

Interim Report January–September 1998



- *Group sales rose to SEK 6,037 M (5,580).*
- *Operating income declined to SEK 1,045 M (1,201).*
- *Continued sharp increase in sales and operating income for snuff.*
- *Net income totaled SEK 578 M (812).*
- *Items affecting comparability charged against income amounted to SEK 108 M.*

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Compared with the year-earlier period, Swedish Match sales during the first nine months of 1998 rose 8%, to SEK 6,037 M (5,580). SEK 390 M of the sales increase is attributable to acquisitions, mainly within the Match Division.

Sales of the Cigarette Division rose 10% during the third quarter compared with the second quarter of 1998. The increase was due largely to increased cigarette sales in Sweden after the tax reduction on August 1, 1998.

The Snuff Division reported continued strong growth, in Sweden and the U.S.

Operating income declined to SEK 1,045 M (1,201), including an item affecting comparability amounting to SEK 48 M. The Group's operating income in the third quarter improved significantly compared with the two first quarters of the year.

Summary of Consolidated Income Statement

SEK M	First nine months	
	1998	1997
Sales	6,037	5,580
Operating income	1,045	1,201
Income after financial items	894	1,195
Net income	578	812

Sales by Division

SEK M	First nine months		Percent change	12 months ended Sept 30, 1998	Full year 1997
	1998	1997			
Chewing Tobacco	812	868	- 6	1,093	1,149
Cigarettes*	1,091	1,193	- 9	1,444	1,546
Cigars	642	498	29	835	691
Lighters	557	647	- 14	744	834
Matches	1,140	949	20	1,490	1,299
Pipe Tobacco	160	122	31	204	166
Snuff	971	786	24	1,264	1,079
Group-wide operations and eliminations*	664	517	28	848	701
Total	6,037	5,580	8	7,922	7,465

* After May 1, 1997, external invoicing of Prince cigarettes is reported under Group-wide operations. Subcontracted production remains within the Cigarette Division. The change means that of total sales of Prince during the January–September 1998 period, which amounted to SEK 324 M, SEK 119 M was reported in the Cigarettes Division and SEK 205 M in Group-wide operations.

Operating Income by Division

SEK M	First nine months		Percent change	12 months Sept 30, 1998	Full year 1997
	1998	1997			
Chewing Tobacco	253	320	- 21	353	420
Cigarettes *	326	413	- 21	450	537
Cigars	94	96	- 2	129	131
Lighters	14	39	- 64	28	53
Matches	94	109	- 14	132	147
Pipe Tobacco	28	23	22	33	28
Snuff	483	370	31	635	522
Group-wide operations and eliminations*	- 199	- 169		- 282	- 252
Items affecting Comparability	- 48	—		- 48	—
Total	1,045	1,201	- 13	1,430	1,586

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

Chewing Tobacco



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

Sales amounted to SEK 812 M (868), a decline of 6% compared with the year-earlier period. Expressed in local currency, sales were down 11%. The decline in

sales was due primarily to total market decline and somewhat lower market shares. The market was characterized by intensified price pressure. A new product in the low-price segment was launched during the period in response to competition.

Operating income amounted to SEK 253 M (320), down 21%. Expressed in local currency, the decline was 24%. The decline was due mainly to lower volumes.

Share of Group Sales, 13%



Share of Group Operating Profit, 20%



Cigarettes



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

Sales during the period amounted to SEK 1,091 M, a decline of SEK 102 M, or 9%, compared with the year-earlier period.

Operating income was down 21% to SEK 326 M (413). Lower sales, the Prince agreement and costs for the re-launch of Blend cigarettes affected operating income adversely while production rationalization measures had favorable effects.

Sales and operating income improved significantly during the third quarter. Volumes rose after the tax reduc-

tion on August 1, concurrent with lower market costs during the period.

During 1997, the tobacco tax in Sweden was increased 63%. This caused a sharp increase in illegal trade. Legal cigarette sales in Sweden fell by about 25% during the first half of 1998 to approximately 2.5 billion cigarettes compared with the corresponding period in 1997. As a consequence of the increased illegal trade, the Swedish Parliament decided to reduce tobacco tax as of August 1, 1998 by about 30% at current prevailing prices (refer to "Reduction of tobacco tax in Sweden"). During the third quarter of 1998, legal sales in Sweden were about 1.6 billion cigarettes, compared with 1.3 billion in the second quarter. Swedish Match's market share was slightly lower during the third quarter. It is still too early to see the long-term effect of the tax reduction on volumes.

Share of Group Sales, 18%



Share of Group Operating Profit, 25%



Cigars



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

Sales during the period totaled SEK 642 M (498), an increase of 29%. Two new operating units have been consolidated in 1998: cigar operations in

Finland and Swedish Match Australia Pty. These operations contributed sales of SEK 88 M during the period. Increased marketing efforts contributed to increased sales in all markets, except for North America.

Operating income amounted to SEK 94 M (96). Increased marketing costs especially in North America affected income.

Share of Group Sales, 11%



Share of Group Operating Profit, 7%



Lighters



Swedish Match is the world's third largest manufacturer of disposable lighters. The most important markets are Western Europe, Eastern Europe, the U.S. and parts of Asia.

Sales amounted to SEK 557 M (647), down 14%. Volumes were

down in Southeast Asia and Russia as a consequence of the financial instability in these markets.

Operating income was SEK 14 M (39).

Share of Group Sales, 9%



Share of Group Operating Profit, 1%



Matches



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

Sales rose 20% to SEK 1,140 M (949). SEK 190 M of the sales increase was attributable to consolidation of new units.

During the period, additional shares in PLAM Bulgarski Kibrit JSCO were acquired, bringing Swedish Match's holding to slightly more than 90%.

Swedish Match Kav, the Turkish match company, was consolidated from May 1998.

Additional shares were acquired in the two investment companies in Singapore that own 39% of all shares outstanding in Wimco Ltd. of India. Accordingly, the ownership share in the investment company amounts to 94%. Since Swedish Match has controlling influence in Wimco, the company was consolidated from April 1, 1998.

Operating income amounted to SEK 94 M (109), a decline of 14%. Lower match volumes particularly in Europe contributed to the earnings decline. Acquired units affected earnings marginally.

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

Pipe Tobacco

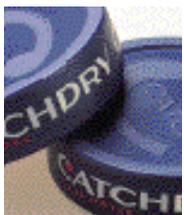


The Pipe Tobacco Division is one of the world's largest manufacturers of pipe tobacco. Principal markets for the Division are the U.S., Sweden and the rest of Western Europe.

Sales rose 31% to SEK 160 M (122).

Operating income improved by SEK 5 M to SEK 28 M. The takeover of rights to market Borkum Riff in the U.S. had a favorable impact on the Division's sales and operating income.

Snuff



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

Sales amounted to SEK 971 M (786), an increase of 24% over sales in the year-earlier period.

Swedish Match's share of the U.S. market continued to increase.

Volumewise, sales in the U.S. rose 72% and 5% in

Sweden (including tax-free), compared with the corresponding period in 1997.

Operating income improved by 31% to SEK 483 M (370) on the strength of higher volumes in Sweden (including duty-free) and the U.S., as well as a change in product mix. Operating income in the third quarter was SEK 182 M. A new product, Mini Catch Dry, was launched in Sweden during the period.

Group-wide operations

Net expenses for Group-wide activities increased to SEK 199 M (169), which includes sponsorship costs for participation in the Whitbread Round the World Race and costs for an internal project conducted worldwide. The sponsor agreement was concluded during the third quarter of 1998.

Acquisitions

Swedish Match established wholly owned operations in Australia during the nine-month period through Swedish Match Australia Pty. Limited. The company has acquired an extensive, national distribution network for sales of tobacco and tobacco-related products

from the Alexander Group. Sales from these operations in 1997 amounted to SEK 60 M.

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

Financial Results

Net interest expense during the first nine months of 1998 totaled SEK 56 M (expense: 13). Net interest expenses increased due to higher debts related to

Share of
Group Sales,
19%

Share of
Group Operating
Profit, 7%

Share of
Group Sales,
3%

Share of
Group Operating
Profit, 2%

Share of
Group Sales,
16%

Share of
Group Operating
Profit, 38%

redemption of shares. Other financial items, a net expense of SEK 35 M (income: 7), are attributable primarily to costs of SEK 14 M incurred for the redemption program as well as exchange rate movements. In addition, a provision was reported for risks totaling SEK 60 M to cover the Group's financial exposure in Southeast Asia.

Investments, Financing and Liquidity

Group investments during the first nine months of 1998 amounted to SEK 358 M (194). Depreciation according to plan totaled SEK 245 M (202). Cash and bank balances, including short-term investments, totaled SEK 1,150 M at the close of the period, compared with SEK 563 M at the beginning of 1998. Net debt at the close of the period totaled SEK 2,082 M, an increase of SEK 1,611 M since December 1997.

Average Number of Group Employees

The average number of Group employees during the first nine months of 1998 was 9,199, of which 2,083 in Wimco, compared with 6,337 in the corresponding period of 1997. The average number of employees in Sweden was 1,456, compared with 1,408 a year earlier.

Tobacco Tax

During the past 12-month period, total tobacco tax and value-added tax for cigarettes and other tobacco products paid by Swedish Match in Sweden amounted to SEK 9,453 M (9,555).

Reduction of tobacco tax in Sweden

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

Blend Gul Cigarettes

(highest fixed price)

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

Redemption

On July 7, 1998, a Special Meeting of Shareholders in Swedish Match resolved to approve the redemption of 34,752,689 shares at a redemption price of SEK 35 per share. The total redemption amount, accordingly, is SEK 1,216 M, which was transferred at the end of July to shareholders who had applied for redemption. The Special Meeting of Shareholders also approved a bonus

issue of shares to be effected by increasing the par value of Swedish Match shares from SEK 2.00 to SEK 2.20. In conjunction with redemption, a special issue of new shares in the amount of SEK 69.5 M was also effected. After the transactions reviewed above, the total number of shares outstanding was 431,339,663.

New President and CEO of Swedish Match

The current President and CEO of Swedish Match, Göran Lindén, earlier this year notified the company's Board of Directors that he wishes to be released from operational responsibility for the company not later than the Annual General Meeting in 1999. Against this background, on August 10, 1998, the Board appointed Lennart Sundén as the new President and CEO, effective November 1, 1998.

Outlook

Efforts to increase the efficiency of Group production plants have been intensified during the year. Decisions on additional rationalization measures are expected by the end of 1998. As earlier announced, costs for this restructuring are estimated at approximately SEK 100 M. Savings from the rationalization program will yield favorable effects on income during the coming year.

Within the framework of its declared business strategies, Swedish Match also plans to assume an active role in the search for suitable structural transactions in the tobacco industry.

Significant events after the end of the reporting period

The wholesale price for the moist snuff, Timber Wolf in the US will increase by 10 cents to USD 1 per can, effective from end October 1998.

Other information

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

The year-end report on 1998 operations will be published on February 12, 1999.



Göran Lindén
President and Chief Executive Officer

Consolidated Income Statement in summary

SEK M	First nine months		Percent change	12 months ended Sept 30, 1998	Full year 1997
	1998	1997			
Sales, incl. tobacco tax	11,874	11,348	5	15,757	15,231
Less tobacco tax	- 5,837	- 5,768	- 1	- 7,835	- 7,766
Sales	6,037	5,580	8	7,922	7,465
Cost of goods sold	- 3,048	- 2,734	- 11	- 3,929	- 3,615
Gross income	2,989	2,846	5	3,993	3,850
Sales and administration costs, etc	- 1,905	- 1,659	- 15	- 2,527	- 2,281
Shares of earnings in associated companies	9	14	- 36	12	17
	1,093	1,201	- 9	1,478	1,586
Item effecting comparability*	- 48	—	—	- 48	—
Operating income	1,045	1,201	- 13	1,430	1,586
Net interest expense	- 56	- 13		- 60	- 17
Other financial items, net	- 35	7		- 53	- 11
Item affecting comparability**	- 60	—		- 60	—
Net financial items	- 151	- 6		- 173	- 28
Income after financial items	894	1,195	- 25	1,257	1,558
Taxes	- 324	- 381		- 455	- 512
Minority interest	8	- 2		9	- 1
Net income for the period	578	812	- 29	811	1,045

* Transfer of production from Geraardsbergen, Belgium.

** Risk exposure in Asia.

Consolidated Balance Sheet in summary

SEK M	Sept 30, 1998	Dec 31, 1997	SEK M	Sept 30, 1998	Dec 31, 1997
Intangible fixed assets	964	757	Shareholders' equity	1,934	2,972
Tangible fixed assets	2,622	2,226	Minority interests	157	20
Financial fixed assets	307	308	Provisions	715	656
Current operating assets	3,378	3,125	Long-term loans	1,566	209
Current financial receivables	170	153	Other long-term liabilities	93	27
Cash and bank	1,150	563	Short-term borrowings	1,666	825
Total assets	8,591	7,132	Other current liabilities	249	290
			Current operating liabilities	2,211	2,133
			Total equity, provisions and liabilities	8,591	7,132
			Operating capital	4,753	3,975
			Net debt	2,082	471

Key Data

	12 month ended Sept 30, 1998	Full year 1997	Full year 1996
Operating margin, %*	18.7	21.2	23.2
Return on operating capital, %*	35.0	42.7	49.9
Return on shareholders' equity, %	35.4	39.5	57.3
Interest coverage ratio, times	10.8	24.9	9.6
Debt/equity ratio, %	99.6	15.7	3.2
Equity/assets ratio, %	24.3	41.9	34.4
Investments, SEK M	705	541	218
Average number of employees	9,199**	6,467	6,580
<i>Share data***</i>			
Income per share after full tax, SEK			
Before items affecting comparability	1.84	2.20	2.53
After items affecting comparability	1.73	2.20	2.33
Shareholders' equity per share, SEK	4.48	6.26	4.87
Number of shares outstanding at end of period	431,339,663	463,558,252	463,558,252

* Before item affecting comparability.

** First six months 1998.

*** In certain cases adjusted for the bonus issue component in the redemption of shares. The average number of shares for the period October 1, 1997 through September 30, 1998 was 458,188,487. For full-year 1997 and 1996, the average number of shares was 463,558,252.

Quarterly Data

SEK M	97Q2	97Q3	97Q4	98Q1	98Q2	98Q3
Sales, incl. tobacco tax	3,994	4,173	3,883	3,741	3,978	4,155
Les tobacco tax	- 2,052	- 2,219	- 1,998	- 1,902	- 2,003	- 1,932
Sales	1,942	1,954	1,885	1,839	1,975	2,223
Cost of goods sold	- 968	- 959	- 881	- 894	- 992	- 1,162
Gross income	974	995	1,004	945	983	1,061
Sales and administration costs, etc	- 571	- 540	- 622	- 596	- 640	- 669
Shares of earnings in associated companies	4	5	3	3	3	3
	407	460	385	352	346	395
Item affecting comparability	—	—	—	—	- 48	—
Operating income	407	460	385	352	298	395
Net interest expense	- 4	- 6	- 4	- 4	- 13	- 39
Other financial items, net	3	- 17	- 18	- 7	- 6	- 22
Item affecting comparability	—	—	—	—	- 60	—
Net financial items	- 1	- 23	- 22	- 11	- 79	- 61
Income after financial items	406	437	363	341	219	334
Income taxes	- 110	- 155	- 131	- 111	- 95	- 118
Minority interests	- 2	2	1	0	2	6
Net income	294	284	233	230	126	222

Sales by Division

SEK M	97Q1	97Q2	97Q3	Full year		98Q1	98Q2	98Q3
				97Q4	1997			
Chewing Tobacco	295	261	312	281	1,149	267	265	280
Cigarettes	349	430	414	353	1,546	328	362	401
Cigars	151	186	161	193	691	187	225	230
Lighters	211	226	210	187	834	196	184	177
Matches	303	349	297	350	1,299	324	343	473
Pipe Tobacco	37	41	44	44	166	48	57	55
Snuff	238	267	281	293	1,079	295	330	346
Group-wide operations and eliminations	100	182	235	184	701	194	209	261
Total	1,684	1,942	1,954	1,885	7,465	1,839	1,975	2,223

Operating Income by Division

SEK M	97Q1	97Q2	97Q3	Full year		98Q1	98Q2	98Q3
				97Q4	1997			
Chewing Tobacco	104	93	123	100	420	86	94	73
Cigarettes	94	144	175	124	537	92	92	142
Cigars	30	27	39	35	131	31	32	31
Lighters	10	13	16	14	53	14	3	- 3
Matches	26	43	40	38	147	30	35	29
Pipe Tobacco	5	9	9	5	28	12	9	7
Snuff	115	117	138	152	522	149	152	182
Group-wide operations and eliminations	- 50	- 39	- 80	- 83	- 252	- 62	- 71	- 66
Item affecting comparability	—	—	—	—	—	—	- 48	—
Total	334	407	460	385	1,586	352	298	395

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