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Report on Operations 1999

- ★ *Sales increased 15 percent to MSEK 9,420*
- ★ *Operating income, before items affecting comparability, increased 13 percent to MSEK 1,689 (1,489)*
- ★ *Operating income, including capital gain of MSEK 4,102 and a provision for restructuring of Matches of MSEK 395, rose to MSEK 5,396 (1,381)*
- ★ *Strong sales and earnings improvement for Cigars, Snuff and Pipe Tobacco*
- ★ *Revised business strategy: Cigarettes divested and clear focus on Smokeless Tobacco (snuff, chewing tobacco) and Brown Tobacco (cigars, pipe tobacco)*
- ★ *The Board proposes an increased dividend to SEK 1.25 (1.10)*
- ★ *The Board proposes a share redemption program of approximately MSEK 1,000 and the launch of a long term share repurchase program*

Report on Operations 1999

In line with the new strategic orientation, the Group has been restructured.

- ★ *The cigarette business was sold for MSEK 4,800, resulting in a capital gain of MSEK 4,102.*
- ★ *Cigar operations in both the mass-market and premium segments have been acquired in the United States, with annual sales of MSEK 850.*
- ★ *The snuff and pipe-tobacco company Leonard Dingler in South Africa, with annual sales of MSEK 360, was acquired.*
- ★ *Following the close of the report period, an agreement was signed to acquire 64 percent of the shares of General Cigar Holdings, (premium cigars) with annual sales of MSEK 1,200.*

After thoroughly reviewing the Group's strategic orientation and the value of different product areas, actions were taken in 1999 to put a sharper focus on, and increased investments in, product areas where prospects for growth and profitability are viewed to be best.

The Group is clearly focused on smokeless tobacco, (snuff and chewing tobacco) and brown tobacco (cigars and pipe tobacco). In the smokeless tobacco area, Swedish Match has market leadership positions. In the cigar industry, which has changed considerably over the past year, Swedish Match has consolidated its number two position in the world.

The Group balance sheet has been strengthened substantially during the year. The equity/assets ratio has increased to 37 percent. Cash and short term investments exceed interest bearing liabilities with MSEK 1,267, thus the Group has substantial freedom of action with the financial capacity to make both additional acquisitions and redeem or repurchase shares.

Sales for the year increased by 15 percent, to MSEK 9,420 (8,194), of which acquisitions accounted for 9 percent. In the fourth quarter, sales increased to MSEK 2,562 (2,157), an increase of 19 percent.

Operating income continued to improve in focus product areas, including Snuff (+29%), Cigars (+76%) and Pipe Tobacco (+187%). Improvements for snuff come from continued growth in both the Nordic market and the US, while Cigar and Pipe Tobacco growth comes primarily through 1999 acquisitions. Other product areas, including Chewing Tobacco, Lighters and Matches, showed declines, primarily due to market conditions.

Operating income for the year, before items affecting comparability, increased to MSEK 1,689 (1,489), or 13 percent.

For the fourth quarter, operating income before items affecting comparability amounted to MSEK 398 (396).

Summary of Consolidated Income Statement

MSEK	October–December		Full year	
	1999	1998	1999	1998
Sales	2,562	2,157	9,420	8,194
Operating income before divested business	398	283	1,434	1,051
Divested business	—	113	255	438
Income before items affecting comparability	398	396	1,689	1,489
Items affecting comparability	– 395	– 60	3,707	– 108
Operating income	3	336	5,396	1,381
Net profit for the period	– 186	148	4,656	726

Sales by product area

MSEK	October–December			Full year 1999	Full year 1998	Change %
	1999	1998	Change %			
Chewing Tobacco	259	256	1	1,068	1,068	0
Cigars	437	260	68	1,438	902	59
Lighters	154	178	– 13	662	735	– 10
Matches	418	433	– 3	1,673	1,573	6
Pipe Tobacco & Accessories	212	58	266	420	218	93
Snuff	480	366	31	1,688	1,337	26
Other operations	602	229	—	1,742	893	—
Subtotal	2,562	1,780	44	8,691	6,726	29
Divested business	—	377	—	729	1,468	—
Total	2,562	2,157	19	9,420	8,194	15

Operating income by product area

MSEK	October–December		Change %	Full year 1999	Full year 1998	Change %
	1999	1998				
Chewing Tobacco	73	78	- 6	297	331	- 10
Cigars	55	22	150	206	117	76
Lighters	12	4	200	14	18	- 22
Matches	14	41	- 66	107	134	- 20
Pipe Tobacco & Accessories	59	9	556	109	38	187
Snuff	221	158	40	828	641	29
Other operations	- 36	- 29	—	- 127	- 228	—
Subtotal	398	283	41	1,434	1,051	36
Divested business	—	113	—	255	438	—
Items affecting comparability	- 395	- 60	—	3,707	- 108	—
Total	3	336		5,396	1,381	



Chewing Tobacco

Chewing tobacco is a longtime tradition in North America, and particularly the US. In terms of market share, Swedish Match ranks number one in the US chewing tobacco market, and has the number one selling brand, Red Man. The chewing tobacco category has declined an average of 4 percent per year over the past three years. During

1999 Swedish Match increased its share of the market through a number of marketing and promotional activities.

Sales for the year amounted to MSEK 1,068 (1,068). Stated in local currency, sales declined somewhat. Sales in the fourth quarter were MSEK 259 (256). Operating income for the year fell by 10 percent, to MSEK 297 (331). Operating income in the fourth quarter declined to MSEK 73 (78).



Share* of Group sales, 12%

Share* of Group income, 21%



Cigars

Swedish Match is one of the world's largest manufacturers and distributors of cigars and cigarillos, and ranks second in terms of sales in the world cigar market. The largest markets are Western Europe and the US. In 1999, sales amounted to MSEK 1,438 (902), an increase of 59 percent, with growth coming primarily from acquired businesses. Fourth quarter sales reached MSEK 437 (260).

Operating income in 1999 reached MSEK 206 (117), an increase of 76 percent due mainly to acquisitions. For the fourth quarter, operating income reached MSEK 55 (22).

In May 1999, Swedish Match acquired the mass market cigar business from General Cigar for MUS\$ 200. The acquired business includes a sales force, two production

units, inventories and brand names. With this acquisition, Swedish Match obtained a US market share of 11 percent in value terms. During the fourth quarter the integration of the sales force into the existing Swedish Match structure was completed. In September, the Company acquired El Credito, which produces the La Gloria Cubana brand, giving the Company a strong branded presence in the premium cigar segment in the U.S.

Following the close of the report period Swedish Match signed an agreement to acquire a 64 percent interest in General Cigar Holdings, Inc. General Cigar produces the number one selling premium cigar in the United States, Macanudo, and several other strong premium brands.



Share* of Group sales 17%

Share* of Group income, 14%



Lighters

Swedish Match is the third largest manufacturer of disposable lighters in the world. The largest Swedish Match markets are Europe, parts of Asia, and the US. Sales for the year declined by 10 percent, to MSEK 662 (735) and declined by 13 percent during the fourth quarter, to MSEK 154 (178). Operating income in 1999 fell to MSEK 14 (18), but improved to MSEK 12 (4) in the fourth quarter.

In the third quarter of 1998 sales volumes declined substantially due to the economic downturn in Asia and East Europe. To bring production in line with demand, and to reduce fixed costs, the Lyon production facility was closed in July, 1999. This has improved capacity utilization in the remaining factories, and has contributed to the profit improvement in the second half of the year.



Share* of Group sales, 8%

Share* of Group income, 1%

* Shares are before divested business/items affecting comparability for full-year 1999.



Matches

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

Swedish Match also produces machinery for match manufacturing. In 1999, sales increased by 6 percent, to MSEK 1,673 (1,573), with the increase coming primarily from the full year impact of 1998 acquisitions. Sales in the fourth quarter declined to MSEK 418 (433).

Operating income for the year was MSEK 107 (134), and

for the fourth quarter was MSEK 14 (41).

In view of lower sales volumes in some markets, and low capacity utilization, a major restructuring program will be launched. The objective of this program is to lift the operating margin to 10 percent within three years. Restructuring charges of MSEK 395 were provided for in the fourth quarter. This restructuring charge is intended to cover the cost of reducing the installed production capacity, and to write down fixed assets in India.



Share* of Group sales, 19%



Share* of Group income, 7%



Pipe Tobacco and Accessories

Swedish Match is one of the world's largest producers of pipe tobacco. The principal markets are North America, Europe and South Africa. The South African market has been growing by 2-3 percent per year over the past several years. The purchase of Leonard Dingler in South Africa has created a platform for continued

growth in that market and neighbouring countries. The business is included in the Swedish Match results from the fourth quarter.

Sales for 1999 amounted to MSEK 420 (218), an increase of 93 percent. Sales in the fourth quarter increased to MSEK 212 (58). Operating income rose to MSEK 109 (38) for the year and to MSEK 59 (9) in the fourth quarter.



Share* of Group sales, 5%



Share* of Group income, 8%



Snuff

Swedish Match is the leading manufacturer of snuff in the Nordic market and South Africa, and are one of the leading producers in the United States. The snuff category continues to grow in both volume and value in all of these markets.

Sales in 1999 increased 26 percent, to MSEK 1,688 (1,337). Overall Swedish Match volume increased by 16 percent, of which the Nordic market volume increased by 6 per-

cent and U.S. volume increased by 44 percent. In the United States, the Swedish Match market share was 6.6 percent at year-end, an improvement of 1.6 points over prior year, led by Timber Wolf, the number one brand in the growing value-priced segment. Sales in the fourth quarter increased to MSEK 480 (366).

Operating income for the year increased 29 percent, to MSEK 828 (641) and by 40 percent in the fourth quarter to MSEK 221 (158).



Share* of Group sales, 19%



Share* of Group income, 58%

Key data

	1999	1998
Operating margin, % **	17.9	18.2
Return on operating capital, % **	30.6	33.2
Return on shareholders' equity, %	115.0	28.3
Net debt/equity ratio, %	positive	63.0
Equity/assets ratio, %	36.6	21.9
Investments in tangible assets, MSEK	452	393
EBITDA (before items affecting comp.)	2,070	1,821
EBITDA (after items affecting comp.)	5,777	1,713
Average number of employees	11,797	10,314

	1999	1998
<i>Share data</i>		
Income per share after full tax		
Before items affecting comparability, SEK	2.31	1.96
After items affecting comparability, SEK	10.79	1.59
Shareholders' equity per share, SEK	13.77	5.00
Number of shares		
outstanding at end of period	431 339 663	431 339 663

Income per share after full tax during the fourth quarter was - 0.44 SEK (0.35)

** Before items affecting comparability

* Shares are before divested business/items affecting comparability for full-year 1999.

Other Operations

Other operations include among other things the distribution of tobacco products on the Swedish market as well as corporate overheads. For the year, net expenses for other operations were reduced to MSEK - 127 (- 228).

Items affecting comparability

As of July 1, 1999, the Company's cigarette business was sold for MSEK 4,800. After deduction of the net book value, the capital gain for Swedish Match amounted to MSEK 4,102. The transaction was completed on August 19, 1999. In the fourth quarter, a restructuring charge of MSEK 395 for the Match division was provided. The net amount of these two items, MSEK 3,707, has been reported in items affecting comparability.

Net financial expense

Net financial expense amounted to MSEK -116 (- 183). Other financial items amounted to MSEK 15 (- 41).

Taxes

Total tax for 1999 amounted to MSEK 638 (482) corresponding to 12.1 percent of income before taxes. The tax rate decreased due to the fact that the capital gain on the sale of the Cigarette operation was only nominally taxed. The rate increased since it was not deemed possible to claim the costs of the restructuring provision for the match division for tax purposes.

Investments

The Group's direct investments in tangible fixed assets amounted to MSEK 452 (393). Of this amount, MSEK 144 consisted of fixed assets in connection with acquisitions and the remaining MSEK 308 pertained efficiency-improvement and capacity-increasing investments. In addition, MSEK 2,488 (213) was invested in long-term intangible assets during the period. These investments pertained mainly to brand names and goodwill related to acquisitions made during the year.

Total depreciation and amortisation charges amounted to MSEK 381 (332), of which depreciation on tangible assets amounted to MSEK 222 (248) and amortisation of intangibles amounted to MSEK 159 (84).

Investments in associated companies amounted to MSEK 50 during 1999.

Financing and liquidity

Cash and bank balances and current investments (liquid funds) less interest-bearing liabilities amounted to MSEK 1,267 at the end of the period. Liquid funds, which amounted to MSEK 7,296 (2,876) are primarily invested in short-term securities.

Tobacco tax

In Sweden during the past year, the Company has paid tobacco taxes, plus value-added taxes on tobacco taxes, amounting to MSEK 9,016 (9,266).

Average number of Group employees

The average number of employees in the Group during the year was 11,797, compared with 10,314 in the 1998. The average number of employees in Sweden was 1,183, compared with 1,430 previous year.

Board of Directors' dividend proposal

Profit per share was SEK 10.79 (1.59). The Board of Directors has decided to propose that the Annual General Meeting approve payment of a dividend of SEK 1.25 per share (1.10), or a total of MSEK 539 (474), to the shareholders.

Redemption of shares and share repurchase program

Considering the strong financial position of Swedish Match, and in line with Swedish Match shareholder friendly policy, the Board of Directors has decided to propose the redemption of Swedish Match shares to the Annual General Meeting in April. This is in addition to the ordinary dividend in fiscal year 1999. Through the redemption, capital which is no longer required in operations is transferred to the shareholders. The proposed redemption amount is in the range of MSEK 1,000. This amount is expected to be paid prior to the end of July.

The Board of Directors of Swedish Match has decided to propose to the Annual General Meeting to give the Board of Directors authorization to decide on repurchase of Swedish Match shares. The authorization is proposed to be valid until the next Annual General Meeting with regard to the repurchase of up to 5 percent of the number of outstanding shares.

The execution of the repurchase of shares is conditional on the passage of pending legislation in the Swedish Parliament.

Additional information

The Annual General Meeting will be held in Stockholm on April 27, 2000. The 1999 Annual Report is expected to be released and distributed during the week beginning Monday, March 20, 2000. The interim report covering operations during the first three months of 2000 will be released April 27.

Stockholm, February 9, 2000

Board of Directors

Consolidated Income Statement in summary

MSEK	October–December		Change %	Full year– 1999	Full year 1998	Change %
	1999	1998				
Sales, incl. tobacco tax	4,403	4,041	9	16,953	15,915	7
Less tobacco tax	– 1,841	– 1,884	– 2	– 7,533	– 7,721	– 2
Sales	2,562	2,157	19	9,420	8,194	15
Cost of goods sold	– 1,443	– 1,048	38	– 5,138	– 4,096	25
Gross profit	1,119	1,109	1	4,282	4,098	4
Sales and administrations costs, etc.	– 748	– 715	5	– 2,636	– 2,620	1
Shares in earnings of associated co.	27	2		43	11	
	398	396	1	1,689	1,489	13
Items affecting comparability	– 395	– 60		3,707	– 108	
Operating income	3	336		5,396	1,381	
Net interest expense	– 38	– 26		– 131	– 82	
Other financial items, net	– 15	– 6		15	– 41	
Items affecting comparability					– 60	
Net financial items	– 53	– 32		– 116	– 183	
Income before taxes and minority interests	– 50	304		5,280	1,198	
Taxes	– 149	– 158		– 638	– 482	
Minority interests	13	2		14	10	
Net profit for the period	– 186	148		4,656	726	

Consolidated Balance Sheet in summary

MSEK	Dec 31, 1999	Dec 31, 1998
Intangible fixed assets	3,268	895
Tangible fixed assets	1,866	2,239
Financial fixed assets	432	463
Current operating assets	3,808	4,089
Current investments	6,756	1,386
Cash and bank balances	540	1,490
Total assets	16,670	10,562
Shareholders' equity	5,940	2,160
Minority interests	162	148
Provisions	1,195	1,165
Long– term loans	5,093	2,098
Other long– term liabilities	210	26
Short– term loans	936	2,233
Other current liabilities	3,134	2,732
Total shareholders' equity, provisions and liabilities	16,670	10,562
Operating capital	6,352	4,700
Net debt	– 1,267	1,455

Consolidated Cash Flow Statement in summary

MSEK	1999	1998
Cash flow from operations	1,329	794
<i>Investments</i>		
Investments in property, plant and equipment	– 452	– 393
Sales of property, plant and equipment	83	849
Sales of cigarette operations	4,798	
Investments in intangibles	– 2,488	– 213
Investment in associated companies and acquisition of companies	– 51	– 168
Changes in financial receivables etc.	115	7
Cash flow from investments	2,005	82
<i>Financing</i>		
Changes in loans	1,655	3,084
Dividend to shareholders	– 474	– 510
Share redemption	—	– 1,147
Cash flow from financing	1,181	1,427
Change in liquid funds	4,515	2,303
Liquid funds at January 1	2,876	563
Translation differences attributable to liquid funds	– 95	10
Liquid funds at the end of the period	7,296	2,876

Quarterly data

MSEK	Q1/98	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99
Sales, including tobacco tax	3,741	3,978	4,155	4,041	3,838	4,167	4,545	4,403
Less tobacco tax	- 1,902	- 2,003	- 1,932	- 1,884	- 1,716	- 1,849	- 2,127	- 1,841
Sales	1,839	1,975	2,223	2,157	2,122	2,318	2,418	2,562
Cost of goods sold	- 894	- 992	- 1,162	- 1,048	- 1,076	- 1,206	- 1,413	- 1,443
Gross profit	945	983	1,061	1,109	1,046	1,112	1,005	1,119
Sales and administrations costs, etc.	- 596	- 640	- 669	- 715	- 609	- 670	- 609	- 748
Shares in earnings of associated companies	3	3	3	2	3	2	11	27
	352	346	395	396	440	444	407	398
Items affecting comparability	—	- 48	—	- 60	—	—	4,102	- 395
Operating income	352	298	395	336	440	444	4,509	3
Net interest expense	- 4	- 13	- 39	- 26	- 24	- 45	- 24	- 38
Other financial items, net	- 7	- 6	- 22	- 6	13	5	12	- 15
Items affecting comparability	—	- 60	—	—	—	—	—	—
Net financial items	- 11	- 79	- 61	- 32	- 11	- 40	- 12	- 53
Income after financial items	341	219	334	304	429	404	4,497	- 50
Income taxes	- 111	- 95	- 118	- 158	- 143	- 145	- 201	- 149
Minority interests	0	2	6	2	4	- 6	3	13
Net income for the period	230	126	222	148	290	253	4,299	- 186

Sales by product area

MSEK	Q4/97	Q1/98	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99
Chewing Tobacco	281	267	265	280	256	261	278	270	259
Cigars	193	187	225	230	260	224	370	407	437
Lighters	187	196	184	177	178	165	173	170	154
Matches	350	324	343	473	433	448	401	406	418
Pipe Tobacco & Accessories	44	48	57	55	58	55	53	100	212
Snuff	293	295	330	346	366	376	402	430	480
Other operations	184	194	209	261	229	243	262	635	602
Subtotal	1,532	1,511	1,613	1,822	1,780	1,772	1,939	2,418	2,562
Divested business	353	328	362	401	377	350	379	—	—
Total	1,885	1,839	1,975	2,223	2,157	2,122	2,318	2,418	2,562

Operating income by product area

MSEK	Q4/97	Q1/98	Q2/98	Q3/98	Q4/98	Q1/99	Q2/99	Q3/99	Q4/99
Chewing Tobacco	100	86	94	73	78	75	71	78	73
Cigars	35	31	32	32	22	39	57	55	55
Lighters	14	14	3	-3	4	2	-8	8	12
Matches	38	30	35	28	41	29	34	30	14
Pipe Tobacco & Accessories	5	12	9	8	9	17	11	22	59
Snuff	152	149	152	182	158	193	178	236	221
Other operations	-83	-62	-71	-66	-29	-42	-27	-22	-36
Subtotal	261	260	254	254	283	313	316	407	398
Divested business	124	92	92	141	113	127	128	—	—
Items affecting comparability	—	—	-48	—	-60	—	—	4 102	-395
Total	385	352	298	395	336	440	444	4 509	3



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