

Interim Report

January - September 1997

- ⌋ **Increase in consolidated net earnings.**
- ⌋ **Snuff and Matches report strong increases in earnings.**
- ⌋ **Higher sales reported by several divisions compensated for a decline in Cigarettes Division sales.**
- ⌋ **Joint-venture agreement reached in Turkey with KAV for match production and sales.**

Swedish Match sales during the first nine months of 1997 rose 3% to SEK 5 580 M, compared with SEK 5 436 M during the corresponding period last year. Expressed in local currencies, that is, less currency effects, sales were largely unchanged, compared with the first nine months of 1996. Higher sales by several divisions, particularly the Snuff Division, compensated for lower sales by the Cigarettes Division. This decline was caused mainly by hoarding toward year-end 1996 and the new agreement regarding Prince cigarettes which became effective in May 1997, as well as a general decline in the Swedish cigarette market.

Operating income increased from SEK 1 100 M to SEK 1 201 M. Before nonrecurring items, operating income amounted to SEK 1 201 M, a marginal decline compared with SEK 1 223 M during the first nine months of 1996. Lower operating income reported by the Cigarettes Division was offset largely by higher income reported by the Snuff, Matches and Chewing Tobacco divisions.

Swedish Match

SEK M	First nine months	
	1997	1996
Sales	5 580	5 436
Operating income before nonrecurring items	1 201	1 223
Operating income	1 201	1 100
Income before taxes and minority interests	1 195	1 037
Net income	812	715

Sales by division

SEK M	First nine months		Percent change	12 months ended	Full year
	1997	1996		Sept 30,97	1996
Chewing Tobacco	868	811	7	1 100	1 043
Cigarettes	1 193*	1 419	-16	1 757	1 983
Cigars	498	495	1	681	678
Lighters	647	634	2	859	846
Matches	949	907	5	1 283	1 241
Pipe Tobacco	122	142	-14	176	196
Snuff	786	651	21	1 035	900
Group-wide operations and eliminations	517*	377	37	669	529
Total	5 580	5 436	3	7 560	7 416

*After May 1, 1997, external invoicing of Prince cigarettes is reported under Group-wide operations. Subcontracted production remains within the Cigarettes Division. The change resulted in a decline of SEK 147 M in sales of the Cigarettes Division for the period. This amount is included in Group-wide operations.

Operating income before nonrecurring items, by division

SEK M	First nine months		Percent change	12 months ended	Full year
	1997	1996		Sept 30,97	1996
Chewing Tobacco	320	268	19	420	368
Cigarettes	413*	555	-26	647	789
Cigars	96	91	5	141	136
Lighters	39	37	5	50	48
Matches	109	82	33	145	118
Pipe Tobacco	23	28	-18	36	41
Snuff	370	303	22	498	431
Group-wide operations and eliminations	-169*	-141		-236	-208
Total	1 201	1 223	-2	1 701	1 723

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

Division Chewing Tobacco

The Chewing Tobacco Division operates in the North American market. Sales during the first nine months of 1997 rose 7%, compared with the corresponding period last year, to SEK 868 M. The increase was attributable to the strong U.S. dollar. Expressed in local currencies, sales were down 5%. The volume decline for chewing tobacco, due to the declining total market, was offset to some extent by higher prices.

Operating income during the period under review rose to SEK 320 M, an increase of SEK 52 M compared with the corresponding period last year. Expressed in local currencies, operating income increased 6%. Cost savings yielded favorable effects on the division's operating margin.

Division Cigarettes

The Swedish market accounts for most sales invoiced by the Cigarettes Division. Sales during the first nine months of 1997 amounted to SEK 1 193 M, down 16% compared with the corresponding period a year earlier. As a result of hoarding in the Swedish market toward year-end 1996, triggered by the increase in tobacco tax and prices that took effect on January 1, 1997, estimated sales of SEK 75 M that would normally have been booked in 1997 were invoiced toward year-end 1996. The sharp price increase, necessitated by a

29% increase in Swedish tobacco tax, effective August 1, 1997, resulted in a strong increase in sales during July. This resulted in a sharp sales decline in August and September. Effects of hoarding will also be reflected in sales during the fourth quarter. The total market for cigarettes in Sweden declined 21% during the first nine months of 1997, compared with the corresponding period last year, of which 5% was caused by hoarding prior to last year's tax increase. The market share of Swedish Match products was down marginally to 50%, compared with 51% during the first nine months of 1996. It is still too early to estimate sustained effects of the recent price increase on delivery volumes and consumption.

The new agreement with Skandinavisk Tobakskompagni A/S (STK) regarding sales of Prince cigarettes came into effect on May 1, 1997. Under terms of the new agreement, Swedish Match is responsible for production and distribution of Prince cigarettes, and STK, through its subsidiary House of Prince, is responsible for marketing.

Operating income during the first nine months of 1997 amounted to SEK 413 M, a decline of SEK 142 M. The effects of hoarding on operating income toward year-end 1996 have been estimated at approximately SEK 45 M. The new Prince agreement, higher marketing expenses and lower volumes affected the division's operating income adversely which, however, was offset largely by higher prices.

During the past 12-month period, total tobacco tax and value-added tax on tobacco products paid by Swedish Match in Sweden amounted to SEK 9 555 M (8 767).

Division Cigars

Western Europe is the most important market for the Cigars Division. Sales during the first nine months of 1997 totaled SEK 498 M, an increase of SEK 3 M compared with the corresponding period last year. Operating income rose from SEK 91 M to SEK 96 M. Changes in the division's product mix, marked by a shift toward the higher-price segment, yielded favorable effects on sales and earnings.

The introductory sales of premium cigars in the U.S. continued and hand-rolled cigar capacity in Indonesia was increased further.

Division Lighters

The most important markets for the Lighters Division are Western Europe, Eastern Europe, the U.S. and certain parts of Asia. Sales during the first nine months of the year amounted to SEK 647 M, a modest increase compared with sales of SEK 634 M during the corresponding period last year. Volumes remained largely unchanged. Sales were affected favorably by currency trends. Volume growth in Eastern Europe continued. The volume decline in the U.S. continued pending introduction of a new child-resistant disposable lighter. It is expected to be on the market by mid-1998.

Operating income was affected favorably by currency trends, rising by SEK 2 M to SEK 39 M during the nine-month period under review.

Division Matches

Sales by the Matches Division are concentrated primarily in Europe and Brazil, but it also has large export volumes in markets around the world. Division sales during the first nine months of 1997 amounted to SEK 949 M (907). Expressed in local currencies, sales were largely unchanged compared with the first nine months of 1996. Higher prices and

currency gains compensated for a marginal volume decline. Operating income rose by SEK 27 M to SEK 109 M. In addition to factors mentioned above, production rationalization measures implemented mainly in Brazil also had favorable effects on the division's operating income.

After the close of the nine-month period under review, the Matches Division reached a joint venture agreement with KAV of Turkey. Reference is also made to the heading below, "Important business transactions after September 30, 1997."

Division Pipe Tobacco

The most important markets for the Pipe Tobacco Division are the U.S., Sweden and the rest of Western Europe.

Sales during the first nine months of 1997 totaled SEK 122 M, a decline of SEK 20 M compared with the year-earlier period. Substantial deliveries originally planned in the beginning of 1997 were made during the autumn of 1996 instead, which was one reason for the decline in sales this year. Due to its lower invoicing, operating income fell to SEK 23 M (28).

Division Snuff

Sales by the Snuff Division are concentrated primarily in Sweden and the U.S. Total sales during the first nine months of 1997 amounted to SEK 786 M (651), with the American market accounting for 15%. The increase in sales was attributable to higher volumes in the U.S. market, increased tax-free sales and higher prices in Sweden. Stronger volumes were reported in the North American market, and the division's market share rose to 3%. Competition in the U.S. has become more intense, leading to greater price competition and price cuts of more than 35%.

Operating income improved to SEK 370 M, an increase of SEK 67 M, compared with the corresponding period last year. Higher sales of pouched snuff and increased prices in Sweden had favorable effects on operating income.

Group-wide operations

Consolidated expenses charged against operating income during the first nine months of 1997 rose to SEK 169 M (141). The increase in Group-wide operating expenses was caused by sponsorship costs for participation in the Whitbread Round the World Race, an international yachting competition, and costs incurred for the Swedish Match Global Challenge, an internal project. In accordance with the Group's new structure introduced on January 1, 1997, the Swedish Match Global Challenge is designed to strengthen global coordination of Group operations and strengthen worldwide business activities.

Preliminary agreement in the U.S.

Uncertainties continue to surround the so-called "Global Settlement," a preliminary agreement in the U.S. between the tobacco industry and certain states. It is still not known if, and to what extent, new legislation will be enacted, and it seems unlikely that a final decision will be reached during 1997. It's impossible at this time, therefore, to speculate over potential effects of an agreement on the business activities of Swedish Match in the American market.

Group income statement

SEK M	First nine months		Percent change	12 months ended	Full year
	1997	1996		Sept 30, 1997	1996
Sales, incl. tobacco tax	11 348	10 891	4	15 464	15 007
Less tobacco tax	-5 768	-5 455	-6	-7 904	-7 591
Sales	5 580	5 436	3	7 560	7 416
Cost of goods sold	-2 734	-2 686	-2	-3 701	-3 653
Gross profit	2 846	2 750	3	3 859	3 763
Sales and administration costs, etc	-1 659	-1 541	-8	-2 174	-2 056
Share in earnings of associated companies	14	14	0	16	16
	1 201	1 223	-2	1 701	1 723
Nonrecurring items	-	-123		-	-123
Operating income	1 201	1 100	9	1 701	1 600
Net interest expense	-13	-73		-21	-81
Other financial items, net	7	10		8	11
Net financial items	-6	-63		-13	-70
Income before income taxes and minority interests	1 195	1 037	15	1 688	1 530
Income taxes	-381	-323	-18	-497	-439
Minority interests	-2	1		15	18
Net income	812	715	14	1 206	1 109

Group balance sheet summary

SEK M	Sept 30, 1997	Dec 31, 1996
Intangible fixed assets	484	516
Tangible fixed assets	2 047	2 034
Financial fixed assets	289	277
Current operating assets	2 823	2 964
Current financial receivables	164	144
Liquid funds	755	942
Total assets	6 562	6 877
Shareholders' equity	2 652	2 314
Minority interests	19	54
Provisions	502	483
Long-term loans	205	4
Other long-term liabilities	45	8
Short-term borrowings	866	1 015
Other current liabilities	507	709
Current operating liabilities	1 766	2 290
Total shareholders' equity and liabilities	6 562	6 877
Operating capital	3 588	3 224
Net debt	316	77

Financial result

Net interest items improved compared with the first nine months of 1996 as a result of lower net debt. Other financial items, SEK 7 M (10) net, are attributable primarily to exchange gains on net financial assets and liabilities.

Investments, financing and liquidity

Group investments in tangible assets totaled SEK 194 M, compared with SEK 148 M during the first nine months of 1996. Depreciation according to plan amounted to SEK 202 M (214). Liquid assets, including short-term investments, totaled SEK 755 M at the close of the period under review, compared with SEK 942 M at year-end 1996. Liquid assets include bank deposits and investments in treasury bills. Net debt at the close of the period was SEK 316 M, an increase of SEK 239 M since December 1996. Net debt was low at year-end 1996 because liabilities for income tax and tobacco excise taxes were approximately SEK 500 M higher than normal. These liabilities have since been reduced to a normal level.

In September, the Group raised a three-year, fixed-interest bond loan in the amount of SEK 200 M. The company's main loan financing is a Swedish commercial paper program with a loan framework of SEK 2 000 M, of which SEK 650 M had been utilized as of September 30, 1997.

Average number of Group employees

The average number of Group employees during the first nine months of 1997 was 6 337, compared with 6 646 during the corresponding period last year. The average number of employees in Sweden was 1 408, compared with 1 487 last year.

Important business transactions after September 30, 1997

Swedish Match and Kav Orman San S.A. signed a joint-venture agreement for development of match, lighters and tobacco business operations in Turkey and the Republics of Azerbaijan, Kirghizian, Turkmenistan among others. Under terms of the agreement, a new company will be established in Turkey. Swedish Match will own 60% and Kav 40%. Kav Orman S.A. will make a noncash transfer of its existing match operations to the new company, and Swedish Match will cover its ownership share through a new issue for cash amounting to USD 12 M. Establishment of the new company is pending the approval of government authorities. Based on match sales of more than SEK 100 M in 1996, Kav Orman is the largest match manufacturer in Turkey, with a Turkish market share of 45-50%.

Swedish Match has submitted a public offer to the shareholders of Treab Plus AB. The offer totals SEK 16 M. A Swedish distributor of tobacco products and tobacco-related products, Treab Plus AB reported sales of SEK 105 M in 1996.

Other information

This report has not been reviewed by Swedish Match's auditors.

The report on 1997 operations is scheduled to be released on February 24, 1998.

Göran Lindén
President and Chief Executive Officer

Key Data

	12 month ended Sept 30, 1997	Full year 1996
Operating margin, %*	22.5	23.2
Return on operating capital, % *	47.5	49.9
Return on shareholders' equity, %	53.9	57.3
Interest coverage ratio, times	25.9	9.6
Debt/equity ratio, %	11.8	3.2
Equity/assets ratio, %	40.7	34.4
Investments, SEK M	263	217
Operating cash flow, SEK M*	1 571	1 968
Average number of employees**	6 337	6 580
<i>Share data</i>		
Income per share after full tax,		
before nonrecurring items, SEK	2.60	2.59
after nonrecurring items, SEK	2.60	2.39
Shareholders' equity per share, SEK		
	5.72	4.99
Number of shares outstanding	463 558 252	463 558 252

Earnings per share after full tax for the first nine months of 1997 amounted to SEK 1.75 (1.54)

* Before nonrecurring items

** First nine months

Quarterly data

SEK M	Q2/96	Q3/96	Q4/96	Q1/97	Q2/97	Q3/97
Sales, incl. tobacco tax	3 715	3 793	4 116	3 181	3 994	4 173
Less tobacco tax	-1 867	-1 938	-2 136	-1 497	-2 052	-2 219
Sales	1 848	1 855	1 980	1 684	1 942	1 954
Cost of goods sold	-900	-893	-967	-807	-968	-959
Gross profit	948	962	1 013	877	974	995
Sales and administration costs, etc.	-531	-484	-515	-548	-571	-540
Shares of earnings in associated companies	5	4	2	5	4	5
Operating income before nonrecurring items	422	482	500	334	407	460
Nonrecurring items	-123	-	-	-	-	-
Operating income	299	482	500	334	407	460
Net interest expense	-26	-17	-8	-3	-4	-6
Other financial items, net	1	0	1	21	3	-17
Net financial items	-25	-17	-7	18	-1	-23
Income before income taxes and minority interests	274	465	493	352	406	437
Income taxes	-94	-149	-116	-116	-110	-155
Minority interests	-1	1	17	-2	-2	2
Net income	179	317	394	234	294	284

Sales by division

SEK M	Full year						
	Q2/96	Q3/96	Q4/96	1996	Q1/97	Q2/97	Q3/97
Chewing Tobacco	267	296	232	1 043	295	261	312
Cigarettes	489	505	564	1 983	349	430	414
Cigars	168	168	183	678	151	186	161
Lighters	217	205	212	846	211	226	210
Matches	316	262	334	1 241	303	349	297
Pipe Tobacco	42	51	54	196	37	41	44
Snuff	221	229	249	900	238	267	281
Group-wide operations and eliminations	128	139	152	529	100	182	235
Total	1 848	1 855	1 980	7 416	1 684	1 942	1 954

Operating income before nonrecurring items, by division

SEK M	Full year						
	Q2/96	Q3/96	Q4/96	1996	Q1/97	Q2/97	Q3/97
Chewing Tobacco	98	111	100	368	104	93	123
Cigarettes	189	223	234	789	94	144	175
Cigars	36	30	45	136	30	27	39
Lighters	15	11	11	48	10	13	16
Matches	33	24	36	118	26	43	40
Pipe Tobacco	5	14	13	41	5	9	9
Snuff	100	117	128	431	115	117	138
Group-wide operations and eliminations	-54	-48	-67	-208	-50	-39	-80
Total	422	482	500	1 723	334	407	460