

# Interim Report January–March 1999

- ★ *Group sales increased 15 percent to SEK 2,122 M*
- ★ *Operating income rose 25 percent to SEK 440 M*
- ★ *Strong earnings improvement for Cigarettes, Cigars, Pipe Tobacco and Snuff*
- ★ *Strong organic growth for Snuff and Cigars*
- ★ *Significant and sustained costs reductions*
- ★ *Cigar operations acquired in the U.S. - Swedish Match becomes leading supplier of "Other Tobacco Products" (snuff, cigars, pipe and chewing tobacco)*

# Interim Report

## January – March 1999

*Swedish Match's sales in the first quarter of 1999, compared with the year-earlier period, rose from SEK 1,839 M to SEK 2,122 M, up 15 percent, of which acquired units accounted for 7 percent. Operating income rose 25 percent, from SEK 352 M to SEK 440 M. Net income for the period increased from SEK 230 M to SEK 290 M, up 26 percent.*

In conjunction with a review of the Group's strategic direction, with increased focusing on product areas with favourable growth potentials such as smokeless tobacco products (particularly snuff) and brown tobacco products (cigars and pipe tobacco), a reorganization was implemented at the beginning of the year aimed at clarifying responsibility for sales and earnings.

The new organisation and ongoing cost-savings programs have already resulted in sustained cost reductions in the first quarter.

In line with the new strategy, a cigar operation was acquired in the U.S., which on an annual basis adds SEK 800 M in sales to the Group. After the purchase, "Other Tobacco Products"

(snuff, cigars, pipe and chewing tobacco) account for more than 50 percent of consolidated sales.

Operating income for Snuff showed strong growth and rose 30 percent to SEK 193 M (149), due mainly to continued higher volumes in the US and Nordic markets.

Operating income of the Cigarette operations rose 38 percent to SEK 127 M (92), due to volume increases and costs savings. Cigars and Pipe Tobacco also posted sharply higher sales and improved operating income.

### Summary of Consolidated Income Statement

MSEK	First three months	
	1999	1998
Sales	2,122	1,839
<b>Operating income</b>	<b>440</b>	<b>352</b>
Income after financial items	429	341
<b>Net income</b>	<b>290</b>	<b>230</b>

### Sales by product area

MSEK	First three months		Percent change %	12 months ended March 31, 1999	Full year 1998
	1999	1998			
Chewing Tobacco	261	267	-2	1,062	1,068
Cigarettes	350	328	7	1,490	1,468
Cigars	224	187	20	939	902
Lighters	165	196	-16	704	735
Matches	448	324	38	1,697	1,573
Pipe Tobacco	55	48	15	225	218
Snuff	376	295	27	1,418	1,337
Other operations	243	194	25	942	893
<b>Total</b>	<b>2,122</b>	<b>1,839</b>	<b>15</b>	<b>8,477</b>	<b>8,194</b>

## Operating income by product area

MSEK	First three months		Percent change %	12 months ended March 31, 1999	Full year 1998
	1999	1998			
Chewing Tobacco	75	86	-13	320	331
Cigarettes	127	92	38	473	438
Cigars	39	31	26	125	117
Lighters	2	14	-86	6	18
Matches	29	30	-3	133	134
Pipe Tobacco	17	12	42	43	38
Snuff	193	149	30	685	641
Other operations	-42	-62		-208	-228
<b>Subtotal</b>	<b>440</b>	<b>352</b>	<b>25</b>	<b>1,577</b>	<b>1,489</b>
Items affecting comparability	—	—	—	-108	-108
<b>Total</b>	<b>440</b>	<b>352</b>	<b>25</b>	<b>1,469</b>	<b>1,381</b>



### Chewing Tobacco

Chewing Tobacco operations are conducted primarily in the North American market, mainly in the United States.

Sales in the first three months of 1999 declined 2 percent, to SEK 261 M (267) compa-

red with sales in the corresponding period in the preceding year. Expressed in local currency, the decrease was 3 percent. The sales decline is attributable primarily to a continued decline of the total market.

Operating income fell 13 percent to SEK 75 M (86).



Share of Group sales, 12%



Share of Group income, 17%



### Cigarettes

Cigarettes are sold in the Swedish and Estonian markets as well as the tax-free market. Other products are roll-your-own tobacco, cigarette paper and filters.

The total Swedish legal market rose in the first quarter of 1999 to 1,5 billion cigarettes, compared with 1,2 billion in the year-earlier period.

Sales in the first quarter amounted to SEK 350 M (328), up 7 percent compared with the first quarter of 1998. The increase is attributable to higher volumes for cigarettes, particularly in the Swedish market.

Operating income rose 38 percent to SEK 127 M (92). The increase is attributable to higher volumes and cost savings.



Share of Group sales, 16%



Share of Group income, 29%



### Cigars

Swedish Match is one of the world's largest manufacturers of cigars and cigarillos.

Western Europe is the largest market for the Group. After acquisition of a significant portion of the cigar operations of General Cigar, the U.S. will be the single largest market (see acquisitions on page 7).

Sales in the first quarter amounted to SEK 224 M (187), an increase of 20 percent. The increase is due mainly to higher volumes in Western Europe and Australia.

Operating income increased 26 percent to SEK 39 M (31), an effect of higher volumes and rationalization measures.



Share of Group sales, 11%



Share of Group income, 9%



## Lighters

Swedish Match is the world's third-largest producer of disposable lighters. Europe, parts of Asia and the U.S. are the largest markets.

Sales amounted to SEK 165 M (196), a decrease of 16 percent.

Operating income fell by SEK 12 M to SEK 2 M. Lower volumes, primarily in Eastern Europe, is the main reason for the lower sales and weaker operating income.

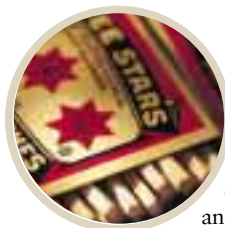
Negotiations continues pertaining to closing the lighter factory in Lyon, France.



Share of Group sales, 8%



Share of Group income, 0%



## Matches

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

Arenco, which manufactures match production machinery.

Sales increased by 38 percent, to SEK 448 M (324). The increase was attributable primarily to acquisitions and con-

solidation of newly acquired units, increased sales by Arenco and higher volumes for advertising matches.

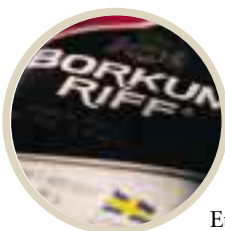
Operating income amounted to SEK 29 M (30). Acquired units affected income marginally. Earnings-improvement measures are being implemented in these companies. The devaluation of the Brazilian real affected operating income adversely by SEK 5 M compared with the year-earlier period.



Share of Group sales, 21%



Share of Group income, 7%



## Pipe Tobacco

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

Sales increased by 15 percent, to SEK 55 M (48). Operating income improved by 42 percent, to SEK 17 M (12) due to rationalisation measures and price hikes.



Share of Group sales, 3%



Share of Group income, 4%



## Snuff

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

Sales in the first quarter of 1999 rose 27 percent, to SEK 376 M (295). Sales in the American market showed a

continued highly favourable trend. Volume in the U.S. rose 58 percent compared with the first quarter of 1998. The market share in the U.S. increased to 6 percent. The volume increase in the Nordic market, including tax-free, was 9 percent.

Operating income improved by 30 percent, to SEK 193 M (149) as a result of larger volumes.



Share of Group sales, 18%



Share of Group income, 44%

### Key data

	12 months ended March 31, 1999	Full year 1998
Operating margin, %*	18.6	18.2
Return on operating capital, % *	34.2	33.2
Return on shareholders' equity, %	29.4	28.3
Interest coverage ratio, times	6.5	7.6
Debt/equity ratio, %	52.2	63.0
Equity/assets ratio, %	22.5	21.9
Investments, MSEK	402	393
Average number of employees	11,357	10,314

	12 months ended March 31, 1999	Full year 1998
<i>Share data**</i>		
Income per share after full tax		
Before items affecting comparability, SEK	1:98	1:96
After items affecting comparability, SEK	1:76	1:59
Shareholders' equity per share, SEK	5:03	5:00
Number of shares outstanding	431,339,663	431,339,663

\* \* Before items affecting comparability



## Other Operations

The net of Other operations was a loss of SEK 42 M (loss: 62). Sustained cost savings were achieved in central overhead expenses.

## Net financial expense

Net financial expense in the first quarter amounted to SEK 24 M (4). The higher interest expense was due to borrowing related to the redemption program in 1998 of SEK 1,216 M. Other financial items, net, amounted income of SEK 13 M (expense: 7), included exchange gains among other items.

## Investments

The Group's direct investments in property, plant and equipment amounted to SEK 65 M (41). The investments pertain mainly to capital expenditures for replacement and rationalisation. Straight-line depreciation totalled SEK 84 M (78). In addition, SEK 47 M was invested in acquisition of companies.

## Financing and liquidity

Net debt at the end of the period amounted to SEK 1,211 M, a decrease of SEK 244 M since December 1998.

Cash and bank balances, including short-term investments, amounted to SEK 3,060 M at the end of the period, compared with SEK 2,876 M at year-end. The liquid funds are placed with banks and in short-term negotiable Government securities.

## Tobacco tax

During the past 12 months, total tobacco tax and value-added tax for cigarettes and other tobacco products paid by Swedish Match in Sweden amounted to SEK 9,023 M (9,876).

## Acquisition

A significant portion of General Cigar's operations in the U.S. was acquired during the period. The operations will be consolidated in Swedish Match effective May 1, 1999.

The operations comprise two production units, one on Dothan, Alabama, and one in Santiago, Dominican Republic. The agreement also includes machinery and equipment, inventories and brands, with a sales force of about 70 persons and a total of about 1,000 employees. In addition, as part of the agreement, the parties initiated a long-term strategic co-operation through agreements covering tobacco deliveries and distribution. Among the brands included in the acquisition are Garcia y Vega, White Owl, Tiparillo and Tijuana Smalls.

As a result of the acquisition, Swedish Match becomes a leading global cigar company and strengthens its position as a leader in "Other Tobacco Products (OTP)" (cigars, snuff, pipe tobacco and chewing tobacco) in the U.S. and gains SEK 800 M in sales. Through the acquisition, income per share after acquisition costs are estimated to increase by SEK 0,15 – 0,20 from the year 2000.

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

## New organization

Effective in February 1999, Swedish Match has a new organization and new Group Executive Committee. Group operations have been organized in six divisions: North Europe, Continental Europe, North America, Overseas, Matches and Lighters. Division managers report directly to the President and are members of the Group Executive Committee. The aim of the reorganization is to achieve a more market-oriented organization with distinct 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 conditions for higher profitability and value growth and it creates distinct responsibility at all levels, with clear and measurable goals and at a lower cost than in the previous structure. A review of the number of offices has been carried out. Among other actions, it was decided to close Swedish Match's office in Nyon, Switzerland.

## Average number of Group employees

The average number of employees in the Group during the period was 11,357, compared with 7,122 in the year-earlier period. Wimco, in India, with 4,487 employees, is included in the first quarter of 1999. The average number of employees in Sweden was 1,401, compared with 1,426 in the preceding year.

## Preparation for the year 2000

Swedish Match has been working since the beginning of 1997 to ensure that the Group's computer systems will be able to handle the transition to the new millennium. A seven-step overhaul of more than 250 systems are being made. At the end of the first quarter of 1999, 95 percent of the systems had been subjected to the greater part of the overhaul. All systems are scheduled to have been tested and in production in September 1999. The Group is believed to be well prepared for the transition to the new millennium.

## Additional information

Swedish Match auditors have not reviewed this report.

The interim report for the first six months of 1999 will be released July 27, 1999.

Lennart Sundén  
President and Chief Executive Officer

### Consolidated Income Statement in summary

MSEK	First three months		Percent change %	12 months ended March 31, 1999	Helår
	1999	1998			Full year 1998
Sales, incl. tobacco tax	3,838	3,741	3	16,012	15,915
Less tobacco tax	-1,716	-1,902	-10	-7,535	-7,721
<b>Sales</b>	<b>2,122</b>	<b>1,839</b>	<b>15</b>	<b>8,477</b>	<b>8,194</b>
Cost of goods sold	-1,076	-894	20	-4,278	-4,096
<b>Gross profit</b>	<b>1,046</b>	<b>945</b>	<b>11</b>	<b>4,199</b>	<b>4,098</b>
Sales and administrations costs, etc.	-609	-596	2	-2,633	-2,620
Shares in earnings of associated companies	3	3		11	11
	440	352	25	1,577	1,489
Items affecting comparability	—	—		-108	-108
<b>Operating income</b>	<b>440</b>	<b>352</b>	<b>25</b>	<b>1,469</b>	<b>1,381</b>
Net interest expense	-24	-4		-102	-82
Other financial items, net	13	-7		-21	-41
Items affecting comparability	—	—		-60	-60
Net financial items	-11	-11		-183	-183
<b>Income after financial items</b>	<b>429</b>	<b>341</b>	<b>26</b>	<b>1,286</b>	<b>1,198</b>
Taxes	-143	-111	29	-514	-482
Minority interests	4	0		14	10
<b>Net profit for the period</b>	<b>290</b>	<b>230</b>	<b>26</b>	<b>786</b>	<b>726</b>

### Consolidated Balance Sheet in summary

MSEK	March 31, 1999	Dec. 31, 1998
Intangible fixed assets	864	895
Tangible fixed assets	2,359	2,423
Financial fixed assets	164	279
Current operating assets	3,682	3,774
Current financial receivables	167	315
Current investments	2,445	1,386
Cash and bank balances	615	1,490
<b>Total assets</b>	<b>10,296</b>	<b>10,562</b>
Shareholders' equity	2,171	2,160
Minority interests	148	148
Provisions	1,122	1,165
Long-term loans	2,880	2,098
Other long-term liabilities	23	26
Short-term borrowings	1,391	2,233
Other current liabilities	303	340
Current operating liabilities	2,258	2,392
<b>Total shareholders' equity, provisions and liabilities</b>	<b>10,296</b>	<b>10,562</b>
Operating capital	4,648	4,700
Net debt	1,211	1,455

### Consolidated Cash Flow Analysis in summary

MSEK	Jan-March 1999	Jan-March 1998
<b>Cash flow from operations</b>	<b>272</b>	<b>83</b>
<i>Investments</i>		
Investments in property, plant and equipment	-65	-41
Investments in trademarks	—	-55
Acquisition of companies	-47	-4
Sales of property, plant and equipment	209	7
<b>Cash flow from investments</b>	<b>97</b>	<b>-93</b>
<i>Financing</i>		
Changes in loans	-144	144
<b>Cash flow from financing</b>	<b>-144</b>	<b>144</b>
Translation differences attributable to cash and bank balances	-41	-1
Increase in liquid funds	<b>184</b>	<b>133</b>
Liquid funds at January 1	2,876	563
<b>Liquid funds at the end of the period</b>	<b>3,060</b>	<b>696</b>

### Quarterly data

MSEK	Q397	Q497	Q198	Q298	Q398	Q498	Q199
Sales, incl. tobacco tax	4,173	3,883	3,741	3,978	4,155	4,041	3,838
Less tobacco tax	-2,219	-1,998	-1,902	-2,003	-1,932	-1,884	-1,716
<b>Sales</b>	<b>1,954</b>	<b>1,885</b>	<b>1,839</b>	<b>1,975</b>	<b>2,223</b>	<b>2,157</b>	<b>2,122</b>
Cost of goods sold	-959	-881	-894	-992	-1,162	-1,048	-1,076
<b>Gross income</b>	<b>995</b>	<b>1,004</b>	<b>945</b>	<b>983</b>	<b>1,061</b>	<b>1,109</b>	<b>1,046</b>
Sales and administrations costs, etc.	-540	-622	-596	-640	-669	-715	-609
Shares in earnings of associated companies	5	3	3	3	3	2	3
	460	385	352	346	395	396	440
Items affecting comparability	—	—	—	-48	—	-60	—
<b>Operating income</b>	<b>460</b>	<b>385</b>	<b>352</b>	<b>298</b>	<b>395</b>	<b>336</b>	<b>440</b>
Net interest expense	-6	-4	-4	-13	-39	-26	-24
Other financial items, net	-17	-18	-7	-6	-22	-6	13
Items affecting comparability	—	—	—	-60	—	—	—
Net financial items	-23	-22	-11	-79	-61	-32	11
<b>Income after financial items</b>	<b>437</b>	<b>363</b>	<b>341</b>	<b>219</b>	<b>334</b>	<b>304</b>	<b>429</b>
Income taxes	-155	-131	-111	-95	-118	-158	-143
Minority interests	2	1	0	2	6	2	4
<b>Net income for the period</b>	<b>284</b>	<b>233</b>	<b>230</b>	<b>126</b>	<b>222</b>	<b>148</b>	<b>290</b>

### Sales by product area

MSEK	Q297	Q397	Q497	Q198	Q298	Q398	Q498	Q199
Chewing Tobacco	261	312	281	267	265	280	256	261
Cigarettes	430	414	353	328	362	401	377	350
Cigars	186	161	193	187	225	230	260	224
Lighters	226	210	187	196	184	177	178	165
Matches	349	297	350	324	343	473	433	448
Pipe Tobacco	41	44	44	48	57	55	58	55
Snuff	267	281	293	295	330	346	366	376
Other operations	182	235	184	194	209	261	229	243
<b>Total</b>	<b>1,942</b>	<b>1,954</b>	<b>1,885</b>	<b>1,839</b>	<b>1,975</b>	<b>2,223</b>	<b>2,157</b>	<b>2,122</b>

### Operating income by product area

MSEK	Q297	Q397	Q497	Q198	Q298	Q398	Q498	Q199
Chewing Tobacco	93	123	100	86	94	73	78	75
Cigarettes	144	175	124	92	92	141	113	127
Cigars	27	39	35	31	32	32	22	39
Lighters	13	16	14	14	3	-3	4	2
Matches	43	40	38	30	35	28	41	29
Pipe Tobacco	9	9	5	12	9	8	9	17
Snuff	117	138	152	149	152	182	158	193
Other operations	-39	-80	-83	-62	-71	-66	-29	-42
<b>Subtotal</b>	<b>407</b>	<b>460</b>	<b>385</b>	<b>352</b>	<b>346</b>	<b>395</b>	<b>396</b>	<b>440</b>
Items affecting comparability	—	—	—	—	-48	—	-60	—
<b>Total</b>	<b>407</b>	<b>460</b>	<b>385</b>	<b>352</b>	<b>298</b>	<b>395</b>	<b>336</b>	<b>440</b>



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