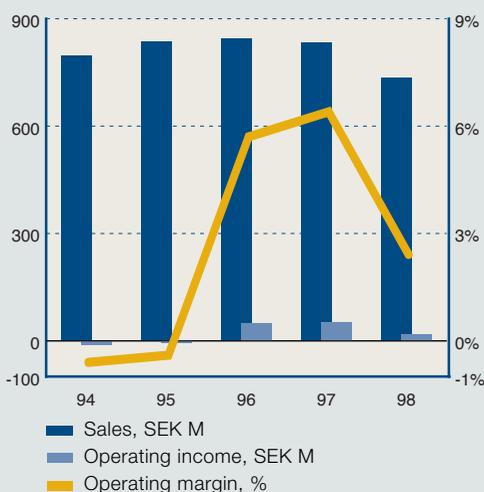


PROPORTION OF GROUP OPERATING INCOME

1 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	735	834
Operating income	18	53
Operating margin, %	2.4	6.4
Investments in tangible fixed assets	34	60
Average number of employees	763	876

PRODUCTION PLANTS: Assen (Netherlands), Lyons (France), Manila (Philippines), Manaus and São Jão (Brazil).

MAJOR BRANDS: Cricket, Feudor, Poppell.

LIGHTERS

The economic problems in Russia and Asia resulted in declining income for Lighters during 1998.



Swedish Match is the world's third largest manufacturer of disposable lighters. Its operations are global, with sales in 140 countries. The largest markets are Eastern and Western Europe, parts of Asia, and the United States. The Cricket lighter is the dominant brand.

by Swedish Match declined. Shipments to Russia virtually ceased in the third quarter but picked up toward the end of the year, although at a much lower level.

FISCAL 1998

Sales amounted to SEK 735 million (834), a decrease of 12 percent. The market experienced a substantial downturn caused by financial turbulence in Southeast Asia and Russia. As a result, the volumes supplied

Operating income fell to SEK 18 million (53).

Negotiations concerning the closing of the lighter plant in Lyon in France commenced in early 1999. The aim is to adjust production capacity to a lower level of demand.



THE MARKET

The world market for disposable lighters is growing by 1–2 percent a year in volume terms. The rate of growth is much higher in many developing countries, where the number of smokers and income per capita are both rising. The market in Western Europe and the United States is declining slightly, in parallel with cigarette consumption. Consumer brand loyalty is low. In most markets, there is increasing competition from lighters made in “low-cost” countries. Cost-effective production and distribution are thus becoming increasingly important competitive tools.

Western Europe

The market for lighters in Western Europe is decreasing by as much as 2 percent a year, although Swedish Match managed to increase its sales. The growth in volume is largely attributable to continuing strong sales of the Pocket lighter, and strong sales of a lighter designed specifically for the World Cup soccer championships in France, where Swedish Match was designated an official supplier.

USA

The American market for lighters has decreased in volume terms by 2–3 percent in recent years. Swedish Match’s share amounts to 7 percent.

A new child-resistant lighter was launched in the US in 1998.

Eastern Europe

Swedish Match has a dominant position in Eastern Europe, with a market share of 20–30 percent. Total sales in Russia declined substantially, however, as purchasing power deteriorated.

Asia

Swedish Match has approximately 10 percent of the Asian market for lighters. Due to financial turbulence and the decline in the region’s purchasing power, overall demand has weakened substantially.

THE FUTURE

Rationalization and restructuring measures will continue to be implemented to ensure that competitiveness is maintained and to defend market positions.



PROPORTION OF GROUP SALES

19 %

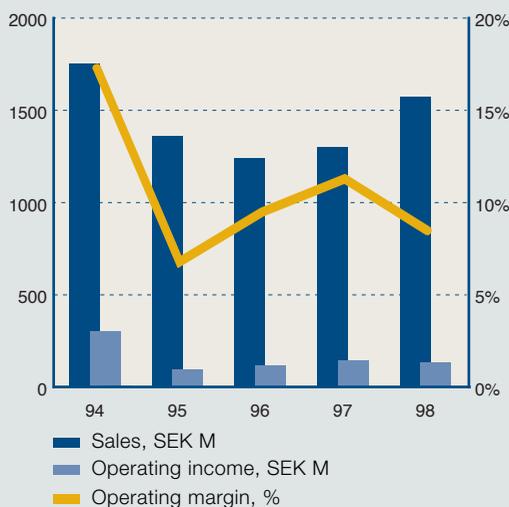


PROPORTION OF GROUP OPERATING INCOME

9 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	1,573	1,299
Operating income	134	147
Operating margin, %	8.5	11.3
Investments in tangible fixed assets	171	61
Average number of employees	5,843	2,370

PRODUCTION PLANTS: Tidaholm and Vetlanda (Sweden), Curitiba, Pirai and São Lourenço (Brazil), Valencia (Spain), Szeged (Hungary), Geraardsbergen (Belgium), Orhangazi (Turkey), Kostanetz (Bulgaria), and Bereilly, Chenai and Calcutta (India).

Manufacturing of match production machinery in Kalmar (Sweden) and Shanghai (China).

MAJOR BRANDS: Three Stars, Solstickan, Swan Vestas, England's Glory, Union Match, Fiat Lux.

MATCHES

Expansion and consolidation of match operations continued during the year. The rationalization of production continued as well.

Swedish Match is the only global manufacturer of matches, with a 12 percent share of world market sales. The Match Division's 14 plants provide consumers in 140 countries with matches in the volume and quality segments, under a large number of local brand names. The Group's main markets are Europe, South America and Asia. Substantial volumes are also exported to about 100 other countries. Operations include Swedish Match Arenco, which manufactures match production machinery.



FISCAL 1998

Sales increased by 21 percent to SEK 1,573 million (1,299). The sales increase is largely due to the consolidation of new units.

Additional shares in PLAM Bulgarski Kibrit JSCo in Bulgaria were acquired during the year. Swedish Match's holding subsequently amounted to 92.5 percent. Swedish Match KAV, the Turkish company in which the company has a 60 percent holding, was consolidated as from May 1, 1998. Swedish Match's holding in Wimco Ltd. in India amounts to 39 percent. Since Swedish Match exercises a decisive influence in Wimco, operations were consolidated as from April 1, 1998.

Operating income amounted to SEK 134 million (147), down 9 percent. Slightly smaller volumes in established markets contributed to the weaker income. Acquired units had a marginal impact on income. Measures to raise incomes are being implemented in these companies.

During the year the production of matches used for promotional purposes was transferred from Geraardsbergen in Belgium to the Szeged plant in Hungary.

THE MARKET

It is estimated that the world match market amounts to SEK 11 billion (more than 6,000 billion matches). Consumption of matches is highest in Eastern Europe, Africa and Asia

Western and Northern Europe

The long-term consumption trend in Western and Northern Europe is downward. Consumption appears to have stabilized in much of the market, however.

Swedish Match is the dominant manufacturer and the market leader in Europe, with good profitability.

Eastern Europe

The integration of PLAM, the Bulgarian company acquired in 1998, continued during the year.

Asia

As a result of the acquisition of KAV in Turkey, Swedish Match has approximately 50 percent of the Turkish market. KAV is being integrated into the Group, and potential distributors for exports to neighboring countries are being identified.

India and China have rapidly growing populations and long traditions in the use of matches. These markets are characterized by import restrictions and low price levels, but prices are gradually adjusting to higher price/quality levels.

The Indian market is increasing by 2 percent a year, mainly as a result of population growth. Due to a long tradition of smoking, high import taxes on lighters and a large number of households in which food is cooked on gas stoves or open fires, continued market growth is likely. Increased interest in premium products and growing acceptance of higher prices by consumers in higher income brackets favor manufacturers of Western-oriented products.

At the end of 1997, Swedish Match acquired 39 percent of Wimco, one of the world's largest independent manufacturers of matches, with four production units in India. The primary object of the acquisition was to gain access to Wimco's well-developed consumer-product distribution network. At the time of the acquisition, Wimco was active in a number of industries. The concentration of operations will continue during 1999.



Swedish Match acquired the match, lighter and firelighter operations of the Australian Bryant & May company, a distributor in Australia and New Zealand. The acquisition gives Swedish Match access to key distribution channels, primarily within the non-durable goods retail sector.

In early 1999, Swedish Match concluded an agreement for the acquisition of 40 percent of P.T. Java Match Factory, Indonesia's largest match producer.

In 1992, Arencos, Swedish Match's manufacturer of match production machinery, established a joint venture with a local partner in Shanghai. During 1998, the Group acquired its partner's holding.

Latin America

Brazil, where the Group has established operations under well-known brand names, is the focal point for operations in Latin America. The market share is approximately 50 percent. In volume terms, the Brazilian market is approximately the same size as Europe, and shows a slight downward trend. Match prices have increased slowly during the past two years in Brazil, where the product is used mainly for household applications. Part of the output from Swedish Match's three plants is exported to neighboring countries.

THE FUTURE

Swedish Match, the world's only integrated match manufacturer, intends to consolidate and strengthen its global position.

The Group's product strategy includes repositioning brands, expanding the product range and obtaining better exposure in stores.



Production operations will be further rationalized, however, local production is essential for a presence in certain markets in Eastern Europe, Africa and Asia.

During the year, Arencos sold technological solutions and machinery to other industries. Sales of technological expertise and equipment to non-Group customers are likely to increase in the future.



PROPORTION OF GROUP SALES

3 %

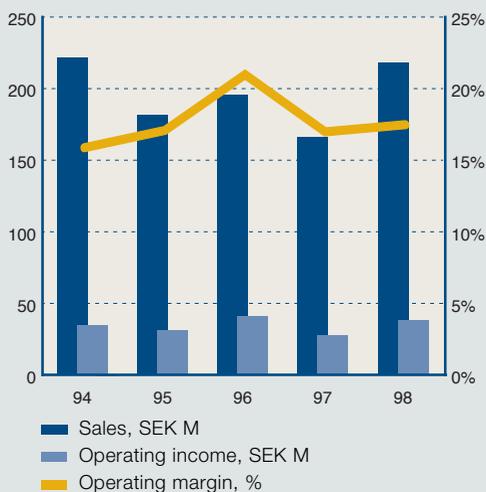


PROPORTION OF GROUP OPERATING INCOME

3 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	218	166
Operating income	38	28
Operating margin, %	17.4	16.9
Investments in tangible fixed assets	3	-
Average number of employees	49	105

PRODUCTION PLANTS:

Owensboro (Kentucky, USA),
Malmö (Sweden).

MAJOR BRANDS: Borkum Riff,
Greve Hamiltons Blandning, Half and Half,
Mellow Breeze, Velvet, Paladin.

PIPE TOBACCO

Resumption of the rights to Borkum Riff in the United States resulted in increased sales and improved profits.

Swedish Match is one of the three largest pipe tobacco manufacturers in the world, with a market share of more than 10 percent. Borkum Riff is one of the world's few global brands of pipe tobacco. The main markets are North America and Northern/Western Europe.



THE MARKET

The world market for pipe tobacco is estimated to be about SEK 2 billion. Historically, it has declined by 6-8 percent annually in volume terms. The main reason is demographic - the increasing average age of consumers and the weak influx of new buyers.

FISCAL 1998

Sales increased by 31 percent to SEK 218 million (166). Operating income improved 36 percent, to SEK 38 million (28).

The resumption of sales rights for Borkum Riff in the US had a positive effect on both sales and operating income.



The players in the pipe tobacco industry are mainly large companies, with many other tobacco products in their line. Nine manufacturers account for 75 percent of the global market. This number has been relatively constant during the past two decades. In 1998, however, there was a certain amount of consolidation in the industry, and a number of mergers. Most manufacturers employ a defensive strategy, with high sales prices and limited marketing activity.

The largest single market for pipe tobacco is the US, which accounts for 37 percent of the global market. Other large markets – England, Germany, France and Denmark – jointly represent one third of world consumption. Other major markets are Spain, Austria and Switzerland, and also Canada, Australia and Japan.

Consumers are showing a growing interest in the geographical origin of tobacco and in mixtures and flavors.

Premium brands are taking an increasing share of the market.

North America

Consumption in the North American market has been declining by approximately 8 percent a year. Swedish Match is the fourth largest manufacturer in North America, with a market share of about 20 percent and a leading position in the premium segment with Borkum Riff, and in the mass market segment with Half and Half, Velvet and Paladin.

During the year, Royal House Blend Ltd. was launched for sale in bulk. This sales format was specially developed for the low-price tobacco outlets that have rapidly become a major distribution channel in the US.

Western Europe

Consumption in Europe is declining by 5–6 percent a year. The competitive situation varies considerably between markets, with few large manufacturers. The exception is Germany, where there are a number of local and international manufacturers. Germany is one of the largest

and most profitable markets in Western Europe. During the year, the Group launched the new Mellow Breeze pipe tobacco in the German market. Swedish Match's market share in Western Europe is approximately 3 percent.

Northern Europe

Swedish Match has strong positions in Sweden and Finland. During the year, two new products were launched in Sweden and two in Denmark. The market share in Northern Europe is about 15 percent.

Other markets

Swedish Match has taken the first steps to establish operations in Latin America, where there is considered to be growth potential for pipe tobacco.

THE FUTURE

Swedish Match is one of the major players in the market for pipe tobacco. The business is global and profitability is satisfactory.

Swedish Match intends to strengthen its position in this profitable market.



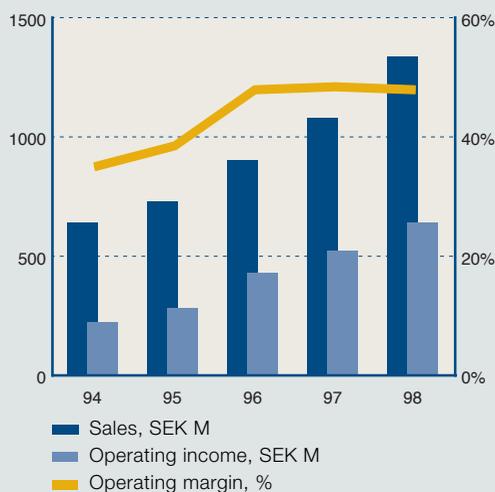
PROPORTION OF GROUP SALES
16 %



PROPORTION OF GROUP OPERATING INCOME
43 %



SALES, OPERATING INCOME AND OPERATING MARGIN 1994-1998



KEY DATA

SEK M unless otherwise stated	1998	1997
Sales	1,337	1,079
Operating income	641	522
Operating margin, %	47.9	48.4
Investments in tangible fixed assets	41	19
Average number of employees	378	407

PRODUCTION PLANTS:

Gothenburg (Sweden), Owensboro (Kentucky, USA).

MAJOR BRANDS: Generalsnus, Ettan, Grovsnus, Catch, Göteborgs Rapé, Timber Wolf, Renegades.

SNUFF

Swedish Match's snuff sales continued to increase, primarily in the North American market.

Swedish Match is the leading manufacturer of snuff in Sweden and Norway, and one of four leading producers in the US. The product range includes moist and portion-packed snuff for sale in Scandinavia, the US and the tax-free market.

FISCAL 1998

Sales amounted to SEK 1,337 million (1,079) in 1998, an increase of 24 percent. In the US, Swedish Match continued to increase its market share, achieving 5 percent compared with 3 percent in 1997. In volume terms, US sales grew by approximately 70 percent. As a result of sharp tax increases in the Swedish market, tax-free sales in the Nordic region rose by 45 percent, while tax-paid volumes were only a few percentage points higher. Overall, the volume of the Group's snuff business increased 14 percent during 1998.



Operating income improved by 23 percent to SEK 641 million (522) as a result of higher volumes and changes in the product mix.

At the end of October 1998, the price of Timber Wolf, Swedish Match's low-price snuff in the US, was raised by 10 cents to USD 1 a can.

THE MARKET

Sweden

In Sweden, snuff is a traditional product that has become increasingly socially acceptable. Since snuff can be consumed discreetly in portioned packs, it is becoming an increasingly popular alternative to cigarettes for both men and women. Swedes consume more than 150 million cans of snuff a year – approximately 15 percent of adults use snuff and about 10 percent of them are women.

Consumption of snuff is rising most rapidly in metropolitan areas, where population growth is highest and restrictions on smoking are more stringent. Portion-packed snuff's share of the total market is more than 40 percent, and still rising.

During the year, Swedish Match conducted a strategic branding campaign in which a large number of consumers were interviewed in depth about their habits and values. One of the initial results was the relaunching of the Catch and Ettan brands, with new packaging designs.



A new portion-packed snuff was also launched under the CatchDry Licorice brand name.

US

Slightly less than 800 million cans of snuff are consumed annually in North America. Consumption has been growing by about 2–3 percent annually for a number of years.

Swedish Match's share of the market is 5 percent. Continued substantial sales success was achieved with Timber Wolf, a leading brand in the low-price segment. The US product range also includes Renegades, a portion-packed snuff.

Other markets

Swedish Match has a 90 percent market share of the limited but growing Norwegian market. Consumption is increasing, with particular emphasis on portion-packed snuff, which showed a substantial increase of approximately 40 percent in 1998.

There are also some sales in other parts of the Nordic region at cross-border and tax-free outlets.

THE FUTURE

Sweden and North America will continue to be the main markets for Swedish Match snuff products.

In many parts of the world, tobacco is used in a manner that resembles snuff consumption. Comprehensive studies have been conducted to identify potential markets for future geographic expansion.

The sale of snuff was prohibited in the EU in 1992, mainly because it was assumed that the product was carcinogenic. A number of major scientific studies have shown that there is no basis for such an assumption.

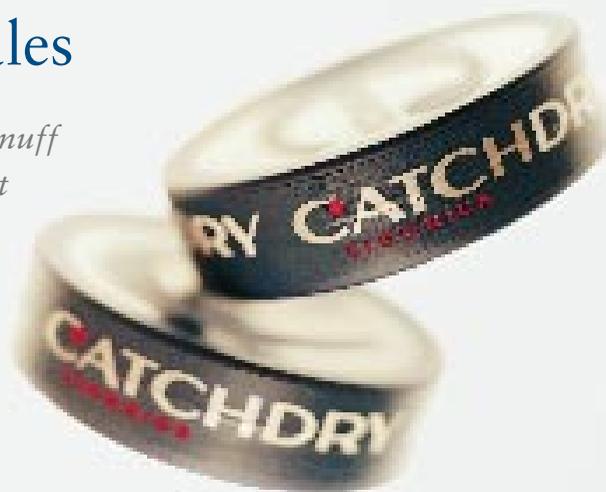
Swedish Match will work for the removal of the mandatory warning message from snuff packages, and repeal of the prohibition on snuff in the EU.



SNUFF

Brand identities boost snuff sales

Considerable changes in Swedish Match's Swedish snuff operations are under way. As a result, the four largest and most well known brands are now acquiring a stronger identity. At the same time, Swedish Match is reinforcing and developing market positions for Timber Wolf, the company's largest snuff brand in the US.



The marketing initiative in Sweden is focusing on the Ettan, Generalsnus, Grovsnus and Catch brands that jointly account for more than 80 percent of Swedish snuff sales. There are several reasons why Swedish Match has decided to develop brand identities and strategies at this point in time. It is essential to safeguard competitive status and reinforce brand loyalty and, at the same time, it is becoming increasingly important to build brands that can attract tobacco consumers who do not currently use snuff.

UNIQUE VALUES

Characteristic features and unique values are key factors when establishing brand identities. Swedish Match interviewed about 1,000 consumers who described the attitudes and values they associated with each of the four brands. When the results were collated, each product had a specific set of values – a unique set of characteristics and attrib-

utes which was used to build a profile, artwork and market strategy for each of the four brands. Considerable effort was also devoted to testing and verifying brand identities.

CLEAR RULES

Catch was the first brand to acquire a new profile when it was given a new packaging and color treatment in 1998. CatchDry – a totally new product with less moisture than traditional portion-packed snuff – was launched at the same time. CatchDry is targeted at smokers of both sexes, and facilitates discreet use since it employs a mini-portion format. Later in the year, the Ettan brand image was also reinforced – with its associations with Swedish history and traditions. The next stage will be stronger brand identities for Generalsnus and Grovsnus.

As a result of this focus on branding in the Swedish market there will be clearer rules and procedures for handling

brands, partly to meet the company's requirements and partly to meet the needs of customers and consumers.

TIMBER WOLF

Swedish Match launched the Timber Wolf brand in the US market in 1994. Timber Wolf is in the low-price segment, and there are now four variations on the theme, the most popular being Timber Wolf Wintergreen Long Cut.

Surveys indicate that most snuff US consumers have traditional outdoor jobs involving physical work, for example in agriculture, forestry or in the Texan oil fields. Many consumers also enjoy outdoor leisure activities, which is why Timber Wolf marketing focuses on sporting, hunting and fishing magazines. Since American snuff users are also interested in racing, Swedish Match sponsors a competition team in the popular NASCAR series.



CORPORATE GOVERNANCE

The Board of Directors of Swedish Match AB has established a working procedure containing instructions for the allocation of duties for the Board and the President, and instructions for financial reporting.

MEETINGS OF THE BOARD

The Board is convened annually to an inaugural meeting and five ordinary meetings. Four of the ordinary meetings take place in connection with the company's publication of full year and interim reports. The fifth ordinary meeting is held in December, and concentrates on a review of the budget. In addition special Board meetings may take place as required. During 1997, the Board held a total of ten meetings.

CHAIRMAN OF THE BOARD

The Chairman of the Board monitors operations and developments and ensures that members of the Board also receive the information required to enable them to monitor the company's and the Group's position, financial planning and development.

The Chairman consults the President where appropriate regarding strategic issues and represents the company regarding matters concerning ownership.

The Chairman of the Board is also responsible for ensuring that the Board fulfills the duties stipulated in the Swedish Companies Act.

ALLOCATION OF DUTIES

The Board exercises supervision over the President's performance of his/her obligations.

The Board is responsible for ensuring that the company's organization fulfills its purpose, and hence the Board evaluates the company's routines, guidelines for administration and the investment of the company's funds.

The Board approves budgets and strategic planning for the company and the Group, and supervises the development of operations compared with budget and strategic planning.

THE PRESIDENT

The President manages the operations within the guidelines determined by the Board. The President prepares the requisite information and documentation prior to meetings of the Board and, in this connection submits reasoned proposals for decisions.

The President provides members of the Board with the information required on a monthly basis to monitor the company's and the Group's position, liquidity and development. In addition, the President keeps the Chairman informed about the company's operations on an ongoing basis.

NOMINATION COMMITTEE

The Nomination Committee prepares and submits proposals to the Annual General Meeting for the election of the Board and the auditors, and fees for members of the Board and the auditors.

The Annual General Meeting appoints the Committee. The Committee comprises Bernt Magnusson (Chairman of the Board), Bo Eklöf (President of SPP) and Björn Franzon (Vice President of Allmänna Pensionsfonden, Fjärde fondstyrelsen).

REMUNERATION COMMITTEE

The Remuneration Committee discusses and determines matters concerning salaries and other terms of employment, pension benefits and the bonus system for the President and managers reporting directly to him/her. The Committee also discusses and determines other remuneration issues which involve a matter of principle or which are of considerable importance in other respects, for example option programs and profit sharing schemes.

The Committee's chairman is Bernt Magnusson. The other members are Göran Lindén, Jan Blomberg and Klaus Unger.



ORGANIZATION

The Group was reorganized at the beginning of 1999. The previous matrix structure with 15 operating units was replaced by six Divisions with clearly defined income responsibility: North Europe, Continental Europe, North America, Overseas, Matches and Lighters.

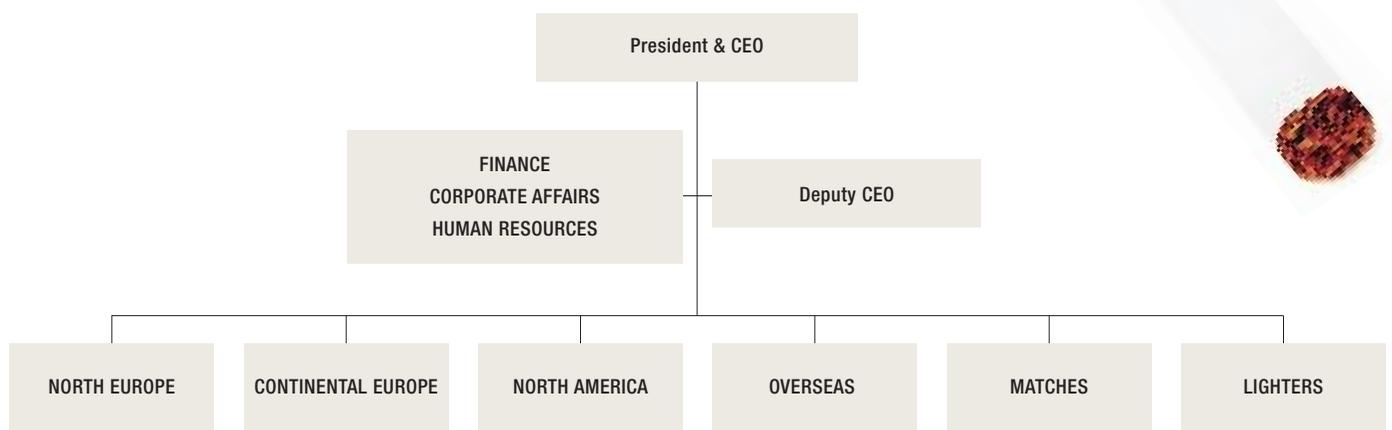
The North Europe, Continental Europe, North America and Overseas Divisions are responsible for marketing, sales and production of tobacco prod-

ucts. The global Match and Lighter Divisions sell their products through the other four Divisions.

The reorganization is designed to achieve a more market-oriented organization with clear profit responsibility, and to link Group management directly to the operating units. The new organization focuses on Swedish Match's most important markets and products. It will improve the underlying potential for

higher profitability and value growth, and it establishes clear responsibility at all levels, with concrete and quantifiable objectives, at a lower cost than the previous structure.

In its external reporting, Swedish Match will continue to report earnings on a product group basis.



PERSONNEL

Swedish Match's personnel program initiates, develops and implements projects in the personnel field that help to support the Group's business operations.

The personnel program in 1998 was largely focused on supporting the interaction of various Group units and contributing to a common global corporate culture. The foundations for this common corporate culture consist of six basic values: Communication, Teamwork, Trust, Innovation, Recognition and Growth.

LEADERSHIP

Creation of a successful company with a common culture requires leaders with the willingness and ability to work in accor-

dance with Swedish Match's common values. As a result, during 1998 the Group initiated three executive development programs for trainees, international and senior managers.

The trainee program is designed to secure the future supply of internally recruited managers.

The program for international managers involves work on strategic Group projects to develop concrete solutions and action plans.

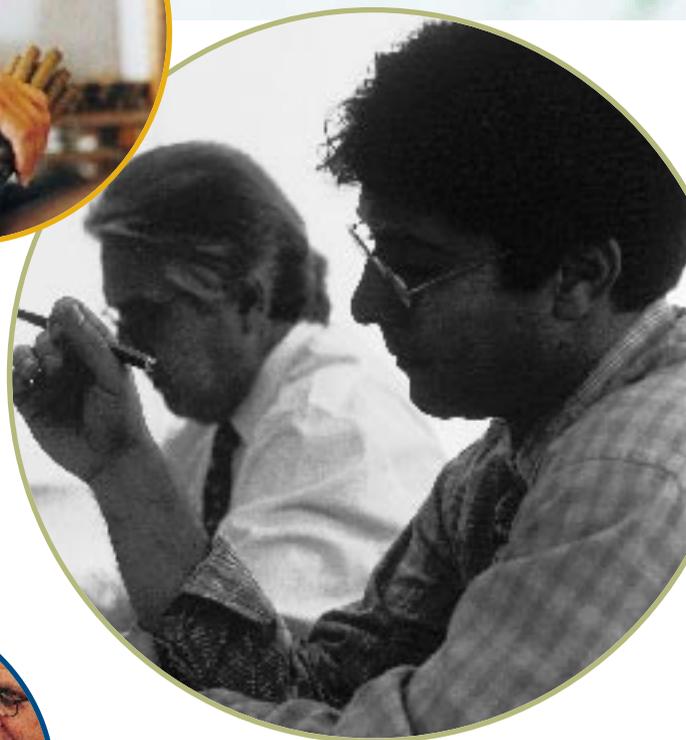
For senior managers, there are seminars on how to apply the Group's basic values in practical management. There

are approximately 150 participants in this program.

INTERNAL INFORMATION AND TRAINING PROGRAM

In September 1997, the Global Challenge Program for internal development and information was presented to all Swedish Match employees in offices and plants throughout the world. This program extends over several years and is designed to promote greater understanding and a stronger sense of commitment on the part of employees.





BONUS PROGRAM

Members of the Group management team can receive up to 35 percent of their basic salary in the form of a bonus. Earnings per share is an important measurement underlying the bonus calculation.

Other senior managers also have a bonus program.

INCENTIVE PROGRAM

During 1998, approximately 20 senior managers within the Group were offered an opportunity to acquire call options on Swedish Match AB shares, in an offer issued by an external party. The redemption price is SEK 33.41 for a term of three years, SEK 34.76 for four years and SEK 36.11 for five years. The program was fully subscribed and options on 1,065,000 shares were issued. The maximum allotment per executive ranged from 30,000–105,000 options. The options were priced on market terms.



FIVE-YEAR summary

CONSOLIDATED INCOME STATEMENTS (SEK M)	1994	1995	1996	1997	1998
Net sales	7,760	7,435	7,416	7,465	8,194
Cost of goods sold	-3,888	-3,761	-3,653	-3,615	-4,096
Gross profit	3,872	3,674	3,763	3,850	4,098
Selling, administrative and other expenses	-2,304	-2,201	-2,056	-2,281	-2,620
Share of earnings in associated companies	11	21	16	17	11
Items affecting comparability	144	189	-123	-	-108
Operating income	1,723	1,683	1,600	1,586	1,381
Net interest expense	-129	-107	-81	-17	-82
Other financial items	31	0	11	-11	-41
Items affecting comparability	-	-	-	-	-60
Net financial items	-98	-107	-70	-28	-183
Income after financial items	1,625	1,576	1,530	1,558	1,198
Taxes	-487	-473	-439	-512	-482
Minority interests	-15	-6	18	-1	10
Net income for the year	1,123	1,097	1,109	1,045	726
Earnings per share after full tax before items affecting comparability, SEK	2.15	1.84	2.53	2.20	1.96
Earnings per share after tax after items affecting comparability, SEK	2.36	2.31	2.33	2.20	1.59

CONSOLIDATED BALANCE SHEETS (SEK M)	1994	1995	1996	1997	1998
Assets					
Intangible fixed assets	640	563	516	757	895
Tangible fixed assets	2,048	2,002	1,939	2,050	2,239
Other operating assets	126	98	94	176	184
Financial assets	67	80	278	308	279
Current operating assets	3,393	2,980	2,964	3,125	3,774
Current financial receivables	288	119	144	153	315
Current investments	-	-	-	-	1,386
Cash and bank	961	804	942	563	1,490
Total assets	7,523	6,646	6,877	7,132	10,562
Equity and liabilities					
Equity	1,760	1,557	2,314	2,972	2,160
Minority interests	121	105	54	20	148
Provisions	574	630	663	656	1,165
Long-term liabilities to credit institutions	2	9	4	209	2,098
Other long-term liabilities	60	35	29	27	26
Current liabilities to credit institutions	1,902	1,990	1,015	825	2,233
Other current liabilities	646	174	508	290	340
Current operating liabilities	2,458	2,146	2,290	2,133	2,392
Total equity and liabilities	7,523	6,646	6,877	7,132	10,562
Share capital	408	408	927	927	949
Dividend per share	-	-	1.07	1.07	1.10¹⁾
Average number of employees	7,658	7,306	6,580	6,467	10,314

¹⁾ Board proposal

KEY RATIOS ¹⁾	1994	1995	1996	1997	1998
Operating margin, %	20.3	20.1	23.2	21.2	18.2
Return on operating capital, %	39.9	41.3	49.9	42.7	33.2
Return on shareholders equity, %	63.9	66.1	57.3	39.5	28.3
Interest coverage ratio, times	9.0	9.1	9.6	24.9	7.6
Debt/equity ratio, %	50.1	71.9	3.2	15.7	63.0
Equity/assets ratio, %	25.0	25.0	34.4	41.9	21.9
Investments, SEK M	376	302	217	292	393
Net debt	943	1,195	77	471	1,455

¹⁾ Definitions, page 51.

KEY FIGURES BY PRODUCT AREA (SEK M)	1994	1995	1996	1997	1998
Net sales					
Chewing Tobacco	1,233	1,173	1,043	1,149	1,068
Cigarettes	1,934	1,941	1,983	1,546	1,468
Cigars	729	729	678	691	902
Lighters	796	835	846	834	735
Matches	1,754	1,358	1,241	1,299	1,573
Pipe Tobacco	222	182	196	166	218
Snuff	640	729	900	1,079	1,337
Other operations	452	488	529	701	893
Total	7,760	7,435	7,416	7,465	8,194
Operating income					
Chewing Tobacco	277	336	368	420	331
Cigarettes	775	786	789	537	438
Cigars	114	109	136	131	117
Lighters	-5	-3	48	53	18
Matches	303	93	118	147	134
Pipe Tobacco	35	31	41	28	38
Snuff	224	281	431	522	641
Other operations	-144	-139	-208	-252	-228
Sub-total	1,579	1,494	1,723	1,586	1,489
Items affecting comparability	144	189	-123	-	-108
Total	1,723	1,683	1,600	1,586	1,381
Operating margin, %					
Chewing Tobacco	22.5	28.6	35.3	36.6	31.0
Cigarettes	40.1	40.5	39.8	34.7	29.8
Cigars	15.6	15.0	20.1	19.0	13.0
Lighters	-0.6	-0.4	5.7	6.4	2.4
Matches	17.3	6.8	9.5	11.3	8.5
Pipe Tobacco	15.8	17.0	20.9	16.9	17.4
Snuff	35.0	38.5	47.9	48.4	47.9
CASH FLOW (SEK M)	1994	1995	1996	1997	1998
Cash flow from operations	1,769	772	1,806	773	794
Investments					
Investments in property, plant and equipment	-376	-302	-217	-292	-393
Investments in intangible fixed assets	-	-16	-1	-249	-213
Acquisition of companies	-36	-	-	-60	-157
Sale of property, plant and equipment	17	48	38	40	849
Other	291	363	-160	-91	-4
Cash flow from investments	-104	93	-340	-652	82
Financing					
Change in loans	-195	102	-1,010	-16	3,084
Dividend to shareholders	-	-	-300	-510	-510
Share redemption, net	-	-	-	-	-1,147
Other	-1,015	-1,072	-2	-5	-
Cash flow from financing	-1,210	-970	-1,312	-531	1,427
Translation differences attributable to liquid funds	-29	-52	-16	31	10
Change in liquid funds	426	-157	138	-379	2,313
Liquid funds at the beginning of the year	535	961	804	942	563
Liquid funds at the end of the year	961	804	942	563	2,876

CONSOLIDATED Financial Statement

INCOME STATEMENT

<i>SEK M unless otherwise stated</i>	<i>note</i>	1998	1997
Net sales, including tobacco tax		15,915	15,231
Less tobacco tax		-7,721	-7,766
Net sales		8,194	7,465
Cost of goods sold		-4,096	-3,615
Gross margin		4,098	3,850
Selling expenses	2	-1,941	-1,572
Administrative expenses		-821	-759
Other operating revenue		157	84
Other operating expenses		-15	-34
Share of earnings in associated companies		11	17
Items affecting comparability	3	-108	-
Operating income		1,381	1,586
Interest income		100	48
Interest expenses		-182	-65
Exchange rate differences and other financial items	4	-41	-11
Items affecting comparability	3	-60	-
Income after financial items		1,198	1,558
Taxes	5	-482	-512
Minority interest		10	-1
NET INCOME FOR THE YEAR		726	1,045

BALANCE SHEET

<i>SEK M unless otherwise stated</i>	note	Dec. 31, 1998	Dec. 31, 1997
ASSETS			
Fixed assets			
Intangible assets	6	895	757
Tangible assets	7	2,239	2,050
Other operating fixed assets			
Participations in associated companies	8	115	152
Other long-term operating receivables		69	24
Total other operating fixed assets		184	176
Financial fixed assets	9	279	308
Total fixed assets		3,597	3,291
Current assets			
Inventories	10	1,902	1,584
Current operating receivables			
Trade receivables		1,421	1,245
Prepaid expenses and accrued income		138	138
Other current operating receivables		313	158
Total current operating receivables		1,872	1,541
Current financial receivables		315	153
Current investments	11	1,386	–
Cash and bank	11	1,490	563
Total current assets		6,965	3,841
TOTAL ASSETS		10,562	7,132
EQUITY, PROVISIONS AND LIABILITIES			
Equity	12		
Restricted equity			
Share capital		949	927
Restricted reserves		540	352
Unrestricted equity			
Unrestricted reserves		-55	648
Net income for the year		726	1,045
Total Equity		2,160	2,972
Minority		148	20
Provisions			
Pensions and similar commitments	13	270	214
Provisions for taxation		465	373
Other provisions		430	69
Total provisions		1,165	656
Long-term liabilities			
Liabilities to credit institutions	14	2,098	209
Other long-term liabilities		26	27
Total long-term liabilities		2,124	236
Current financial liabilities			
Liabilities to credit institutions	14	2,233	825
Other current financial liabilities		340	290
Total current financial liabilities		2,573	1,115
Current operating liabilities			
Accounts payable		567	397
Accrued expenses and deferred income	15	569	534
Other current operating liabilities	15	1,256	1,202
Total current operating liabilities		2,392	2,133
Total current liabilities		4,965	3,248
TOTAL EQUITY, PROVISIONS AND LIABILITIES		10,562	7,132
COMMITMENTS AND CONTINGENT LIABILITIES			
Pledged assets	17	537	156
Contingent liabilities		200	151

CASH FLOW

<i>SEK M unless otherwise stated</i>	1998	1997
OPERATIONS		
Net income for the year	726	1 045
Depreciation	332	268
Share in earnings of associated companies	-11	-17
Dividends from associated companies	11	16
Gain on sales of property, plant and equipment	-326	-6
Minority interests	-10	2
Other items which do not affect cash	97	-21
Change in operating assets/liabilities		
Trade receivables	-73	125
Inventories	-149	-111
Other assets	-140	-62
Accounts payable	-73	41
Accrued expenses and other current liabilities	467	-427
Change in pension provisions and other long-term liabilities	38	26
Change in income tax liabilities	-86	-186
Change in deferred income tax liabilities	-9	80
Cash flow from operations	794	773
INVESTMENTS		
Investments in property, plant and equipment	-393	-292
Sales of property, plant and equipment	849	40
Acquisition of subsidiaries	-157	-60
Acquisition of intangible assets	-213	-249
Investments in associated companies	-11	-45
Change in financial receivables	7	-46
Cash flow from investments	82	-652
FINANCING		
Change in short-term loans	1,230	-214
Dividends to minority shareholders	-	-5
Change in long-term loans	1,854	198
Redemption of shares	-1,147	-
Dividends to shareholders	-510	-510
Cash flow from financing	1,427	-531
Translation differences attributable to liquid funds	10	31
Increase/decrease in liquid funds	2,313	-379
Liquid funds at the beginning of the year	563	942
Liquid funds at the end of the year	2,876	563

NOTES

(All amounts in SEK M if not otherwise stated) The Annual Report follows the recommendations of the Swedish Financial Accounting Standards Council. The accounting principles are the same as in the preceding year.

1

SIGNIFICANT ACCOUNTING PRINCIPLES

Consolidated Financial Statement

The Consolidated Financial Statement includes the Parent Company, all subsidiaries and associated companies. Subsidiaries refer to companies in which Swedish Match holds shares vested with more than 50 percent of the votes or in which Swedish Match has a decisive influence in some other way. Associated companies are defined as companies in which Swedish Match has long-term holdings equivalent to at least 20 percent, but not more than 50 percent, of the votes. Holdings in associated companies are reported in accordance with the equity method. The Group's share of the reported profit of associated companies is reported as a proportion of operating profit and income taxes.

All acquisitions of companies have been reported in accordance with the purchase method. Companies divested during the year are included in the Consolidated Financial Statement up to the date of sale. Companies acquired during the year are included in the Consolidated Financial Statement from the date of acquisition.

The Minority participation in Swedish Match's profit is reported after income taxes.

Other holdings are reported at acquisition value; dividends received are reported as income.

Foreign Currency

Translation of the accounts of foreign subsidiaries

The balance sheets of foreign subsidiaries, with the exception of subsidiaries in countries with high inflation, have been translated to Swedish kronor at the closing day rate. Income statements have been translated at the average exchange rate for the period. Translation differences that arise in conjunction with translation of income statements and balance sheets are entered immediately under equity.

The accounts of subsidiaries active in countries with a high inflation rate have been translated as from 1998 into Swedish kronor at the closing day rate for both income statements and balance sheets, based on inflation-adjusted reporting in accordance with International Accounting Standard No. 29 (IAS 29). Amounts for the preceding year, which were computed in accordance with the temporal method, have not been recalculated in accordance with IAS 29, since the difference is insignificant.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency have been translated at the closing day rate, with the exception of hedged items, which have been translated at the respective rate of the associated forward contract. Exchange gains and losses are recorded in operating income to the extent they amount to operating balance dealings and otherwise in net financial items.

Operating and Financial Assets and Liabilities

Operating assets and liabilities are attributed to operations. Financial assets and liabilities are attributed to financing and other business.

Currency Hedging

The Company enters into forward contracts to hedge its currency risks with regard to certain financial liabilities and expected, but not yet contracted, sales and purchases in foreign currencies. Forward contracts entered into for the purpose of hedging future transactions are not booked until the transactions concerned take place. Balances in foreign currency, which have been hedged, are translated using the relevant rate according to the forward contract, and realized and unrealized exchange gains and losses are reported on the income statement.

Interest-rate swaps

The company uses interest-rate swaps to adjust the relationship between borrowing at fixed and variable rates of interest. An interest-rate swap involves the exchange of the fixed-interest on a loan or

investment for variable interest, or vice versa. Since such swaps are linked to the underlying loan or investment in terms of the amount and the maturity period, swaps held are reported at amounts corresponding to the accrued interest.

Income taxes

Provisions for taxes include current Swedish and foreign current tax liabilities and also deferred taxes incurred as a result of temporary differences between financial and tax accounting. Deferred tax liabilities and deferred tax claims are entered at the current tax rate for the company concerned (the liability method). Assets and liabilities in the form of deferred tax are offset only in units where tax equalization is possible within and between units.

Deferred tax claims are booked with respect to the temporary differences that will result in future deductions and tax losses carried forward. If it is unlikely that the deferred tax claim will be realized, it is not entered as an asset, but is appropriated to the valuation reserve.

Items Affecting Comparability

The net of significant income or expense entries, which are not expected to occur frequently, are classified net as 'items affecting comparability' and reported separately. Items affecting comparability include restructuring expenses and revenues of a nonrecurring nature resulting from the sale operations and shares which were previously reported as operating assets.

Intangible Assets

Goodwill is included in intangible assets, which are amortized on a straight-line basis over 5–20 years. Goodwill in major subsidiaries that have been in business for more than 20 years, have strong brands and a satisfactory market position is amortized over 20 years.

Tangible Assets

Depreciation on property, machinery and equipment is based on the acquisition cost of the asset and its estimated economic life. Buildings and land improvements are generally depreciated over periods of 20–50 years. The estimated economic life for vehicles is normally 5 years and 5–10 years for machinery and equipment.

New acquisitions and reacquisitions are capitalized, while repair and maintenance costs are expensed as incurred. When assets are sold or discarded, the acquisition cost is written off, and the associated accumulated depreciation and any profit or loss are entered as income.

Inventories

Inventories are reported at the lower of cost or market and in all significant aspects in accordance with the FIFO (first-in, first-out) method after deductions for obsolescence. Non-realized intercompany profits are eliminated in their entirety.

Use of Estimates

The preparation of annual reports in accordance with generally accepted accounting principles requires company management to make estimates and assumptions that affect the amounts of assets and liabilities reported, disclosures regarding uncertain conditions and possible future events and their financial effects on closing day and upon reported income and expenses during the accounting period. The actual outcome may differ from such estimates.

2

SELLING EXPENSES

Selling expenses include expenses for Research and Development, etc. of SEK 94 million for the 1998 financial year and SEK 91 million for 1997.

3 ITEMS AFFECTING COMPARABILITY

A capital gain of SEK 266 million is reported for 1998 on the sales of Swedish Match's head office in Stockholm, which was divested at the end of the year. At the same time, a long-term lease was concluded with the buyer (see Note 17). In addition, the amount for items affecting comparability includes costs of SEK 177 million for the restructuring of production, SEK 97 million for the writedown of intangible assets and a cost of SEK 100 million for implementation of a new Group organizational structure.

The financial items include a noncomparable risk provision item of SEK 60 million pertaining to the Group's financial exposure in southeast Asia.

4 EXCHANGE RATE DIFFERENCES AND OTHER FINANCIAL ITEMS

	1998	1997
Exchange rate differences	-10	-5
Other financial items	-31	-6
Total	-41	-11

5 TAXES

Earnings before income taxes and minority shares for 1998 and 1997 were geographically distributed as follows:

	1998	1997
Sweden	891	937
Outside Sweden	307	621
Total	1,198	1,558

Income taxes for 1998 and 1997 were geographically distributed as follows:

	1998	1997
Current income taxes		
Sweden	-261	-177
Outside Sweden	-186	-226
Total current income taxes	-447	-403
Deferred income taxes		
Sweden	-36	-63
Outside Sweden	51	-17
Total deferred income taxes	15	-80
Other taxes		
Sweden	-	-
Outside Sweden	-50	-29
Total other taxes	-50	-29
Total taxes	-482	-512

The tax effects of temporary differences which resulted in assets and liabilities in the form of deferred tax as of December 31, 1998 and December 31, 1997 are summarized below:

	1998	1997
Losses carried forward	108	90
Restructuring reserve	45	10
Pension benefits	76	72
Tax equalization reserves and profit		
equalization reserves	-291	-240
Depreciation in excess of plan	-110	-94
Inventory reserves	-52	-42
Valuation reserves	-61	-76
Other	66	59
Net deferred income tax liability	-219	-221
Classified per balance sheet category		
Current financial receivables	86	61
Financial assets	160	91
Less tax provisions	-465	-373
Net deferred income tax liability	-219	-221

As of December 31, 1998, the Group had deductible losses carried forward equivalent to SEK 292 million. The Group's deductible tax losses carried forward fall due as follows:

Year	Amount
1999	-
2000	33
2001	110
2002	9
2003	1
2004	-
Thereafter	139
Total deductible tax losses carried forward	292

The Company's net earnings were charged with tax of 40.2 percent for 1998 and 32.8 percent for 1997. The difference between the Group's tax expense and application of the statutory tax rate in Sweden of 28 percent is attributable to the items shown in the following table:

	1998	1997
Swedish tax rate	28.0	28.0
Adjustments for foreign tax rates	1.4	2.6
Losses that could not be utilized	6.5	1.5
Non-taxable items	-1.1	-1.2
Non-deductible amortization of goodwill	1.3	0.5
Non-deductible expenses	3.5	1.1
Other	0.6	0.3
Total	40.2	32.8

6 INTANGIBLE ASSETS

Intangible fixed assets at December 31 are as follows:

	Trademarks and other intangible assets		Goodwill		Total	
	1998	1997	1998	1997	1998	1997
Acquisition value brought forward	358	108	951	862	1,309	970
Purchases/investments	147	249	66	0	213	249
Companies acquired	0	0	85	23	85	23
Scrapping/writedowns	-177	0	1	0	-176	0
Exchange differences, etc.	1	1	34	66	35	67
Accumulated acquisition value carried forward	329	358	1,137	951	1,466	1,309
Depreciation brought forward	-90	-78	-462	-376	-552	-454
Depreciation for the year	-24	-12	-60	-47	-84	-59
Scrapping	80	0	0	0	80	0
Exchange differences	-	-	-15	-39	-15	-39
Accumulated depreciation carried forward	-34	-90	-537	-462	-571	-552
Book value carried forward	295	268	600	489	895	757

Amortization on intangible assets is accounted for in its entirety under the "Administrative Expenses" heading in the income statement.

7 TANGIBLE FIXED ASSETS

Tangible assets as of December 31 included the following:

	Buildings and land		Machinery and other plant		Equipment, tools and installations		Current new- construction		Total	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
Acquisition value brought forward	1 433	1 351	2 691	2 510	120	146	120	72	4,364	4,079
Purchases/Investments	45	55	162	123	57	23	129	91	393	292
Companies acquired	461	21	166	15	19	11	62	0	708	47
Sales/scrapping	-567	-44	-99	-27	-14	-52	-13	10	-693	-113
Reclassifications	42	5	-251	29	282	-13	-104	-51	-31	-30
Exchange differences	7	45	74	41	3	5	2	-2	86	89
Accumulated acquisition value carried forward	1,421	1,433	2,743	2,691	467	120	196	120	4,827	4,364
Depreciation brought forward	-407	-387	-1,835	-1,665	-72	-87	0	0	-2,314	-2,139
Depreciation for the year	-36	-30	-172	-170	-37	-9	-3	0	-248	-209
Companies acquired	-111	-4	-50	0	-6	-8	0	0	-167	-12
Sales/scrapping	80	24	73	31	17	24	2	0	172	79
Reclassifications	13	2	228	8	-212	10	0	0	29	20
Exchange differences	-4	-12	-54	-39	-2	-2	0	0	-60	-53
Accumulated depreciation carried forward	-465	-407	-1,810	-1,835	-312	-72	-1	0	-2,588	-2,314
Book value carried forward	956	1,026	933	856	155	48	195	120	2,239	2,050

The tax assessment value as of December 31 for property estate in Sweden is indicated below:

	1998	1997
Buildings	209	527
Land	41	83
Total assessed value for property in Sweden	250	610

Depreciation on tangible assets has been allocated under the following headings in the income statement:

	1998	1997
Cost of goods sold	-186	-166
Selling expenses	-14	-11
Administrative expenses	-48	-32
Total	-248	-209

8 PARTICIPATIONS IN ASSOCIATED COMPANIES

Participations in associated companies and other shares as of December 31:

	1998		1997	
	Ownership %	Book value	Ownership %	Book value
Arnold André GmbH & Co. KG	40	83	40	76
Arnold André Verwaltungs GmbH	40	0	40	0
Wimco Ltd ¹⁾	-	-	39	63
BVT Cricket & Co Ltd Vietnam	50	0	33	1
Cricket de Mexico SA de CV	20	0	20	0
Malaysian Match Company SDN	32	11	32	12
Total participations in associated companies	-	94	-	152
Other shares	-	21	-	0
Total shares	-	115	-	152

¹⁾ Wimco Ltd was consolidated as a subsidiary company as from April 1, 1998, with one month's time-lag.

Changes of participations in associated companies:

	1998	1997
Amount brought forward from preceding year	152	79
Reallocation to shares in subsidiaries	-63	-
Acquisition of participations in associated companies	1	75
Share in earnings of associated companies, net after tax	7	15
Dividends from associated companies	-11	-16
Exchange differences	8	-1
Value carried forward	94	152

Within the framework of normal business, Swedish Match carries out transactions with associated companies. Receivables from these companies totaled SEK 30 million as of December 31, 1998 and SEK 6 million as of December 31, 1997. Total sales to associated companies amounted to SEK 120 million in 1998 and SEK 103 million in 1997.

9 FINANCIAL ASSETS

	1998	1997
Brought forward from the preceding year	308	278
Advance payments for acquisitions	-	16
Change in long-term deferred tax receivables	65	-22
Reallocation to shares in subsidiaries	-16	-
Reallocation to current receivables	-95	-
Exchange differences	17	36
Value carried forward	279	308

10 INVENTORIES

Inventories as of December 31 consist of the following items after deductions for obsolescence:

	1998	1997
Finished goods inventories	594	417
Work in progress	153	96
Raw tobacco	909	841
Other input and consumable materials	246	230
Total inventories	1,902	1,584

11 LIQUID FUNDS

Liquid funds consist of current investments in the form of interest-bearing securities, cash and bank balances:

	1998	1997
Current investments		
Kingdom of Sweden	988	-
Commercial paper	398	-
	1,386	-
Cash and bank		
Bank accounts and cash	991	563
Investment loans in banks	499	-
	1,490	563
Total liquid funds	2,876	563

12 SHAREHOLDERS' EQUITY

During the year, the number of shares and the share capital changed in accordance with the following:

	Number of shares	Share capital
December 31, 1997	463,558,252	927
Redemption	-34,752,689	-69
New issue	2,534,100	5
Bonus issue ¹⁾	-	86
December 31, 1998	431,339,663	949

¹⁾ The par value of the share increased from SEK 2 to SEK 2.20.

	1998	1997
Share capital opening balance	927	927
Redemption of shares	-69	-
New issue	5	-
Bonus issue	86	-
Total share capital	949	927
Restricted reserves opening balance	352	89
Premium on new issue	64	-
Bonus issue	-86	-
Transfer between unrestricted and restricted shareholders' equity	210	263
Total restricted reserves	540	352
Unrestricted reserves opening balance	1,693	1,298
Redemption of shares	-1,147	-
Transfer between unrestricted and restricted shareholders' equity	-210	-263
Dividends	-510	-510
Translation difference	119	123
Net income for the year	726	1,045
Total unrestricted shareholders' equity	671	1,693
Total shareholders' equity	2,160	2,972

13 PENSIONS AND SIMILAR COMMITMENTS

The Company applies various pension schemes for its employees all over the world. Pension provisions are calculated in accordance with actuarial principles in each country. Most of the company's pension schemes are defined pension obligations which are either covered by insurance or funded or unfunded pension plans.

The pension benefits available to employees of the Group's Swedish tobacco operations are partially covered by two fully independent super-annuation funds. As of December 31, 1998, the market value of the assets of the funds exceeded the actuarial value of the pension obligations by SEK 925 M. The surplus funds can only be utilized following approval of the Boards of these funds. In 1998, the funds contributed SEK 101 million to Group companies in Sweden. The corresponding figure for 1997 was SEK 104 million.

The Group also has foundations or similar arrangements for a number of benefit-based pension obligations, primarily in the USA, Sweden and Great Britain.

Certain of the Group's benefit-based pension obligations are unfunded, primarily local and national public-sector schemes. The current value of such future pension benefits is entered as a liability on the consolidated balance sheet and amounts to SEK 81 million (35).

In addition to pension schemes, the Group's US subsidiaries employ unfunded schemes for health care and other benefits for retired employees who fulfill the requirements for minimum age and years of service. In general, these schemes involve a cost contribution, for which the retired employee's share of cost is adjusted regularly and includes other components such as deductible amounts and co-insurance. The estimated future cost of pension benefits for health care are entered as a liability, in accordance with US accounting principles. This liability in the consolidated balance sheet amounts to SEK 189 million (179).

14 LIABILITIES TO CREDIT INSTITUTIONS

At the year-end, Swedish Match had liabilities to credit institutions amounting to SEK 4,331 million, of which SEK 1,961 million had a remaining term of more than one year. These long-term liabilities include Swedish bond loans totaling SEK 1,761 million, of which SEK 1,561 million was issued within the framework of Swedish Match's Swedish bond program. SEK 614 million of these bond loans fall due in 2000, SEK 487 million in 2001, SEK 160 million in 2002 and SEK 500 million in 2003. In addition, there is a long-term bank loan of SEK 200 million which falls due in 2002 at a variable rate of interest. The average rate of interest for long-term borrowing was 4.6 percent at year-end. At year-end, approximately 52 percent of the long-term borrowing was at a variable rate of interest and 48 percent at fixed interest.

Swedish Match also has confirmed unutilized lines of credit from credit institutions totaling SEK 1,425 million. Some of these credits require payment of a commitment commission, which varies but which in no case exceed 0.25 percent of the unutilized proportion of the credit concerned at year-end. In combination with liquid funds, which amounted to SEK 2,876 million at year-end, these lines of credit secure Swedish Match's commercial paper program which, had a loan limit of SEK 3,000 million at year-end, of which SEK 1,382 million was utilized.

15 ACCRUED EXPENSES AND OTHER CURRENT OPERATING LIABILITIES

Accrued expenses and deferred income as of December 31 consist of the following:

	1998	1997
Accrued wage/salary-related expenses	63	93
Accrued vacation pay	78	76
Accrued social security charges	156	131
Other	272	234
Total	569	534

Other current operating liabilities as of December 31 consist of the following:

	1998	1997
Tobacco taxes	706	768
Value Added Tax liability	231	242
Other	319	192
Total	1,256	1,202

16 FINANCIAL INSTRUMENTS

The Group is active internationally, which gives rise to risk exposure due to currency fluctuations. The Group employs forward contracts in order to reduce the risks.

As of December 31, the Group had outstanding currency forward contracts in the following nominal values:

	1998	1997
Forward contracts	2,718	745

The book value of all financial instruments held by the Swedish Match Group is approximately their market value, except for forward contracts. The book values and estimated market values of forward contracts as of December 31 is shown below:

1998		1997	
Book value	Estimated market value	Book value	Estimated market-value
-19	-19	-5	-10

The market value of futures contracts reflects the estimated amounts that the Company would receive or pay upon cancellation of the contract as of the closing day, taking into account unrealized profits and losses on open contracts.

17 COMMITMENTS AND CONTINGENT LIABILITIES

Leasing Agreements

Future annual minimum charges under the terms of irrevocable operative leasing agreements with initial or remaining terms of one year or more consisted of the following as of December 31 1998:

Year	Annual minimum charges
1999	68
2000	66
2001	62
2002	57
2003 and thereafter	293
Total minimum charges	546

The Group's leasing expenses for operative leasing agreements amounted to SEK 31 million in 1998 and SEK 28 million in 1997.

The Group's future annual minimum charges increased compared with the preceding year, following a 10-year leasing agreement with the purchaser of the company's head office property in Stockholm. Future commitments regarding this leasing agreement amount to SEK 450 million.

Legal Disputes

The company is involved in a number of legal proceedings of a routine character for the business. In some cases, the Group's cigar operations

are involved in disputes with competitors regarding the use of certain brand names.

Although company management cannot in any meaningful way estimate the damages that might be awarded in any current or anticipated disputes, management considers that obligations attributable to all such ongoing disputes should not have any significant negative impact on the earnings or financial position of Swedish Match.

Environmental Issues

One of the Company's subsidiaries has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") for a waste dumpsite in the US. Cleaning up of the area is under way and it has been estimated that the subsidiary's share of costs is not more than SEK 7 million, for which provision has been made.

18 GEOGRAPHICAL INFORMATION

Certain information by geographical area has been summarized in the tables below:

	1998	1997
Sales outside the group		
Sweden	3,650	3,433
Western Europe excluding Sweden	2,011	1,825
Eastern Europe	134	123
North America	1,533	1,533
Latin America	427	427
Other areas	439	124
Total sales outside the group	8,194	7,465

Earnings before income taxes and minority interests

Sweden	891	937
Western Europe excluding Sweden	65	256
Eastern Europe	-12	-6
North America	245	387
Latin America	14	8
Other areas	-5	-24

Total earnings before income taxes and minority interests

1,198 1,558

Assets

Sweden	4,908	2,861
Western Europe excluding Sweden	2,447	2,079
Eastern Europe	296	171
North America	1,035	1,054
Latin America	710	703
Other areas	1,166	264
Total assets	10,562	7,132

19

PROFIT AND SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US ACCOUNTING PRINCIPLES

The accounts of Swedish Match were prepared according to Swedish accounting principles ("Swedish GAAP"). In conjunction with the listing of Swedish Match on Nasdaq in the US, the company issues certain financial information drawn up according to American accounting principles ("US GAAP"). Swedish Match also submits a report each year (Form 20-F) to the Securities and Exchange Commission (SEC), which includes further information about Swedish Match's business activities in accordance with the rules established.

A summary of the effects on the Group's profits and shareholders' equity of application of US accounting principles is presented in the tables below:

	Note	1998	1997
Reconciliation of net income			
Profit for the year according to Swedish accounting principles		726	1,045
Items that increase or reduce profit			
Consolidation:	1		
Amortization of goodwill		-308	-308
Other depreciation		-3	-3
Restructuring expenses	2	183	-65
Gain on sales of property	3	-266	-
Early retirement pensions		-	-2
Financial instruments	4	24	-1
Pensions and pension investments	5	-42	10
Tax effects of the above adjustments		72	17
Profit according to US accounting principles		386	693
In SEK per share:			
Net profit according to US accounting principles		0.85	1.45
Reconciliation of equity			
Shareholders' equity according to Swedish accounting principles		2,160	2,972
Items that increase or reduce equity			
Consolidation:	1		
Goodwill		4,749	5,057
Property, machinery and equipment		106	109
Restructuring expenses	2	191	8
Gain on sales of property	3	-266	-
Early retirement pensions		-	-18
Financial instruments	4	14	-10
Pensions and pension investments	5	134	192
Tax effects of the above			
US GAAP adjustments		-44	-116
Shareholders' equity according to US accounting principles		7,044	8,194

- As of December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired the Group's parent company in two stages, November 1993 and June 1994, whereby the purchase method was applied in the reporting of the transactions. Accordingly, the difference between the acquisition values and the book values of the net assets was distributed among buildings, land and shares that were held by Swedish Match, and for which the market values at the time of the acquisitions exceeded book values. The remainder of the difference between the acquisition price and the assets' book value was good-

will. These distributions were booked at Group level by Volvo and were not pushed down to the subsidiary Group, Swedish Match.

US GAAP requires that "push down" accounting be applied for the independent annual reports of wholly owned subsidiaries if the share of ownership is 95 percent or more, which was the case in Volvo's acquisition in 1994. Consequently, the adjustments made in accordance with the purchase method by Volvo, pertaining to Swedish Match, began being reported for US GAAP purposes by Swedish Match in June 1994. The goodwill thereby calculated has subsequently been further adjusted since US GAAP requires that the acquisition price shall be set on the basis of the payment amount at the time the transaction was completed and not the date the transaction was made public, as required by Swedish GAAP.

Total gross value of goodwill which, according to the above, was transferred to Swedish Match in 1994 amounted to SEK 6,158 million. Adjustments for property, machinery and equipment amounted to SEK 119 million. The goodwill amount is written off in 20 years.

The capital gain that Swedish Match reported as an item affecting comparability in connection with the sale of the shares in UST, Inc has instead increased the value of the assets at the time Volvo made the acquisition.

- Earnings for 1998 include SEK 177 million among items affecting comparability for costs of restructuring production, and SEK 100 million for costs related to implementing a new Group organization. According to Swedish accounting principles, the entire cost of restructuring is booked in connection with the decision, whereas US GAAP only allows certain costs to be booked in connection with the decision. Adjustments in accordance with US accounting principles has been made in the amount of SEK 183 million, of which SEK 8 million pertains to costs from prior years related to the closure of the Arvika and Härnösand plants.
- The sale of Swedish Match's head office in Stockholm has, according to Swedish accounting principles, been reported as an operational lease, which resulted in a capital gain of SEK 266 million reported under items affecting comparability. According to US GAAP, the sale is considered a financing arrangement, with the result that income recognition is postponed and the sale proceeds are entered as a liability. The property's value is recovered and depreciation according to plan is applied. The property adjustment was made in the amount of SEK 266 million.
- In applying Swedish accounting principles, unrealized currency exchange gains and losses on forward contracts that hedge anticipated future transactions are normally accounted for only when the underlying transaction takes place. In applying US GAAP, the positive and negative unrealized exchange differences for such forward contracts are calculated on the basis of the market values at fiscal year-end and must be included in reported net profit.
- Pensions are reported by each of the Swedish Group units, where suitable, based on the principles deemed appropriate for local statutory purposes, provided that these stipulate that pension entitlements are reported as an expense. Under US GAAP, pensions are reported in accordance with SFAS No. 87, "Employers' Accounting for Pensions." The Group has estimated the effect on net profit and shareholders' equity assuming the application SFAS No. 87 provisions are being applied. Accordingly, financial assets in a Swedish pension foundation have, during 1997, been reclassified from "plan assets" to "the corporate assets" under SFAS No. 87.

Classification

According to SFAS No. 87, "cash and cash equivalents" only cover funds with a three-month term or shorter. A part of Swedish Match's liquid funds (see Note 11) do not meet this requirement. As a consequence, changes in this segment of liquid funds are reported as investments according to SFAS No. 95.

20 PERSONNEL

The average number of employees in the Parent Company in 1998 was 48, and 10,467 in the Group. The corresponding numbers in 1997 were 38 and 6,467. Wages, salaries, other remuneration and social welfare costs are summarized below:

	1998		1997	
	Salaries and other compensation	Social welfare costs (of which pension costs)	Salaries and other expenses remuneration	Social welfare costs (of which pension costs)
Parent Company	30	14(2)	23	13(5)
Subsidiaries	1,198	452(101)	1,148	463(68)
The Group	1,228	466(103)	1,171	476(73)

Wages, salaries and other remuneration by country and between members of the Board, etc., and other employees are summarized below:

	1998			1997		
	Board and CEO (of which bonuses, etc. and similar)		Other employees	Board and CEO (of which bonuses, etc. and similar)		Other employees
Parent Company						
Sweden	5	(0)	25	5	(1)	18
Subsidiaries						
Australia	1		8			
Belgium	0	(0)	111			102
Brazil	2	(0)	37	2		55
Bulgaria	0	(0)	4			
United Kingdom	2	(0)	23	2	(0)	22
Estonia			5	0	(0)	4
Philippines	0	(0)	9	0		13
Finland			15			3
France	1		61	2	(0)	60
India	0		45			
Indonesia			3			4
Ireland	2	(1)	9	1	(0)	9
China	0		7	1		5
Netherlands	4	(0)	113	5	(1)	95
Portugal	0		5	1		4
Switzerland	6	(1)	38	6	(1)	34
Spain	1	(0)	32	1	(0)	37
Sweden	3	(0)	403	2	(1)	437
Turkey	2	(1)	7			
Germany	2	(0)	11	2	(0)	10
Hungary	0		13	0	(0)	12
United States	5	(1)	191	7	(4)	206
Other countries	7	(0)	10	2	(1)	2
Total in subsidiaries	38	(4)	1,160	34	(8)	1,114
Group total	43	(4)	1,185	39	(9)	1,132

	Average number of employees		1997
	1998	of whom men, %	
Parent Company			
Sweden	48	58	38
Subsidiaries			
Australia	45	53	-
Belgium	612	40	577
Brazil	829	74	985
Bulgaria	373	47	-
United Kingdom	75	64	81
Estonia	52	52	54
Philippines	179	51	277
Finland	63	33	8
France	254	67	263
Hong Kong	18	67	-
India	3,099	99	-
Indonesia	1,002	9	650
Ireland	40	75	39
China	213	75	231
Netherlands	447	81	459
Portugal	31	71	30
Switzerland	46	57	41
Spain	164	88	166
Sweden	1,382	56	1,447
Turkey	215	87	-
Germany	44	23	38
Hungary	384	49	384
United States	670	51	686
Other countries	29	28	13
Group total	10,314	67	6,467

Information regarding benefits for senior executives:

Bernt Magnusson, Chairman of the Board of Swedish Match, was paid a Board of Directors fee of SEK 450,000 in 1998.

Göran Lindén, President and CEO until November 1, when he was succeeded by Lennart Sundén, received SEK 3,300,000 in salary and benefits during 1998, of which SEK 230,000 in bonuses. Lennart Sundén's salary and benefits during November and December 1998 amounted to SEK 513,000. Lennart Sundén has a bonus agreement of up to 35 percent of salary. He is entitled to a pension from the age of 60. From age 60 to 65, a pension is paid at 70 percent of pensionable salary (the fixed cash salary plus the average of bonus paid over the last three years). From the age of 65, a pension is paid at 45 percent of pensionable salary. Lennart Sundén must give six months notice of his intention to resign and the company must give 12 months notice. A maximum severance payment of two year's salary is payable if the company terminates the employment contract. However, severance pay will be reduced by a maximum of 50 percent of any other income but to no less than half of the contracted severance pay.

Other Company executives, apart from those specified below, are entitled to pensions from the age of 60. Between 60-65 years of age, pensions are paid at 50-70 percent of pensionable salary. From age 65, pensions are paid at 32.5-65 percent of pensionable salary. Pensionable salary is defined as the cash salary plus the average of the bonuses paid during the three years immediately preceding retirement, which may in no case amount to more than 35 percent of the cash salary.

In the case of Hans van den Berg (who will transfer entirely to Arnold André GmbH & Co KG in Germany, a cigar manufacturing company partly owned by Swedish Match), the normal age of retirement is 65 years, with a maximum pension of 70 percent. In the case of William G. McClure III (whose employment ceases on June 30, 1999), the age of retirement is 65, with a contribution-based pension plan. The premiums are based on a pension of 70 percent.

A six-months mutual notice of intent to terminate employment applies for all Group executives other than Lennart Sundén. Severance pay is payable if the Company terminates employment in an amount equivalent to 18 months of cash salary. Severance pay will be reduced by a maximum of 50 percent of other income but to no less than half of the severance pay.

Salaries and remuneration for the President (Göran Lindén 10 months and Lennart Sundén 2 months) and Executive Vice Presidents (3 persons), and for Göran Lindén in his capacity as a member of the Board for 2 months, was approximately equivalent to SEK 13.5 million in 1998, of which bonuses were approximately SEK 1.0 million. The aggregate total of pension expenses and obligations for the above group was approximately equivalent to SEK 6.7 million.

Social welfare costs for management personnel were approximately equivalent to SEK 11.9 million, of which pension expenses were approximately SEK 8.9 million.

Incentive Program

During 1998, an external party offered some 20 senior executives in the Group the opportunity to acquire call options on shares in Swedish Match AB. The offer includes packages with options with three different terms: 3, 4 and 5 years. The program was implemented in full and options corresponding to 1,065,000 shares were issued. The allocation corresponds to a maximum of between 30,000 and 105,000 options for the executives concerned. Market pricing was applied to the options.

PARENT COMPANY Financial Statement

INCOME STATEMENT

<i>SEK M unless otherwise stated</i>	note	1998	1997
Net sales	1	16	21
Cost of good sold		-12	-15
Gross profit		4	6
Selling expenses		-5	-3
Administrative expenses	1	-331	-321
Other operating income	1	149	184
Operating income		-183	-134
Income from participations in Group companies		2,399	1,069
Interest income, Group companies		54	13
Other interest income		57	15
Interest expenses, Group companies		-58	-67
Other interest expenses		-124	-48
Other net financial items	2	-15	2
Net financial items		2,313	984
Profit after financial items		2,130	850
Appropriations			
Allocation to tax allocation reserve		-231	-169
Group contribution and shareholder contribution, net		1,317	991
Profit before tax		3,216	1,672
Taxes		-290	-194
NET INCOME FOR THE YEAR		2,926	1,478

BALANCE SHEET

<i>SEK M unless otherwise stated</i>	<i>note</i>	Dec. 31, 1998	Dec. 31, 1997
ASSETS			
Fixed assets			
Tangible fixed assets	3	5	4
Financial fixed assets			
Shares and participations in Group companies	4	8,079	7,358
Other long-term securities		10	-
Other long-term receivables in Group companies		2,475	34
Total fixed assets		10,569	7,396
Current assets			
Inventories	5	1	3
Current operating receivables:			
Trade receivables		1	1
Accounts receivable, Group companies		24	28
Prepaid expenses and accrued income		59	43
Other operating receivables		15	6
Total current operating receivables		99	78
Current financial receivables, Group companies		703	648
Current investments		1,386	-
Cash and bank		1,075	221
Total current assets		3,264	950
TOTAL ASSETS		13,833	8,346
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Shareholders' Equity	6		
Restricted equity			
Share capital		949	927
Statutory reserve		164	186
Unrestricted equity			
Profit brought forward		3,481	3,660
Net Income for the year		2,926	1,478
Total shareholders' equity		7,520	6,251
Untaxed reserves			
		400	169
Long-term liabilities			
Liabilities to credit institutions		1,961	200
Liabilities to Group companies		2	2
Total long-term liabilities		1,963	202
Current financial liabilities			
Liabilities to credit institutions		2,177	792
Liabilities to Group companies		1,592	637
Other current liabilities		110	220
Total current financial liabilities		3,879	1,649
Current operating liabilities			
Accounts payable		29	27
Accounts payable, Group companies		27	32
Accrued expenses and deferred income		10	6
Other current operating liabilities		5	10
Total current operating liabilities		71	75
Total current liabilities		3,950	1,724
TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES		13,833	8,346
PLEGGED ASSETS AND CONTINGENT LIABILITIES			
Pledged assets		8	4
Contingent liabilities		261	105

CASH FLOW

<i>SEK M unless otherwise stated</i>	1998	1997
OPERATIONS		
Net income for the year	2,926	1,478
Depreciation and change in untaxed reserves	233	170
Loss/gain on sale of shares	3	-
Change in operating assets		
Trade receivables	-	-31
Inventories	2	-3
Other assets	-25	-15
Change in accounts payable, accrued expenses and other current liabilities	1	36
Change in income tax liabilities	-110	-86
Cash flow from operations	3,030	1,549
INVESTMENTS		
Investments in property, machinery and equipment	-3	-3
Investments in shares	-734	-516
Cash flow from investments	-737	-519
FINANCING		
Change in current loans	1,385	-240
Change in long-term loans	1,761	200
Change in Group balances	-1,542	-777
Redemption of shares, net	-1,147	-
Dividend	-510	-510
Cash flow from financing	-53	-1,327
Increase/decrease in liquid funds	2,240	-297
Liquid funds at the beginning of the year	221	518
Liquid funds at the end of the year	2,461	221

NOTES

(All amounts are in SEK M unless stated otherwise)

The Parent Company's accounting principles coincide in appropriate sections with those applied in the Group.

1 SALES, ADMINISTRATIVE EXPENSES AND OTHER OPERATING REVENUE

Sales in the Parent Company pertain to sales of advertising products. In 1997, sales to Group Companies amounted to SEK 8 million (12).

Purchases from Group Companies during 1997 amounted to SEK 10 million (6). Other operating revenue pertains to a groupwide administration expense debited to Group Companies.

2 OTHER FINANCIAL ITEMS, NET

The net of other financial income and expense includes exchange gains of SEK 10 million (6) for the 1998 and 1997 financial years.

3 TANGIBLE FIXED ASSETS

Tangible fixed assets as of December 31 include equipment as follows:

	1998	1997
Acquisition value brought forward	7	3
Investments	2	4
Closing balance, accumulated acquisition value	9	7
Depreciation brought forward	-3	-1
Depreciation for the year	-1	-2
Closing balance, accumulated depreciation	-4	-3
Closing balance, book value	5	4

4 SHARES AND PARTICIPATIONS IN GROUP COMPANIES

in subsidiary companies at December 31, 1998

	Number of shares or participations	Currency value	Par value SEK 000	Book value SEK M	Parent Company holding, %	Reg. Corp. No.	Domicile
Swedish Match Arenco AB	305,500	SEK	30,550	31	100	556040-2157	Kalmar
Swedish Match Industries AB						556005-0253	Tidaholm
- common stock	30,000	SEK	30,000	195	100		
- preferred stock	851	SEK	851	0	99,8		
Swedish Match United Brands	200,000	SEK	20,000	2,909	100	556345-7737	Stockholm
Intermatch Sweden AB	710,000	SEK	71,000	85	100	556018-0423	Stockholm
Svenska Tändsticks AB	1,000	SEK	100	0	100	556105-2506	Stockholm
Svenska Tändsticksbolaget Försäljnings AB	1,903,000	SEK	190,300	228	100	556012-2730	Stockholm
Treab Plus AB	91,846*	SEK	4,050	16	95	556013-4412	Stockholm
Svenska Tändsticks Philippine Company	20,000	PHP	20,000	0	100		
Swedish Match North America Inc	100	USD	100	849	100		
Swedish Match Holding BV Netherlands	112,055	NLG	112,055	700	100		
Swedish Match Group BV	20,900,000	NLG	2,090	2,544	100		
Nitedals Taendstiker A/S	500	NOK	500	1	100		
Swedish Match SA	10,604	CHF	1 591	21	100		
Swedish Match Finance, Irland	500,000,000	SEK	500,000	500	100		
SA Allumettièrre Caussemille ¹⁾	10,000	FRF	1 000	0	100		
The Burma Match Co. Ltd ²⁾	300,000	BUK	3,000	0	100		
Vulcan Trading Co. Ltd ³⁾	4,000	BUK	400	0	100		
Total shares				8,079			

* Compulsory redemption 1998: 439 shares

²⁾ Nationalized in December 1968

¹⁾ Nationalized in November 1963

³⁾ Nationalized in January 1969

In addition, shares are owned in Union Alumettièrre Marocaine S.A. Ownership is purely formal. Group companies have all rights and obligations.

Other shares at December 31, 1998

The Parent Company holds shares in a company connected to operations.

Name	Currency	Par value	Book value	Parent Company holding, %
Yaka Feudor SA	JPY	100,000	0	15.4

5 INVENTORY

At December 31, 1998 and 1997, the inventory consisted entirely of finished goods.

6 SHAREHOLDERS' EQUITY

The Parent Company's share capital comprises 432,339,663 shares with a par value of SEK 2.20 per share. All shares carry one vote each. See Note 12 for the Consolidated Financial Statement for a specification of the change in the share capital in addition to the information provided below.

	Share capital	Premium reserve	Statutory reserve	Unrestricted equity	Total shareholders' equity
Year-end 1996	927	-	88	4,268	5,283
Allocation to statutory reserve	-	-	98	-98	-
Dividend	-	-	-	-510	-510
Profit for the year	-	-	-	1 478	1,478
Year-end 1998	927	-	186	5,138	6,251
Redemption of shares	-69	-	-	-1,147	-1,216
New issue	5	64	-	-	69
Bonus issue	86	-64	-22	-	-
Dividend	-	-	-	-510	-510
Profit for the year	-	-	-	2,926	2,926
Year-end 1998	949	-	164	6,407	7,520

Definitions

Swedish Match, which was previously a subsidiary within the Volvo Group, was spun off in 1996 to Volvo shareholders, and the company was listed on the Stockholm Stock Exchange. Certain operations which are currently part of Swedish Match were previously not legal subsidiaries of the Swedish Match Group, but were incorporated into the Group at December 31, 1995 as a preparatory step prior to a spin-off. The information in this annual report for 1995 and previous years is presented pro forma. These pro forma accounts consolidate all financial statements for subsidiaries owned by Swedish Match at December 31, 1995 as if they had been members of the Swedish Match Group during the years presented.

BONUS ISSUED ELEMENT AT REDEMPTION

Since the redemption amount per share exceeded the market price at the time of redemption, the key ratios, where appropriate, have been adjusted to facilitate comparison. Of the total of 463,558,252 shares outstanding, 34,752,689 shares were redeemed in July 1998 for SEK 35 per share. The calculated correction factor was 0.9760.

DEBT/EQUITY RATIO

Net debt divided by the sum of shareholders' equity and minority interests, expressed as a percentage.

DIRECT RETURN

The dividend as a percentage of the market price for the share at year-end.

EBIT-MULTIPLE

Market capitalization plus net debt plus minority interest divided by operating profit.

EARNINGS PER SHARE AFTER TAX

Net income for the year divided by the average number of shares. Adjusted for items affecting comparability where appropriate.

EQUITY/ASSETS RATIO

The sum of shareholders' equity and minority interests divided by total assets.

INTEREST COVERAGE

Profit after financial items plus interest expense divided by interest expense. Interest expense for 1994 and 1995 was calculated pro-forma applying an interest rate of 10 percent on average interest-bearing liabilities.

NET DEBT

Interest-bearing liabilities less liquid funds.

OPERATING CAPITAL

Current operating assets, intangible assets, property, plant and equipment and other long-term operating assets, less current operating liabilities.

OPERATING MARGIN

Operating profit before items effecting comparability divided by net sales.

P/E RATIO AFTER TAX

The share price divided by earnings per share after items effecting comparability.

RETURN ON OPERATING CAPITAL

Operating profit before items affecting comparability divided by average operating capital. Average operating capital is calculated by dividing the sum of the year's opening and closing balances by two.

RETURN ON SHAREHOLDERS' EQUITY

Net income for the year divided by average shareholders' equity. Average shareholders' equity is calculated by dividing the sum of the year's opening and closing balances by two.

TOTAL RETURN

The share trend, including the dividend and redemption payments divided by the share price at year end.

RECOMMENDED distribution of earnings

According to the consolidated balance sheet, the Company's unrestricted shareholders' equity is SEK 671 million, of which SEK 726 million are the net profit for the fiscal year. On allocations of SEK 32 million to restricted funds is recommended.

According to the Parent Company's balance sheet, SEK 6,407 million in retained earnings, of which SEK 2,926 million are the net earnings for the year, is at the disposal of the Annual General Meeting.

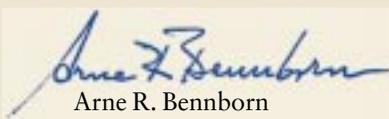
The Board of Directors and the Chief Executive Officer recommend that the earnings of SEK 6,407 million at the disposal of the Annual General Meeting be allocated so that shareholders receive a dividend of SEK 1.10 per share for a total dividend of SEK 474 million and that the remaining earnings be brought forward.

The Board of Directors further recommends that reconciliation of shareholders listed in the Swedish Securities Register Center (VPC) occur on April 29, 1999.

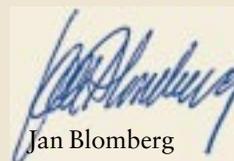
Stockholm, February 12, 1999



Bernt Magnusson
Chairman of the Board



Arne R. Bennborn



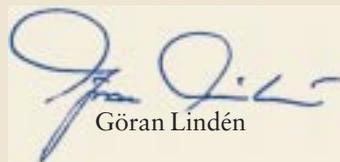
Jan Blomberg



Lennart Engström



Mats Jansson



Göran Lindén



Ingemar Malmström



Bertil Persson



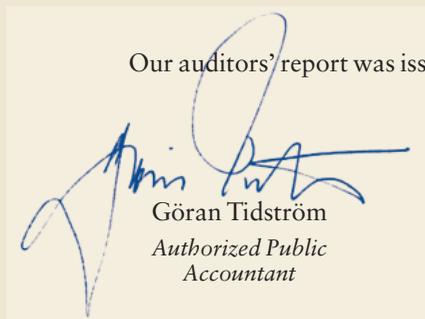
Klaus Unger



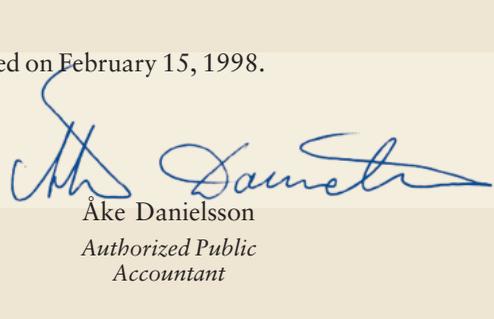
Lennart Sundén

President and Chief Executive Officer

Our auditors' report was issued on February 15, 1998.



Göran Tidström
Authorized Public Accountant



Åke Danielsson
Authorized Public Accountant

AUDITOR'S report

To the Annual General Meeting of Swedish Match AB

We have audited the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Swedish Match AB (publ) for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

Our audit has been conducted in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the President or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

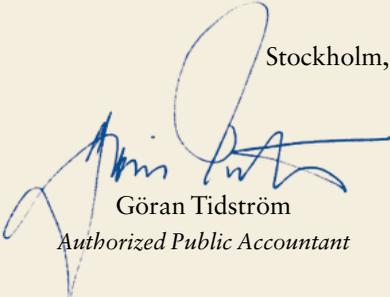
In our opinion, the Parent Company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and, consequently we recommend

- that the income statements and the balance sheets of the Parent Company and the Group be adopted, and,
- that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report.

In our opinion, the board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

- that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, February 15, 1999



Göran Tidström
Authorized Public Accountant



Åke Danielsson
Authorized Public Accountant

Board of Directors



Bernt Magnusson

born 1941, Chairman, member since 1993. Chairman of NCC AB and Näringslivets skattedelegation. Other Board assignments: Vice Chairman of Avesta Sheffield AB, Member of the Board of MeritaNordbanken Abp, Burmah Castrol Plc. Neptun Maritime Abp, Höganäs AB, ICB Shipping AB, Emtunga International AB, the Federation of Swedish Industries and the Stockholm Chamber of Commerce. Advisor to the European Bank for Reconstruction and Development.
Shares:10,616.



Arne R. Bennborn

born 1932. Member since 1996. Honorary Dr. Tech. Other Board assignments: Vice Chairman of Invest in Sweden Agency-ISA. Member of the Royal Academy of Engineering Sciences.
Shares:4,935.



Jan Blomberg

born 1939. Member since 1996. Other board assignments: Vice Chairman of Drott AB, Member of the Boards of PLM AB, Haldex AB, Investment AB Bure, Inductus AB, Byggelit AB, Svenska Spel AB, Mellanskog Industrier AB and Handelsbanken Regionbank City, Stockholm.
Shares:3.638.



Mats Jansson

born 1952. Member since 1998. Appointed President and CEO of Oy Karl Fazer Ab, effective in spring 1999. Other Board assignments: Member of the Boards of Billia AB, Lindex AB and Lifco AB.
Shares: 1,500.

Employee representatives

Employee representatives, deputies



Lennart Engström

born 1934. Member since 1972, Appointed by the Swedish Trade Union Confederation (LO). Shop steward for the Industrial Union at Swedish Match Industries AB Tidaholm, Sweden. Other Board assignments: Member of the Industrial Union's Central Committee. Vice Chairman of Tidaholm's Sparbank.
Shares: 0.



Ingemar Malmström

born 1959. Member since 1998. Represents the Swedish Trade Union Confederation (LO). Vice President of the Swedish Food Workers' Association (Livs) at the tobacco factory in Malmö, Sweden.
Shares: 0.



Bertil Persson

born 1947, Member since 1997. Appointed by the Federation of Salaried Employees in Industry and Services (PTK). Deputy shop steward for Swedish Industrial Salaried Employees Association (SIF) at the tobacco factory in Malmö, Sweden.
Shares: 1,185.



Kenneth Ek

born 1953. Deputy member since 1997. Appointed by the Federation of Salaried Employees in Industry and Services (PTK). Shop steward for the Swedish Association of Management and Professional Staff (Ledarna) at the snuff factory in Gothenburg, Sweden.
Shares: 0.



Göran Lindén

born 1944. Member since 1985. President and Chief Executive Officer of Swedish Match AB through October 31, 1998. Other Board assignments: Chairman of Pricer AB. Member of the Boards of Pripps Ringnes AB, Monark Stiga AB, Perstorp Plastic Systems AB, Liber AB, and the 6th AP Fund.
Shares: 32,957.
Call options: 105,000.



Klaus Unger

born 1934. Member since 1984. Other Board assignments: Member of the Board of Arnold André GmbH & Co KG. Member of the Royal Swedish Academy of Engineering Sciences.
Shares: 2,614



Dag Ivarsson

born 1946. Deputy member since 1985. Appointed by the Federation of Salaried Employees in Industry and Services (PTK). Shop steward for the Swedish Association of Management and Professional Staff (Ledarna) at Swedish Match Industries AB in Vetlanda, Sweden.
Shares: 0.



Gull-Britt Larsson

born 1947. Deputy Member since 1998. Appointed by the Swedish Trade Union Confederation (LO). Shop steward for the Swedish Food Workers' Association (Livs) at the tobacco factory in Gothenburg.
Shares: 0.

Where applicable, the shareholding includes the holdings of family members.

Auditors

Auditor

Göran Tidström

born 1946, Authorized Public Accountant, PricewaterhouseCoopers. Auditor in Swedish Match since 1986.

Auditor

Åke Danielsson

born 1947, Authorized Public Accountant, PricewaterhouseCoopers. Deputy Auditor in Swedish Match since 1990. Auditor since 1998.

Deputy auditor

Claes Dahlén

born 1950, Authorized Public Accountant, PricewaterhouseCoopers. Deputy Auditor in Swedish Match since 1998.

Group Management

As from February 1, 1999



Lennart Sundén

born 1952. President and Chief Executive Officer of Swedish Match AB since November 1, 1998.
Shares: 60,000.
Call options: 105,000.



Massimo Rossi

born 1942. Executive Vice President and Deputy CEO. Employed in 1975. Member of Group Management since 1992. Board assignments: Chairman of Duni AB. Member of the Boards of Solstickan Foundation, CityMail Sweden AB and Phimco Industries Inc., the Philippines.
Shares: 81,400.
Call options: 60,000.



Bo Aulin

born 1948. Senior Vice President, Corporate Affairs, Secretary and General Counsel. Employed 1990. Member of Group Management since 1996.
Shares: 2,700
Call options: 60,000.



Lennart Freeman

born 1951. President, North America Division. Employed in 1975. Member of Group Management since 1999.
Shares: 300.
Call options: 30,000.



Stefan Gelkner

born 1944. President, North Europe Division. Employed in 1977. Member of Group Management since 1999.
Shares: 1,000.
Call options: 30,000.



Sven Hindrikes

born 1950. Senior Vice President and Chief Financial Officer. Employed and member of Group Management since June 1998.
Shares: 60,000.
Call options: 60,000.



Graham Jones

born 1949. President, Match Division. Employed in 1978. Member of Group Management since 1999.
Shares: 6,000.
Call options: 30,000.



Peter Nilsson

born 1962. President, Lighter Division. Employed in 1987. Member of Group Management since 1999.
Shares: 6,554.
Call options: 30,000.



Ingemar Olsson

born 1953. President, Overseas Division. Employed in 1983. Member of Group Management since 1999.
Shares: 19,500.
Call options: 30,000.



Göran Streiffert

born 1946. Senior Vice President, Human Resources. Employed and member of Group Management since June 1997.
Shares: 1,000.
Call options: 60,000.



Frans Vogels

born 1950. President, Continental Europe Division. Employed in 1985. Member of Group Management since 1999.
Shares: 0.
Call options: 30,000.

In 1998, Group management also included:

Göran Lindén, until October 31
Jan Gabriellsson, until May 31
William G. McClure
Hans van den Berg

Where applicable, the shareholding includes the holdings of family members.

INFORMATION

to our shareholders

THE ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Stockholm International Fairs, Alvsjö, Hall K1 in Stockholm at 4:30 p.m. on Monday, April 26, 1999. To be entitled to participate in the meeting, shareholders must be listed in the Shareholders' Register compiled on April 16, 1999 and notify Swedish Match of their intention to participate.

LISTING IN SHAREHOLDERS' REGISTER

The Swedish Match Shareholders' Register is maintained by Värdepappercentralen VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in the owner's name. Shareholders whose shares are held in trust must temporarily re-register the shares in their own name so that the shares are owner-registered not later than April 16, 1999.

Notification to attend meeting

Notification of intent to participate in the Annual General Meeting will be accepted starting on March 29, 1999 and may be submitted as follow:

- telephone +46 20 61 00 10
- fax +46 8 658 63 64
- www.swedishmatch.se/stamman
- mail Swedish Match AB
Legal Affairs
SE-118 85 Stockholm

When notifying the Company, please state your:

- name
- personal identification number (registration number)
- address and telephone number (daytime)

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4:00 p.m.,

Thursday, April 22, 1999, the expiration date for such notifications. The Board of Directors has proposed April 29, 1999 as the record date for dividend entitlement. If approved, dividend are expected to be distributed by VPC AB on May 6, 1998.

NOMINATING COMMITTEE FOR SWEDISH MATCH BOARD OF DIRECTORS

The Nominating Committee proposes candidates for election to the Board of Directors and as auditors and deputy auditors as well as fees to be paid to the Board and auditors. The Committee is elected by the Annual General Meeting. The Committee comprises Bernt Magnusson (Chairman of the Board), Bo Eklöf (Vice President of the SPP) and Björn Franzon (Vice President of the National Pension Insurance Fund, 4th Fund Board).

Address: Swedish Match AB
The Nominating Committee
SE-118 85 Stockholm

FINANCIAL REPORTS

Interim Report for first three months 1999	April 26, 1999
Interim Report for first six months 1999	July 27, 1999
Interim Report for nine months 1999	October 29, 1999
Report on Operations 1999	February 2000
Annual Report 1999	March 2000
Form 20-F 1998	June 1999
Form 20-F 1999	June 2000

All financial reports may be ordered on the Internet
www.swedishmatch.se

or from:

Swedish Match, Investor Relations, SE-118 85 Stockholm

Telephone +46-8-658 01 45

Fax: +46-8-668 62 32

E-Mail: investorrelations@swedishmatch.se



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