

Interim Report *January–June 2000*

- Sales increased 19 percent to 5,265 MSEK (4,440)
- EBITDA increased 6 percent to 1,134 MSEK (1,066)
- Operating income increased to 886 MSEK (884)
- Operating income, excluding divested business, increased 41 percent
- Operating income in the second quarter increased to 471 MSEK (444)
- 1,045 MSEK transferred to shareholders (payment in July) through share redemption program

Swedish Match sales during the first half of 2000 increased by 19 percent, fuelled by continued strong organic growth for its snuff business, along with solid performance from acquired businesses which accounted for 15 percentage points of the sales increase. First half operating income was ahead of year earlier levels in all

product categories except matches, where a significant restructuring is underway. For the second quarter 2000, both sales and operating income improved versus the same period last year, for all categories except matches. Strongest operating income growth came from snuff and cigars.

Summary of Consolidated Income Statement

MSEK	APRIL–JUNE		JANUARY–JUNE	
	2000	1999	2000	1999
Sales	2,871	2,318	5,265	4,440
Operating income before divested business	471	316	886	629
Divested business	—	128	—	255
Operating income	471	444	886	884
Net income for the period	288	253	552	543

Summary of EBITDA

MSEK	APRIL–JUNE		JANUARY–JUNE	
	2000	1999	2000	1999
EBITDA excluding divested business	598	408	1,134	799
EBITDA including divested business	598	542	1,134	1,066

Sales by product area

MSEK	APRIL–JUNE		JANUARY–JUNE		CHANGE %	JULY 1999– JUNE 2000	FULL YEAR 1999	CHANGE %
	2000	1999	2000	1999				
Snuff	531	402	990	778	27	1,900	1,688	13
Chewing Tobacco	318	278	600	539	11	1,129	1,068	6
Cigars	646	370	1,051	594	77	1,895	1,438	32
Pipe Tobacco & Accessories	184	53	357	108	231	669	420	59
Matches	414	401	805	849	–5	1,629	1,673	–3
Lighters	169	173	344	338	2	668	662	1
Other operations	609	262	1,118	505		2,355	1,742	
Subtotal	2,871	1,939	5,265	3,711		10,245	8,691	
Divested business	—	379	—	729	—	—	729	—
Total	2,871	2,318	5,265	4,440	19	10,245	9,420	9

Operating income by product area

MSEK	APRIL–JUNE		JANUARY–JUNE		CHANGE %	JULY 1999– JUNE 2000	FULL YEAR 1999	CHANGE %
	2000	1999	2000	1999				
Snuff	241	178	450	371	21	907	828	10
Chewing Tobacco	83	71	172	146	18	323	297	9
Cigars	87	57	139	96	45	249	206	21
Pipe Tobacco & Accessories	52	11	101	28	261	182	109	67
Matches	18	34	43	63	–32	87	107	–19
Lighters	19	(8)	35	(6)		55	14	293
Other operations	(29)	(27)	(54)	(69)		(112)	(127)	
Subtotal	471	316	886	629	41	1,691	1,434	18
Divested business	—	128	—	255	—	—	255	—
Items affecting comparability	—	—	—	—	—	3,707	3,707	—
Total	471	444	886	884	0	5,398	5,396	0

Smokeless Tobacco

Swedish Match has a broad presence in smokeless tobacco (Snuff and Chewing Tobacco), with significant market positions in the US, the Nordic countries, and South Africa. Smokeless tobacco accounted for 70 percent of Swedish Match operating income in the first half.

Brown Tobacco

Along with smokeless tobacco, brown tobacco (Cigars and Pipe

Tobacco) has been identified as one of the key growth opportunity areas for Swedish Match. Acquisitions, which have been made in this area over the past year, provide a significant portion of sales and operating income growth. Swedish Match is the second largest worldwide cigar company.

Lights

Swedish Match is a global producer and marketer of matches and lighters. These products are sold in over 140 countries.

Smokeless Tobacco

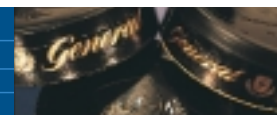
Snuff



Share of Group sales, 19%



Share of Group income, 51%



Swedish Match is the leading manufacturer of snuff in the Nordic markets and in South Africa, and has the largest share of the fast growing value price segment in the United States. Major brands include General, Catch and Ettan in Sweden, Timber Wolf in the US and Taxi in South Africa. Sales in the first half of 2000 increased 27 percent, to 990 MSEK (778). Volume in the US increased 20 percent over the first half of 1999. Volume in the Nordic market increased 8 percent. Sales and operating income in South Africa continued to show a satisfactory development.

Operating income increased 21 percent versus the first half 1999, to 450 MSEK (371). Toward the end of May in the US,

Swedish Match announced a price increase on its main brand Timber Wolf of 14 percent.

For the second quarter, sales were 32 percent higher than the same period prior year, while operating income was up 35 percent. Performance was strong in both North America and North Europe.

Swedish Match has decided to appeal the ruling of a local court in Germany not to allow Swedish snuff "snus" to be sold in Germany. Swedish Match will also ask that the question of the legality of the ban on certain smokeless tobacco products be referred to the European Court of Justice.

Smokeless Tobacco

Chewing Tobacco



Share of Group sales, 11%



Share of Group income, 19%



Chewing tobacco is sold primarily in the North American market. Major brands include Red Man and Southern Pride. Swedish Match is the leading producer of chewing tobacco in the US. Sales in the first half of 2000 amounted to 600 MSEK (539), an increase of 11 percent. Sales increased 5 percent in local currency. Operating income in the first half was up 18 percent, to 172 MSEK. In the second quarter, sales increased 14 percent, while operating income increased by 17 percent, driven by increased sales and cost synergies with acquired cigar operations.

The chewing tobacco market in the US has declined at an annual rate of 3 to 4 percent over the past several years. Swedish Match share of the market has improved since the same period last year. Swedish Match is seeking to acquire the brands and inventory of National Tobacco (whose primary brand is Beechnut). This acquisition was not approved by the Federal Trade Commission in USA, and Swedish Match is now taking steps to appeal that decision.

Brown Tobacco

Cigars



Share of Group sales, 20%



Share of Group income, 16%



Swedish Match is one of the world's largest manufacturers of cigars and cigarillos, and ranks number two in terms of sales value. Its largest markets are North America and Western Europe, where about three quarters of the world cigar market exists. The company markets a broad portfolio of brands worldwide, including La Paz, La Gloria Cubana, Garcia Y Vega, White Owl, Justus van Maurik, and Wings. As from May 9 the recently acquired 64 percent holding in General Cigar, a premium cigar company with

the leading market position in the US has been consolidated. Its primary brands are Macanudo, Partagas, and Punch.

Sales in the first half of 2000 amounted to 1,051 MSEK, an increase of 77 percent from 1999 (594), with most of this growth coming from acquired businesses. Operating income grew 45 percent in the first half, to 139 MSEK (96). For the second quarter, sales were up 75 percent, while operating income grew by 53 percent, largely from acquisitions.

Brown Tobacco

Pipe Tobacco and Accessories



Share of Group sales, 7%



Share of Group income, 11%



Swedish Match is the third largest manufacturer of pipe tobacco in the world, and its products are marketed worldwide. Major brands include Borkum Riff, Boxer, and Half and Half. The main markets for pipe tobacco are Western and North Europe and North America. The company also has a significant presence in South Africa.

Sales for the first half of 2000 increased to 357 MSEK (108) with growth mainly coming from the consolidation of the South African business acquired last year. Operating income improved significantly to 101 MSEK (28). For the second quarter, sales increased to 184 MSEK (53), while operating income increased to 52 MSEK (11), driven primarily from acquisitions.

Lights

Matches



Share of Group sales, 15%



Share of Group income, 5%



Swedish Match has the number one worldwide share position. Brands are mostly local, and very strong in their home countries. Major brands include Swan, Three Stars, and Redheads. Sales for the first half of 2000 declined 5 percent versus 1999, to 805 MSEK (849). The European market continued to decline. Operating income declined 32 percent in the first half, to 43

MSEK (63). In the second quarter decision was made to reduce the number of employees in the European Match operation by 190 persons as part of the restructuring program to improve operating margins to 10 percent. Second quarter operating income declined 47 percent on almost flat sales.

Lights

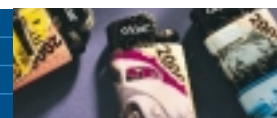
Lighters



Share of Group sales, 7%



Share of Group income, 4%



Swedish Match is the third largest lighter manufacturer in the world, and its main brand is Cricket. Sales in the first half of 2000 grew 2 percent, to 344 MSEK (338). Operating income continued to improve significantly, to 35 MSEK, versus a loss of 6 MSEK in the first half of 1999. Income and margin improve-

ments follow a major restructuring in 1999 and greater focus on the more profitable markets and product lines. For the second quarter, operating income reached 19 MSEK, versus a loss of 8 MSEK a year ago. Sales were on the same level as previous year.

Other Operations

Other operations include, among other things, the distribution of tobacco products on the Swedish market as well as corporate overheads. For the first half, net expenses were reduced to -54 MSEK (-69).

Net financial expense

Net interest expense in the first half amounted to 51 MSEK (69). Other financial items, net, amounted to -8 MSEK (18).

Taxes

Taxes in the first half were 273 MSEK (288) corresponding to a 33 percent tax rate.

Investments

The Group's direct investments in tangible fixed assets amounted to 102 MSEK (283). In addition, 8 MSEK (1,486) was invested in intangible fixed assets during the period. Total depreciation and amortization amounted to 247 MSEK (182), of which depreciation on tangible assets amounted to 126 MSEK (123) and amortization of intangibles amounted to 121 MSEK (59).

Financing and liquidity

At the end of the period, the Group had a net debt of 1,209 MSEK, as compared with a net cash position of 1,267 MSEK on December 31, 1999. Significant uses of cash were the acquisition of 64 percent of General Cigar Holding and a dividend payment to the shareholders of Swedish Match in the second quarter.

Cash and bank balances, including short term investments, amounted to 4,811 MSEK at the end of the period, compared with 7,296 MSEK at the beginning of the year. The liquid funds are primarily invested in short-term securities.

Acquisitions

In February Swedish Match acquired the outstanding 40 percent minority in the Turkish subsidiary Swedish Match KAV.

Swedish Match and Gum Tech International Inc. have signed definitive agreements for a joint venture to develop, manufacture, market, and distribute non-tobacco nicotine products.

In the second quarter the acquisition of Brasant Enterprises (PTY) Ltd in South Africa was announced. Brasant is a leading South African Tobacco distributor for Tobacco Speciality,

Convenience and Hotel/Restaurant classes of trade and had invoiced sales in 1999 of 60 MSEK.

In June, the Federal Trade Commission voted not to approve the Swedish Match acquisition of National Tobacco's chewing tobacco brands. Both Swedish Match and National Tobacco will pursue a further review of this transaction in federal courts.

On July 19th the outstanding minority (5 percent) in Swedish Match Cigars B.V. was acquired from Arnold André.

Tobacco tax

During the past 12 months, total tobacco tax and value-added tax on tobacco tax paid by Swedish Match in Sweden amounted to 9,403 MSEK (8,810).

Average number of Group employees

The average number of employees in the Group during the 12 month period ending June 30 was 12,467, compared with 11,797 for the full year 1999.

Swedish Match share structure

During the second quarter, all shareholders were offered an opportunity to redeem each 14th share for 35 SEK in cash. The share redemption program was completed in July with a transfer of 1,045 MSEK to shareholders equivalent to 29,869,472 shares redeemed. In conjunction with the redemption the Board of Directors of Swedish Match decided on June 13 to effect a directed new issue of 2,476,200 shares to five of the Company's prin-

cipal shareholders and to raise the par value of the shares from 2.20 SEK to 2.40 SEK. These transactions were intended to prevent a decrease in the Company's share capital.

Following an authorisation by the Annual General Meeting on April 27, 2000 to a share buy-back program of up to 5 percent of the outstanding shares of the Company prior to the next Annual General Meeting in April 2001, the Company has bought 1,181,000 shares at an average price of 26.92 SEK up to June 30th.

After these transactions, the number of shares outstanding is 402,765,391.

During the first half of the year 2,791,283 call options were granted as part of a management incentive program. These call options can be exercised from March 13, 2003 through March 14, 2005. The exercise price of the options is 35.50 SEK. These options, will, if exercised, use shares obtained through stock repurchase programs.

Additional information

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

The interim report for the first nine months of 2000 will be released October 26, 2000.

Stockholm, July 25, 2000

Lennart Sundén
President and Chief Executive Officer

Key data

	JANUARY-JUNE		JULY 1999-	FULL YEAR
	2000	1999	JUNE 2000	1999
Operating margin, %*	16.8	19.9	16.5	17.9
Return on operating capital, %*			24.7	30.6
Return on shareholders' equity, %			141.4	115.0
Net debt/equity ratio, %	22.8	147.8		Positive
Equity/assets ratio, %	30.0	20.8		36.6
Investments in tangible assets, MSEK	102	283	271	452
EBITDA (before items affecting comparability)	1,134	1,066	2,138	2,070
EBITDA (after items affecting comparability)	1,134	1,066	5,845	5,777
Average number of employees	12,467	11,752		11,797
<i>Share data</i>				
Earnings per share after tax				
Before items affecting comparability, SEK	1.28	1.26	2.33	2.31
After items affecting comparability, SEK	1.28	1.26	10.81	10.79
Adjusted earnings per share				
Before items affecting comparability and amortization, SEK**	1.51	1.38	2.75	2.62
Shareholders' equity per share, SEK	11.59	4.48		13.77
Number of shares outstanding at end of period	402,765,391	431,339,663	402,765,391	431,339,663
Average number of shares outstanding during period	431,496,443	431,339,663	431,418,053	431,339,663

* Before items affecting comparability

** Reported net income adjusted for items affecting comparability and amortization (net of taxes), divided by the average number of shares outstanding

Consolidated Income Statement in summary

MSEK	APRIL–JUNE		JANUARY–JUNE		CHANGE %	JULY 1999– JUNE 2000	FULL YEAR 1999	CHANGE %
	2000	1999	2000	1999				
Sales, including tobacco tax	5,045	4,167	9,233	8,005	15	18,181	16,953	7
Less tobacco tax	(2,174)	(1,849)	(3,968)	(3,565)	11	(7,936)	(7,533)	5
Sales	2,871	2,318	5,265	4,440	19	10,245	9,420	9
Cost of goods sold	(1,654)	(1,206)	(3,039)	(2,282)	33	(5,895)	(5,138)	15
Gross profit	1,217	1,112	2,226	2,158	3	4,350	4,282	2
Sales and administrative expenses	(688)	(634)	(1,235)	(1,220)	1	(2,492)	(2,477)	1
Amortization	(66)	(36)	(121)	(59)	5	(221)	(159)	39
Shares in earnings of assoc. cos.	8	2	16	5	220	54	43	26
	471	444	886	884	0	1,691	1,689	0
Items affecting comparability	—	—	—	—		3,707	3,707	
Operating income	471	444	886	884	0	5,398	5,396	0
Net interest expense	(41)	(45)	(51)	(69)	-26	(113)	(131)	-14
Other financial items, net	(3)	5	(8)	18	-144	(11)	15	-173
Net financial items	(44)	(40)	(59)	(51)	16	(124)	(116)	7
Income before taxes and minority interests	427	404	827	833	-1	5,274	5,280	0
Taxes	(136)	(145)	(273)	(288)	-5	(623)	(638)	-2
Minority interests	(3)	(6)	(2)	(2)	0	14	14	0
Net income for the period	288	253	552	543	2	4,665	4,656	0

Consolidated Balance Sheet in summary

MSEK	JUN 30, 2000	DEC 31, 1999
Intangible fixed assets	4,281	3,268
Tangible fixed assets	2,581	1,866
Financial fixed assets	544	432
Current operating assets	5,476	3,808
Liquid Funds	4,811	7,296
Total assets	17,693	16,670
Shareholders' equity	4,667	5,940
Minority interests	639	162
Provisions	2,018	1,195
Long-term loans	5,292	5,093
Other long-term liabilities	227	210
Short-term loans	728	936
Other current liabilities	4,122	3,134
Total shareholders' equity, provisions and liabilities	17,693	16,670
Operating capital	9,591	6,352
Net debt	1,209	(1,267)

Consolidated Cash Flow Statement in summary

MSEK	JAN–JUN 2000	JAN–JUN 1999
Cash flow from operations before changes in Working Capital	680	922
Cash flow from changes of Working Capital	(555)	(216)
Cash flow from operations	125	706
<i>Investments</i>		
Investments in property, plant and equipment	(102)	(283)
Sales of property, plant and equipment	11	33
Investments in intangibles	(8)	(1,486)
Investments in consolidated companies	(1,423)	(50)
Changes in financial receivables etc.	(85)	189
Cash flow from investments	(1,607)	(1,597)
<i>Financing</i>		
Changes in loans	(344)	(613)
Dividends	(539)	(474)
New share issue	59	—
Repurchases of shares	(32)	—
Cash flow from financing	(856)	(1,087)
Cash flow for the period	(2,338)	(1,978)
Liquid funds at the beginning of the period	7,296	2,876
Translation difference attributable to liquid funds	(147)	(40)
Liquid funds at the end of the period	4,811	858

Quarterly data

MSEK	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00
Sales, including tobacco tax	3,978	4,155	4,041	3,838	4,167	4,545	4,403	4,188	5,045
Less tobacco tax	(2,003)	(1,932)	(1,884)	(1,716)	(1,849)	(2,127)	(1,841)	(1,794)	(2,174)
Sales	1,975	2,223	2,157	2,122	2,318	2,418	2,562	2,394	2,871
Cost of goods sold	(992)	(1,162)	(1,048)	(1,076)	(1,206)	(1,413)	(1,443)	(1,385)	(1,654)
Gross profit	983	1,061	1,109	1,046	1,112	1,005	1,119	1,009	1,217
Sales and administrative expenses	(619)	(645)	(694)	(586)	(634)	(567)	(690)	(547)	(688)
Amortization	(21)	(24)	(21)	(23)	(36)	(42)	(58)	(55)	(66)
Shares in earnings of associated co.	3	3	2	3	2	11	27	8	8
	346	395	396	440	444	407	398	415	471
Items affecting comparability	(48)	—	(60)	—	—	4,102	(395)	—	0
Operating income	298	395	336	440	444	4,509	3	415	471
Net interest expense	(13)	(39)	(26)	(24)	(45)	(24)	(38)	(10)	(41)
Other financial items, net	(6)	(22)	(6)	13	5	12	(15)	(5)	(3)
Items affecting comparability	(60)	—	—	—	—	—	—	—	—
Net financial items	(79)	(61)	(32)	(11)	(40)	(12)	(53)	(15)	(44)
Income after financial items	219	334	304	429	404	4,497	(50)	400	427
Income taxes	(95)	(118)	(158)	(143)	(145)	(201)	(149)	(137)	(136)
Minority interests	2	6	2	4	(6)	3	13	1	(3)
Net income for the period	126	222	148	290	253	4,299	(186)	264	288

Sales by product area

MSEK	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00
Snuff	330	346	366	376	402	430	480	459	531
Chewing Tobacco	265	280	256	261	278	270	259	282	318
Cigars	225	230	260	224	370	407	437	405	646
Pipe Tobacco & Accessories	57	55	58	55	53	100	212	173	184
Matches	343	473	433	448	401	406	418	391	414
Lighters	184	177	178	165	173	170	154	175	169
Other operations	209	261	229	243	262	635	602	509	609
Subtotal	1,613	1,822	1,780	1,772	1,939	2,418	2,562	2,394	2,871
Divested business	362	401	377	350	379	—	—	—	—
Total	1,975	2,223	2,157	2,122	2,318	2,418	2,562	2,394	2,871

Operating income by product area

MSEK	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99	Q1/00	Q2/00
Snuff	152	182	158	193	178	236	221	209	241
Chewing Tobacco	94	73	78	75	71	78	73	89	83
Cigars	32	32	22	39	57	55	55	52	87
Pipe Tobacco & Accessories	9	8	9	17	11	22	59	49	52
Matches	35	28	41	29	34	30	14	25	18
Lighters	3	(3)	4	2	(8)	8	12	16	19
Other operations	(71)	(66)	(29)	(42)	(27)	(22)	(36)	(25)	(29)
Subtotal	254	254	283	313	316	407	398	415	471
Divested business	92	141	113	127	128	—	—	—	—
Items affecting comparability	(48)	—	(60)	—	—	4 102	(395)	—	—
Total	298	395	336	440	444	4 509	3	415	471



☆☆☆
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