2005

Swedish Match is a unique company with a broad range of market-leading brands in the product areas snuff and chewing tobacco, cigars and pipe tobacco – niche tobacco products – as well as matches and lighters.

annual report

Contents

A certain degree of risk and uncertainty is associated with the forward-looking statements made in this Annual Report. Although Swedish Match believes that these statements constitute reasonable assumptions, Swedish Match cannot guarantee their fulfillment. For complete information about Swedish Match, the reader is also advised to study the annual report, named Form 20-F, that Swedish Match files annually with the Securities and Exchange Commission in the US, and which can be accessed on the company's website, www.swedishmatch.com

Swedish Match 2005

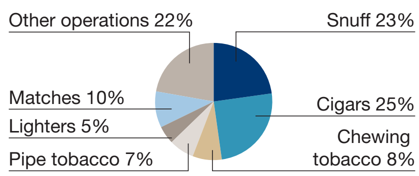
Swedish Match is a unique company with a broad range of market-leading brands in the product areas snuff and chewing tobacco, cigars and pipe tobacco – niche tobacco products – as well as matches and lighters. The Group's global operations generated sales of 13,311 MSEK in 2005. Production facilities are located in 13 countries. The average number of employees during 2005 was 14,333. The Swedish Match share is listed on the OMX Stockholmsbörsen (SWMA).

- Sales amounted to 13,311 MSEK (13,007).
- Operating income amounted to 2,825 MSEK (3,593).
- Operating income, excluding major one time items, amounted to 2,618 MSEK (2,312).
- Net income for the year amounted to 1,777 MSEK (2,084).
- Earnings per share amounted to 5.61 SEK (6.18).
- The Board of Directors proposes an increased dividend to 2.10 SEK (1.90).

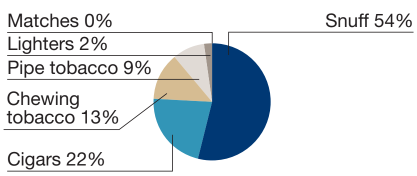
Key data, MSEK	**2005**	**2004**	**2003**
Net sales	13,311	13,007	13,036
Operating income before depreciation	3,283	4,072	2,889
Operating income	2,825	3,593	2,224
Net income for the year	1,777	2,084	1,558
Earnings per share, SEK	5.61	6.18	4.68
Dividend per share, SEK	2.10*	1.90	1.70
Return on shareholders' equity, %	36.6	48.2	38.9

* Board proposal.

Net sales by product area, %



Operating income by product area*, %



* Excluding Other operations and major one-time items.

This is Swedish Match

Product areas

SNUS/SNUFF

Sales, MSEK	3,131
Operating income, MSEK	1,504
Operating margin, %	48

Swedish Match is the only company with significant international snuff operations. The company holds a leading position in the Nordic market and in South Africa. In North America, Swedish Match is a major player in the growing low-price segment.

CIGARS

Sales, MSEK	3,283
Operating income, MSEK	613
Operating margin, %	19

Swedish Match is one of the world's largest producers and distributors of cigars and cigarillos. North America and Western Europe are the largest markets. The product group is an important growth area for Swedish Match.

CHEWING TOBACCO

Sales, MSEK	1,079
Operating income, MSEK	347
Operating margin, %	32

Swedish Match is the largest player in the market for American chewing tobacco.

PIPE TOBACCO

Sales, MSEK	920
Operating income, MSEK	237
Operating margin, %	26

Swedish Match is one of the world's largest producers of pipe tobacco. The largest markets for pipe tobacco are North America and Europe. The Group's most important market is South Africa.

LIGHTERS

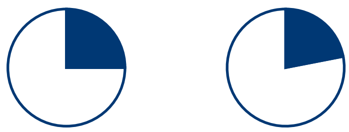
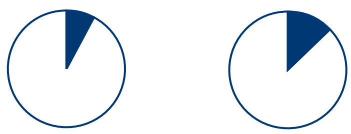
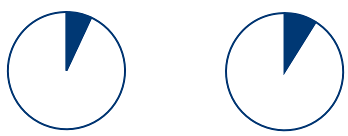
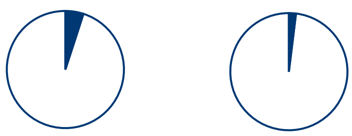
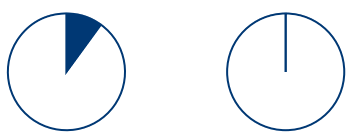
Sales, MSEK	620
Operating income, MSEK	44
Operating margin, %	7

Swedish Match is a player in the international market for lighters. The largest markets for lighters are Europe – especially Russia – and Asia.

MATCHES

Sales, MSEK	1,316
Operating income, MSEK	13
Operating margin, %	1

The Group's main markets are Western Europe and Latin America. The brands are mainly local and strong in their respective home countries.

Main brands	Production	Share of Group total	
General · Ettan · Catch · Grovsnus · Göteborgs Rapé · Timber Wolf · Longhorn · Taxi	**Production units:** Sweden, South Africa, US 	**Sales, 23%**	**Operating income, 54%** 
La Paz · Willem II · Wings · Clubmaster · White Owl · Bellman · Garcia y Vega · Macanudo · Cohiba (US) · Partagas (US)	**Production units:** Belgium, Dominican Republic, Honduras, Indonesia, US 	**Sales, 25%**	**Operating income, 22%** 
Red Man · Southern Pride · Granger Select · JD's Blend	**Production units:** US 	**Sales, 8%**	**Operating income, 13%** 
Borkum Riff · Half and Half · Paladin · Best Blend · Boxer · Black & White · Greve Gilbert Hamiltons Blandning · 1904 · Velvet	**Production units:** South Africa, US 	**Sales, 7%**	**Operating income, 9%** 
Cricket · Poppell	**Production units:** Brazil, Philippines, Netherlands 	**Sales, 5%**	**Operating income, 2%** 
Solstickan · Swan · Three Stars · England's Glory · Redheads · Fiat Lux	**Production units:** Brazil, Bulgaria, Sweden, Hungary (being divested), Turkey (under closure) 	**Sales, 10%**	**Operating income, 0%** 

Swedish Match 2005

Strengths of the strategy

The successes during 2005 show the strength of Swedish Match's strategy. Our goal is to build a solid and sustainably profitable business that both meets consumer demand and provides value to shareholders. We improve our competitiveness through continuous improvements in productivity, renewal of the brand portfolio and ongoing restructuring measures.

Cigars show improved profitability

Cigars are a focus area for organic growth. New product launches and a broadened product portfolio have had the intended effect, resulting in improved profitability and strengthened brands.

Growth continues for snuff and snus

During the past 30 years, snuff has grown strongly in popularity at the expense of cigarette smoking, and growth continues. The increasing number of consumers are also more demanding in terms of product renewal and innovation – demands that Swedish Match is successfully meeting through active product development and new product launches.

Product development improves competitiveness

Operations during 2005 demonstrated continued market strength and improved margins for our main growth products, snuff and cigars, along with stable and high profitability for chewing tobacco and pipe tobacco, and earnings and margin improvements for both matches and lighters. With strong market positions and solid cash flow, we continue to see significant opportunities in delivering strong returns to our shareholders.

Swedish Match continued to develop favorably during 2005. During the second half of the year, the Group reported its best sales and earnings figures ever, strengthening our position as one of the world's strongest companies in niche tobacco products, with leading international and national brands.

We further developed our strong market positions in two of the tobacco industry's growth segments, snuff and cigars. We are number one in Scandinavia for moist snuff (snus) and one of the leaders in the growing value priced snuff segment in the US. We are number two in the world for cigars, and number one in the hand-rolled cigar segment in the US.

Our product and brand portfolio continued to grow and develop, with several successful product launches and further market expansion in new and existing geographies. The foundation for this success lies in the organization's strength in marketing and research and development, especially in the field of smokeless tobacco products.

The Group's organization and structure continued to be refined and adapted to changing market and competitive conditions. Rationalization measures, investments, acquisitions and divestments contributed to greater efficiency.

The result of measures taken during the year was an increase in operating income by 36 percent to 2,825 MSEK, excluding the settlement income from UST in 2004. The operating margin excluding major one-time items, improved by 1.9 percentage points to 19.7 percent. The corresponding earnings per share increased from 4.19 SEK to 5.30 SEK. The Board has proposed a 10.5 percent dividend increase, to 2.10 SEK per share, to be voted upon at the upcoming Annual General Meeting.

The share price increased by 21 percent to 93.50 SEK during the year, an increase that benefits all our shareholders.

Behind these figures are the outstanding efforts of all our employees. They have worked with determination and great skill to fulfill the demands of our consumers and customers, which has enabled us to generate value for our shareholders.

Improvements from the actions taken during 2005 demonstrate the strength of our strategy, which is aimed at building a solid, sustainable and profitable business that both satisfies our consumers and generates value for our shareholders. We are increasing our competitiveness by continuously improving productivity and renewing our brand portfolio, and by taking structural measures.

The strategy is comprised of four cornerstones, the most fundamental being organic growth. Other cornerstones include acquisitions, productivity, and financial strategy, which are commented on separately below.

Organic growth

Organic growth within the tobacco industry is modest. Our decision to position Swedish Match in the smokeless product area, spearheaded by snuff, along with cigars, makes us well positioned in the tobacco category's leading growth segments.

Over the past five years, sales of snuff have increased from 2,071 MSEK to 3,131 MSEK, with significant improvements in both operating income and operating margin. Cigar sales have grown from 2,690 MSEK to 3,283 MSEK, and operating income has risen from 347 MSEK to 613 MSEK, with a notable improvement in operating margin.

Part of the explanation for this growth lies in the Company's active product development efforts. Over the past few years Swedish Match has been active in terms of new product launches and relaunches, new flavors and formats, and brand extension. The key has been the rapid adaptation to customer trends, market positioning, with the right mix of products and prices.

Snuff is our flagship product area. It is a product where growth is supported by social trends. Snuff has an important role to play in the effort to reduce the health impacts of smoking. This is clear from the experience in Sweden, which currently is unique in having a low percentage of smokers, (just 15 percent of the adult male population) and a lower incidence of tobacco-related illnesses than any other comparable country.

The significance of snuff is clear and "the Swedish Experience" is being studied and debated in many countries. Every society is striving to reduce the damaging impact of smoking, and snuff, with documented significantly lower health risks, can be an attractive alternative for many cigarette consumers. We have observed and continue to see this today in Sweden as well as in Norway.

Cigars are also a focus area for organic growth. We have been able to develop this product category – which most people associate with enjoyment on special occasions – through a number of acquisitions around the year 2000, which have made us the second largest cigar producer in the world. Swedish Match has also worked in this product category to launch new products and adapt to consumer preferences, within both the hand-rolled cigar segment and the machine-made segment. Our strong earnings last year demonstrate our competitiveness. Over the long term, potential exists in areas where there is an improved standard of living, especially in the rapidly growing economies in Asia and Eastern Europe, where we are now increasing our sales efforts.

Acquisition: General Cigar now wholly owned

The second strategic cornerstone regards acquisitions. During 2005, we acquired the remaining 36 percent of the shares in General Cigar for 155 MUSD, thus completing the integration of the market-leading company in the world's largest premium cigar market, the US. The acquisition will, over the next two years, result in additional synergies in the form of cost savings estimated to be on the order of 10 MUSD, when the full effect is expected to be realized in 2007. As part of the integration process, an office property in Manhattan in New York was sold for 70 MUSD.

Within the tobacco industry, and especially for niche tobacco products, acquisition opportunities are currently limited. We are actively working to evaluate possibilities in this area. We have the experience, the capacity and the financial resources to pursue acquisitions, and we intend to do so once the right acquisition opportunity becomes available.

After the close of the fiscal year, an agreement was concluded to acquire the Hajenius and Oud Kampen brands in the premium cigar segment, as well as the associated production machinery. Hajenius and Oud Kampen are sold mainly in the Netherlands, Belgium and Germany, with the substantial portion of sales in the Dutch market.

Productivity improvements

The third strategic cornerstone is the ongoing improvement efforts aimed at achieving a competitive production and organizational structure in order to best meet market demands. Over the past two years we have made major efforts in our operations in both North Europe and Continental Europe, which have involved shifting production, reducing personnel, streamlining administration and improving marketing focus.

Significant structural and cost-cutting efforts have also been carried out in our match operations. They include plant closures, with two plant shutdowns in Europe announced during the year. Our 40 percent share in the Indonesian match company Jamafac was divested during the year. Swedish Match has also sold its interest in the Indian match company Wimco. Arenco, which has for many years produced match manufacturing equipment, was also divested at year-end. A letter of intent regarding the sale of operations for advertising products was also signed at the end of the year.

Additional efficiency measures were made regarding the management structure, including a streamlining in senior management and a reduction from four operating divisions to three. Among other benefits, these measures eliminated the last remnants of the old matrix organization.

The effects of the measures began yielding results during the second half of 2005, with a significant improvement in the Group's operating income and operating margin.

Financial strategy creates value

The fourth cornerstone is the financial strategy. We do not work with more capital than necessary, with an aim to continuously optimize the balance sheet, while maintaining financial flexibility and stability.

Swedish Match's operations are characterized by very strong cash flow and relatively limited need for investments in increased capacity. Substantial investments have been made during the past few years within both the snuff and cigar manufacturing areas, including a new plant for portion-packed snuff production in Sweden and a major expansion of the cigar plant in Indonesia.

As a result, the Group anticipates that it will continue to generate considerable free cash flow in the future.

Under the revised Swedish Companies Act that came into effect in January 2006, Swedish Match will have the possibility to continue to transfer significant amounts of cash to shareholders through share buybacks. At the 2005 annual general meeting, the announced capacity available for buybacks up to the 2006 annual general meeting was 2.3 billion SEK.

High-quality corporate governance

We continuously strive to maintain high-quality corporate governance. Swedish Match has a well functioning system for governance and control, as well as transparency in its reporting to shareholders and the markets. As a result of our previous American listing, we are required to comply with the corporate governance requirements stipulated in the Sarbanes-Oxley Act in the US. The resulting work involved considerable resources and expenses during the year.

The future

Looking to the future, I see that our focus on productivity improvements and product development over the past two years has provided a good foundation for profitable growth, with the focus on organic growth for snuff and cigars.

We have an organization composed of loyal, competent employees throughout the world. This allows me to look with confidence towards the future. I am convinced that we can continue to increase shareholder value during the coming year through an ongoing focus on the four cornerstones of our strategy – organic growth, complementary acquisitions, productivity improvements and optimization of the balance sheet.

Stockholm, February 2006

Sven Hindrikes
President and CEO

Snuff growing at the expense of smoking with increased support from research findings

Market and industry conditions for Swedish Match today are characterized by an international trend of reduced consumption of cigarettes in the Western World. The health risks associated with cigarette smoking have led to wide-ranging social measures to reduce cigarette consumption, making smokeless alternatives appear increasingly attractive.

Persuading people to quit smoking is a priority in many countries' efforts to improve public health. Moving toward this goal involves approaches such as restrictions on the marketing of tobacco products and on smoking in public places, and increasingly heavy taxation of smoking products.

There are clear changes in consumption patterns: cigarette consumption is declining by about 1.4 percent annually in the Western World, while demand for products such as chewing tobacco and pipe tobacco is decreasing even more rapidly. Cigar consumption is more or less stable, with slight growth, reflecting the special status of cigars as an exclusive indulgence.

Among the few tobacco products showing an increase is moist snuff and snus, which is acquiring an increasingly clear profile as a viable alternative to cigarette smoking. Many years of experience in Sweden suggest that Swedish snus could contribute to a successful drive to reduce cigarette smoking.

Only 12 percent smoke

New statistics published during 2005 by a number of statistical bodies in Europe, as well as the World Health Organization, show that Sweden has made the most progress in terms of persuading people to give up smoking. By 1997, Sweden had already become the first country to achieve the WHO's goal of fewer than 20 percent of the adult population smoking. Today, only 15 percent of adult Swedish men smoke, and only 17.5 percent of women. The figures are even lower in Stockholm: 12 percent of men and 13 percent of women. A study known as the MONICA study in northern Sweden has shown that only 3 percent of men in the age range from 24–34 smoke daily.

The paradox is that tobacco consumption in kilograms in Sweden is approximately the same as in other comparable countries in Europe. But what makes Swedish consumption unique is the consumption of snus which is used on a daily basis by one million consumers, compared with 500,000 who smoke daily.

This paradox has come to be known as "the Swedish Experience" in the international tobacco debate. Further light is shed on the phenomenon by statistics showing that Swedish men have the lowest frequency of tobacco-related illnesses. Sweden has, for example, the lowest number of new cases of lung cancer per inhabitant of all industrialized countries.

The Swedish experience has become an important contribution in the international health debate on what strategies are effective for reducing smoking and thereby improving public health. The dominant strategy to date has been to attempt to remove all tobacco products from the market, primarily through information and measures aimed at dissuading young people from starting to smoke. These strategies contain few measures aimed at supporting smoking cessation by adults.

However, antismoking campaigns have failed to achieve the hoped-for effects, and there are still more than a billion smokers in the world. As a result, a growing number of researchers from different countries have begun to question conventional public-health strategies and ask whether it might not be more effective to complement other efforts with a focus on Harm Reduction, – reducing the risk of harm for the large group of people who are already smokers. Harm Reduction strategies are already applied today in other areas, such as the food industry and the automotive industry.

Snus works

An increasing number of researchers are pointing to the experience in Sweden, where it is increasingly clear that snus functions as a smoking-cessation method. Among Swedish men who have quit smoking, snus is the aid most commonly cited compared with other alternatives, while very few snus users switch to smoking.

Dr. Karl Fagerström, Dr. Lars Ramström of the Institute for Tobacco Studies in Stockholm, Martin Jarvis, Professor of Health Psychology in the Cancer Research UK Health

Behaviour Unit at University College, London, and Michael Kunze, Professor of Public Health in the Institute of Social Medicine, University of Vienna, together with Clive Bates, then Chairman of Action on Smoking and Health in London, summarized their views in a statement published in February 2003 about the EU and a policy for smokeless tobacco. They highlighted the need for a clear goal for antismoking efforts. "The entire aim cannot be simply to pursue the campaign against tobacco. Instead, it must be to reduce the burden of ill health and mortality, primarily due to cancer, cardiovascular and lung diseases, that results from tobacco use." The authors also state that "snus is a considerably less hazardous way of consuming tobacco than smoking cigarettes," and that "smokeless tobacco cannot be linked to illnesses such as lung cancer." This leads them to the conclusion that since snus greatly reduces the health risks compared with cigarette smoking, the representatives of public health institutions have a moral obligation to research this strategy.

At the beginning of 2005, the Swedish National Board of Health and Welfare published its Public Health Report, which is a broad survey of research into the health status of the Swedish population and is commissioned by the government to provide a basis for health policy.

The report refers to the fact that smoking has been declining in Sweden since the 1970s, while snus consumption has been rising steadily. The question posed in the report is whether the increased use of snus could lead to similar health risks to those from smoking. While it is true that the report notes that "the long-term health effects of snus are incompletely researched," the authors also point out that a number of epidemiological studies have been performed that do not indicate any increased risk of cardiovascular disease or cancer of the oral cavity and stomach.

"Moreover, a preliminary analysis conducted at the Centre for Epidemiology (EpC) was unable to show any increased risk of cardiovascular diseases resulting from snus consumption, while smoking clearly showed a substantially increased risk level," concludes the report.

The authors of the report summarize their findings by saying that all available data indicates that the net effects of changed tobacco habits in Sweden are positive from a public-health viewpoint, since it is well-documented that smoking is far more hazardous than using snus.

However, the established public-health strategy is still to combat all tobacco products and all tobacco companies, without distinguishing one tobacco category from another, despite the clear evidence that it is the smoke rather than the tobacco that leads to health risks. In December 2005, to support this strategy, the Swedish National Institute of Public Health presented a report by a group of researchers at the Karolinska Institute which concluded that using snus increases the risk of cancer and death from cardiovascular disease. The report was greeted with scathing criticism from other researchers, who described it as unscientific scaremongering.

Health risks reduced

A significant contribution to the debate during recent years was an evaluation by an international panel that examined products with a low nitrosamine content, such as Swedish snus, and compared the health risks from these products with the risks from smoking. The panel was financed by the National Cancer Institute in the US and led by David T. Levy, a professor at the Pacific Institute of Research and Evaluation in Calverton, Maryland, in the US. In its final summation, the panel members concluded that, compared with smoking, the relative health risks were reduced by at least 90 percent when snus with a low nitrosamine content was used.

This growing body of scientific opinion is creating a constantly improving basis for providing information to consumers, particularly smokers, about the risks from different products. Viewed in this perspective, the EU's ban on snus is a major obstacle, since it sanctions a form of monopoly for the most dangerous of tobacco products – cigarettes – and restricts the opportunities for consumers to choose less hazardous tobacco products. One group of researchers now takes the view that the debate should focus on "the right of smokers to be able to choose Harm Reduction, as against the health establishment's insistence that the only right choice for smokers is to stop smoking or die as a cigarette addict."

Or as Dr. Brad Rodu of the Oral Pathology Department at the University of Alabama stated in a quote in the Birmingham News: "I believe the Swedes have shown that if safer products are available, smokers can switch to them. It is not nicotine that kills. It is smoking."

The share

The Swedish Match share is listed on the OMX Stockholmsbörsen. Total share capital amounts to 389.5 MSEK, distributed among 324.6 million shares with a par value of 1.20 SEK each. Each share carries one vote. A round lot was 200 shares during 2005.

Turnover

Total turnover in 2005 amounted to approximately 555 million Swedish Match shares on the OMX Stockholmsbörsen, with a daily average turnover of approximately 2.2 million shares. The turnover rate, or the liquidity of the share on the OMX Stockholmsbörsen, was 163 percent during the year, compared with the average of 124 percent for the OMX Stockholmsbörsen.

Price trend

The company's market capitalization at year-end 2005 amounted to 30.3 billion SEK. The share price increased by 21.4 percent during the year, while the SIX General Index rose 31.6 percent. The lowest price paid during the year was 76.25 SEK on January 5, and the highest price paid was 98.75 SEK on August 5.

Ownership structure

At year-end, foreign ownership interests corresponded to 80.5 percent of total share capital, an increase of 4.5 percentage points compared with 2004. Swedish ownership interests, totaling 19.5 percent, were distributed among institutions, with 4.7 percent of the share capital, mutual funds, with 5.3 percent, and private individuals, with 9.5 percent. The 10 largest shareholders accounted for 20.7 percent of the share capital, excluding the shares held by Swedish Match, which corresponded to 5.8 percent of the total number of shares.

Dividend

The Swedish Match policy is that dividends shall mainly follow the trend of consolidated net income. When determining the dividend, due consideration is also given to the size of the planned share buybacks. The dividend portion should be in the 30–50-percent range of net income. The Board of Directors intends to propose to the Annual General Meeting a dividend for 2005 of 2.10 SEK (1.90) per share, for a total of 642 MSEK (612), based on the number of shares outstanding at year-end. The dividend corresponds to 36 percent (30) of net income for the year.

Repurchase of shares

A repurchase of shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure in the balance sheet. Against the background of Swedish Match's stable and strong cash flow, the Board takes a favorable view of share buybacks. The size and scope of the share buybacks, exactly as with the dividend, depend on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments and expansion plans. Other factors that influence buybacks are the share price, the Group's interest and tax expenses and the earnings available for distribution.

Largest shareholders at December 31, 2005 [1, 2]

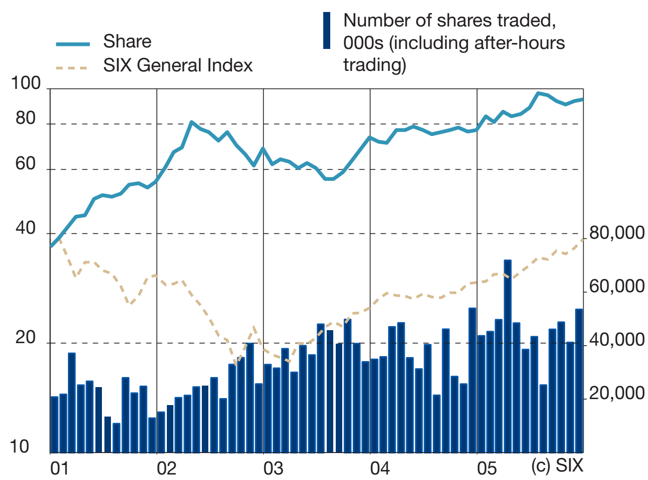
Owner	No. of shares	% of share capital
Wellington Management Co LLP	30,976,932	10.1
SHB/SPP funds	7,612,908	2.5
Robur funds	4,787,985	1.6
Pensioenfonds PGGM	3,390,423	1.1
First AP Fund	3,377,137	1.1
Third AP Fund	3,210,959	1.0
GMO International Funds	2,876,542	0.9
SEB funds	2,474,280	0.8
Threadneedle Investments	2,252,518	0.7
Govt of Singapore Inv Corp	2,213,656	0.7
Total of 10 largest shareholders	**63,173,340**	**20.7**
Others	242,727,941	79.3
Total	**305,901,281**	**100.0**

1 Certain shareholders may, through custodial accounts, have a larger holding than is apparent from the shareholders' register.

2 Registered direct ownership and ownership through trustees. In addition, the company owns 18,694,900 shares acquired through buybacks.

Source: SIS Ägarservice AB

Share performance



Transfers of capital to Swedish Match shareholders

	2001	2002	2003	2004	2005	Total
Dividends	508	535	558	612	642*	2,855
Buybacks and sale of own shares, net	1,169	552	904	576	1,411	4,612
Total	**1,677**	**1,087**	**1,462**	**1,188**	**2,053**	**7,467**

* Proposed dividend for fiscal year 2005.

Share distribution at December 31, 2005

Size of holding	No. of owners	%	No. of shares	% of capital
1 – 1,000	81,664	93.0	14,324,529	4.7
1,001 – 5,000	5,064	5.8	10,199,296	3.3
5,001 – 20,000	630	0.7	5,915,533	1.9
20,001 – 50,000	148	0.2	4,615,662	1.5
50,001 – 100,000	86	0.1	6,599,470	2.2
100,001 – 1,000,000	202	0.2	63,383,282	20.7
1,000,001 –	46	< 0.1	200,863,509	65.7
Total*	**87,840**	**100.0**	**305,901,281**	**100.0**

* Excluding shares held by Swedish Match.

Source: SIS Ägarservice AB, and VPC.

Share data*

	2001	2002	2003	2004	2005
Earnings per share, basic, SEK					
Excluding major one-time items	3.40	4.10	4.68	4.21	5.32
Including major one-time items	3.40	4.10	4.68	6.18	5.61
Earnings per share, diluted, SEK					
Excluding major one-time items	3.38	4.07	4.66	4.19	5.30
Including major one-time items	3.38	4.07	4.66	6.15	5.59
Dividend, SEK	1.45	1.60	1.70	1.90	2.10**
Market price at year-end, SEK	55.50	68.50	73.50	77.00	93.50
Equity, SEK	11.73	11.72	12.21	14.24	16.60
P/E ratio after tax	16.4	16.8	15.7	12.5	16.7
EBIT multiple	11.2	11.3	12.3	11.1	11.2
Share price/Equity	4.7	5.8	6.0	5.4	5.6
Direct return, %	2.6	2.3	2.3	2.5	2.2
Total return, %	55.6	25.5	10.1	7.0	24.2
Average number of shares, basic	361,506,184	348,295,163	332,679,210	325,708,645	315,128,554
Average number of shares, diluted	363 ,016,335	350,894,438	334,162,492	327,013,542	316,226,392
Number of shareholders	101,200	100,260	98,425	94,860	87,840

* Where appropriate, adjusted for bonus issue element at redemption. Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable.

** Board proposal.

Development and care of brands

A number of Swedish Match's brands represent many decades of significant investments in research and development, quality improvements, packaging, distribution, marketing and sales. Developing, maintaining and launching brands that consumers appreciate and purchase, is one of Swedish Match's core competencies.

The Swedish Match Group's products are some of the most familiar in the international retail sector. Tobacco products, matches and lighters are found in most retail outlets, from large shopping centers to small corner stores, in most countries around the world. As a result of Swedish Match's early international history, the Group's brands are now exposed daily to millions of consumers.

Brand loyalty in the tobacco retail sector is strong, and this strength enables Swedish Match to benefit from its investments over a long period of time.

An additional strength for Swedish Match is that its brand portfolio consists of such an extensive range of brands that have been familiar for generations. To cite three examples: the Three Stars match brand is 120 years old, the Red Man chewing tobacco brand more than 100 years old, and the Swedish snus brand Ljunglöfs Ettan 184 years old.

The development and care of brands takes place in close contact with customers and consumers. Distribution and sales are adapted to national and local conditions, and vary depending on legislation, traditions and consumer behavior.

The Swedish snus brand Ljunglöfs Ettan was created in 1822.

The Three Stars match brand was launched in the 1880s.

TRADITION AND INNOVATION

1

From the classic loose snus dating back to the early 1800s…

2

to the first portion-packed snus, which made its debut in 1977…

3

and onward to the discreet products of the 21st century, with new flavors and practical packaging.

General Onyx, a new and unique premium snus within the General family.

Snus

General Onyx

At the end of 2005, Swedish Match launched General Onyx, a new and unique premium snus within the General family. The launch was the result of a new trend toward “mass exclusivity” – a development that brings sophisticated premium products within the reach of a broad public. New, more luxurious products are now being created in many product categories that previously did not include distinctive premium products.

General Onyx is exclusive in every respect. A new tobacco blend gives it a strengthened version of the General flavor. The pouches, which are black and form a spiral pattern in the can, also have a new form so that the pouch sits more comfortably in the mouth. The can is black, with both shiny and matt surfaces and a metallized lid that gives a sober impression.

General is Sweden’s best selling snus brand, with nearly 40 percent of the total market. Some 400,000 consumers use General, which is one of Sweden’s oldest snus brands, dating back to the nineteenth century.

Röda Lacket

With the relaunch of Röda Lacket, Swedish Match has breathed new life into a classic brand with long traditions.

Although the record is incomplete, it is believed that Röda Lacket was first launched around 1850 by snus manufacturer Petter Swartz, owner of Norrköpings Snusfabrik. Since then, it has been sold loose by weight throughout Sweden.

As the years passed the brand came to be perceived as slightly old-fashioned by consumers and remained a small but stable brand for a considerable time, but a few years ago consumer awareness of the brand revived and Swedish Match saw a chance to revitalize it. Swedish Match conducted a trial of Röda Lacket in a modern version – as a portion-packed snus – in some of Stockholm’s restaurants. The trial was a success, paving the way for a larger-scale relaunch of Röda Lacket in Stockholm, and subsequently throughout Sweden, during summer 2005, now with a new design on the can.

The flavor of Röda Lacket has hints of dried fruits, such as raisins and apricots, as well as licorice. Röda Lacket was also launched in Norway as both a loose and portion-packed snus.

General is Sweden’s best selling snus brand, with nearly 40 percent of the total market.

Chewing tobacco

Silver Blend – new member of the Red Man family

The Red Man brand, created in 1904, became the leading chewing tobacco brand in the US during the twentieth century, and remains so today. The brand became nationwide in 1963, with sales in 42 of the 50 states in the US.

Swedish Match is the category leader with Red Man in the US retail sector. The company’s lead is maintained and developed through the launch of new products and sales and marketing strategies designed to secure its position as the leading company in this tobacco segment. During 2005, a new member of the Red Man family – Silver Blend – was launched.

Röda Lacket was first launched around 1850.

Machine made cigars

Borkum Riff – now available as a cigarillo

Borkum Riff is a globally established pipe tobacco brand. The name Borkum Riff comes from the lighthouse of the same name in the Helgoland Bay off the coast of Holland in the North Sea. The brand is associated with the sea, whose powerful and contemplative nature is a metaphor for describing what it can be like to smoke a pipe.

During 2005, the ongoing work of developing the brand led to a brand stretch, whereby the brand embraced another type of product – in this case, a cigarillo.

The new cigarillo is available in coconut, melon and peach flavors, and thus follows the international trend toward flavored cigars and cigarillos. To emphasize the exclusivity of the Borkum Riff cigarillo, it features a wooden mouthpiece. Sales of the new cigarillo began in selected Asian markets during autumn 2005.

The new Borkum Riff cigarillo is available in coconut, melon and peach flavors, and thus follows the international trend toward flavored cigars and cigarillos.

Premium cigars

Bolivar – the connoisseur's cigar

The Bolivar cigar pays homage to Simon Bolivar, born in Caracas, Venezuela, on July 24, 1783. Simon Bolivar is celebrated as a heroic liberator in Latin America. His victories over the Spanish colonists at the beginning of the nineteenth century brought independence to the nations that we now know as Venezuela, Colombia, Panama, Ecuador, Peru and Bolivia.

The Bolivar brand was launched in 1901, 70 years after Simon Bolivar's death, by the Rocha company in Havana, Cuba. During the early 1950s, Bolivar became one of the most sought-after cigars. The masterly skill and artistry of renowned cigar maker Ramón Cifuentes lie behind the cigar's sales successes. Cifuentes is also the master behind the well-known Partagas brand. Today, Bolivar cigars are manufactured by Swedish Match in the Dominican Republic.

This connoisseur's cigar, which is only sold in the US, has a full-bodied character with a pronounced flavor from the Jember filler and the Connecticut Shade wrapper from the state of Connecticut in the US.

During 2005, Swedish Match actively pursued its **line extension** strategy by introducing new flavors, packages and product variants.

Matches

Redheads – a cultural icon in Australia
The British company Bryant & May began producing the Redheads brand of matches for the Australian market in 1909. Production began in Richmond, in the state of Victoria.

The name Redheads derives from the red-tipped safety matches. The famous logotype was created in 1946 and soon began to live a life of its own, developing into a cultural icon over the years. It acquired the nickname "Miss Redheads" and enjoys wide recognition among the majority of Australians. The brand is often referred to as a part of Australian folklore.

The packaging design has undergone four major updates since 1946 and in parallel with this evolution, hundreds of variants have been created for collectors' series and anniversaries.

In the late 1980s, the Bryant & May match company in Australia was acquired by Swedish Match, which continues to nurture and develop its Redheads brand. Each year, Redheads sponsors competitions in which hundreds of caricatures and other depictions of Miss Redheads compete with each other. The winning entries are then printed on matchboxes that are issued as collectors' series. The brand was relaunched in 2004 in conjunction with the introduction of a number of new lighter products.

As a cultural icon, "Miss Redheads" enjoys wide recognition among Australians.

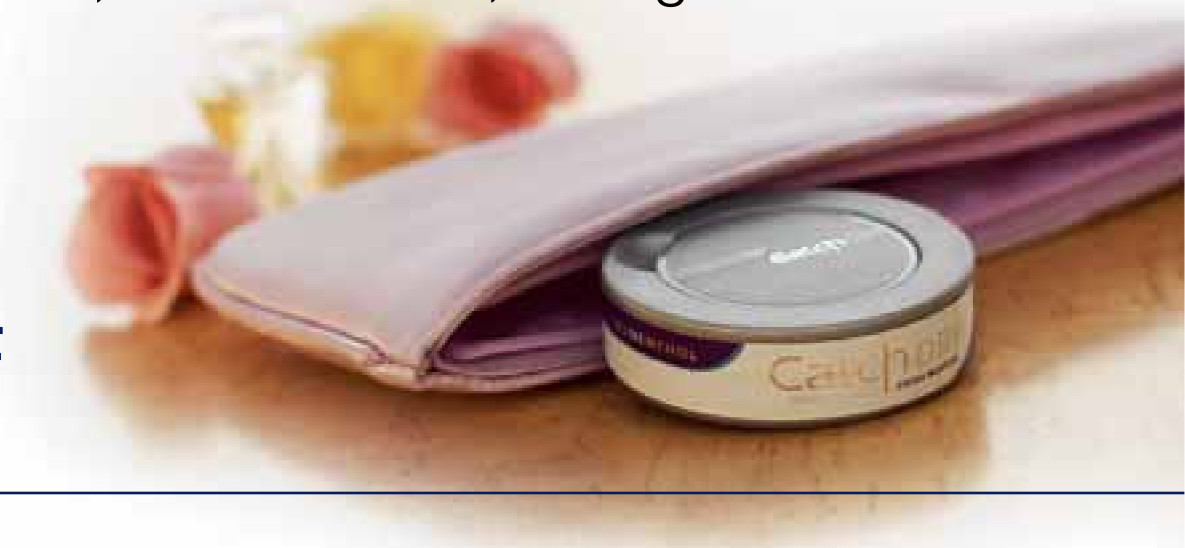
Solstickan – not just matches
The Solstickan brand hardly needs a detailed presentation in Sweden. It is one of the country's best-known brands and the Solstickan Boy is one of its most easily recognized pictorial symbols.

The Solstickan Foundation was established in 1936 to collect money "for the benefit of children and the elderly." The strategy was to collect money through the sale of matches, an inexpensive and necessary everyday commodity. Artist Einar Nerman was commissioned to design the matchbox cover, and he created the Solsticke Boy, using his son Tom as the model.

A portion of revenues from Solstickan products still goes to the Solstickan Foundation, which provides help for children and the elderly.

The Solstickan brand is one of Sweden's best-known brands and the Solstickan Boy one of its most easily recognized pictorial symbols.

New products, more variants, strong brands



Snuff

The recruitment of new consumers in recent years has not only meant increased volumes for snuff producers but has also increased the need for product renewal and innovation. Swedish Match has met these demands by launching a number of new products in Northern Europe and the US. During 2005, several new flavors and variants of Catch and Göteborgs Rapé were launched in the Nordic region. Other launches were those of General Onyx, a new member of the General family, and Kardus, a new snus in the luxury segment. Earlier in the year, the 150-year-old Röda Lacket brand was relaunched. In the US, several new flavor variants of Timber Wolf and Longhorn were launched.

Sales and earnings in 2005

Sales during the year rose 2 percent to 3,131 MSEK (3,081). Sales volumes increased by 1 percent in Scandinavia. In Sweden, volumes declined by 1 percent, while volumes in Norway, as well as tax-free sales, increased.

In the US, volumes increased by 5 percent compared with the preceding year, measured in number of cans sold. Sales of low-price brand Longhorn were considerably higher than in 2004, while sales volumes for Timber Wolf were lower. Toward the end of 2004, the Timber Wolf brand was repositioned in a lower price segment.

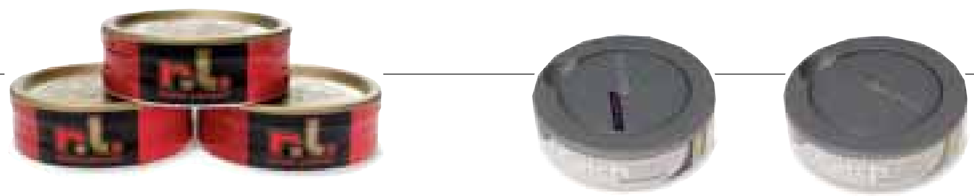
Operating income for the year rose 9 percent to 1,504 MSEK (1,376). In the Scandinavian market, operating income increased as a result of higher volumes, better average prices and lower costs due to the reorganization measures taken. Sales declined in the US as a result of the repositioning of Timber Wolf at a lower price and the higher proportion of sales attributable to low-price brand Longhorn. The operating margin in the US improved slightly. The combined operating margin for snus for the year amounted to 48.0 percent (44.7).

Market

Northern Europe and the US are the world's largest markets for moist snuff. In Sweden and Norway, there are more than a million consumers – both men and women – who regularly use snus. Consumption in Northern Europe totals approximately 240 million cans of snus per year. Consumption in the US is currently estimated at about 1 billion cans per year.

Many of today's snus consumers in Sweden are former cigarette smokers, and many consumers in the US are also choosing to switch to snuff after previously using chewing tobacco or other types of tobacco products, because they can see the advantages of snuff compared with other forms of tobacco.

As restrictions on cigarette smoking intensify, and smoking is increasingly perceived as negative in a social context, moist snuff has become a more popular alternative. The transition from cigarette smoking is also strengthened by the fact that research and medical science continue to observe and report on the differences in effects on health between smoking and snus consumption. "The Swedish Experience" is often cited in an international context as a strong argument for increased use of snus instead of cigarettes. This phenomenon helps to account for the fact that although Swedes consume as much tobacco as the inhabitants of



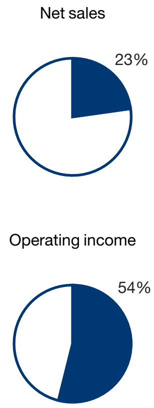
Key data, MSEK*	2005	2004	2003
Net sales	3,131	3,081	2,995
Operating income	1,504	1,376	1,386
Operating margin, %	48	45	46
Investments in tangible assets	157	242	219
Average operating capital	1,166	1,079	1,180
Average number of employees	916	924	908

* Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable. See also Note 32 on page 63.

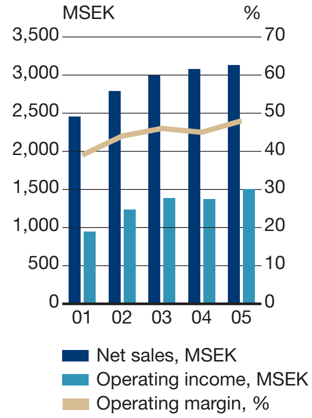
Production units
Sweden, South Africa and USA.

Main brands
General, Ettan, Catch, Grovsnus, Göteborgs Rapé, Timber Wolf, Longhorn and Taxi.

Share of Group



Net sales and operating income



other countries, the frequency of tobacco-related illnesses is considerably lower in Sweden. The explanation is Swedish snus, which has been shown by many studies to involve lower health risks compared with cigarettes.

Northern Europe

Sweden is the dominant market in the Nordic region, and snus sales in the region during 2005 totaled some 200 million cans, corresponding to a value of approximately 5 billion SEK at the retail level. During the past few years, sales of portion-packed snus have increased sharply and now account for more than 58 percent of sales. Swedish Match estimates that one in five snus consumers is a woman. Although the number of women beginning to use snus is increasing, the Swedish snus market is relatively stable, with growth estimated by Swedish Match to be about 0.7 percent during 2005. Swedish Match is by far the largest player, with a volume share of slightly more than 92 percent at the end of 2005, according to AC Nielsen. Other players in the Swedish market include Gallaher, Imperial Tobacco, Skandinavisk Tobakskompagni (STK) and British American Tobacco (BAT). Of these companies, Gallaher and STK were the largest competitors, with a combined market share, by volume, of about 6 percent at the end of the year.

Norway is the second largest market in Europe, with sales during 2005 amounting to nearly 20 million cans of snus. Consumption is increasing rapidly, and the number of cans sold rose by more than 15 percent during 2005. According to AC Nielsen's estimates, Swedish Match accounted for around 91.5 percent of domestic sales at year-end. Other players active in Norway include STK and Imperial Tobacco.

The most important sales channels for snus are supermarkets and convenience stores, but snus is also sold in tobacconists' stores, bars, restaurants and gasoline stations, as well as onboard ferries. The sales price in the Swedish market is set by the retailers, with the result that prices can vary widely. Snus is stored in and sold from coolers in the stores to preserve its freshness and quality. Swedish Match's snus is marked with a best-before date.

The largest brands are General, Ettan, Grovsnus, Göteborgs Rapé and Catch. General Onyx, a unique premium snus in the General family, was launched during autumn 2005. Earlier in the year, the 150-year-old Röda Lacket brand was relaunched. Swedish Match has plants for producing snus in Gothenburg and Kungälv.

North America

The US is the world's largest moist snuff market, with consumption in 2005 estimated at 1 billion cans. During the past few years, the American moist snuff market has grown by about 6 percent annually. The production processes for American moist snuff and Swedish snus differ in that the former is fermented and the latter pasteurized. The manner in which the product is consumed also differs, with American consumers inserting the snuff under the lower lip. Portion-packed snuff accounts for 6 percent of the moist snuff sold in the

Snuff

US, according to AC Nielsen. This segment is growing more rapidly than the product group as a whole.

The American snuff market offers a growing range of products in a broad price spectrum. Retail prices vary considerably, with many products selling for less than half the price of premium products at the retail level. Swedish Match is mainly active in the lower price segments. During 2005, Swedish Match's market share by volume was 9.4 percent (average during the year), according to AC Nielsen – up from 8.9 percent in 2004. The increase during 2005 is attributable to the nationwide launch of Longhorn, which covered 2.6 percent of the market at the end of 2005. The Timber Wolf brand regained a portion of the market during 2005 after a period of declining market shares during 2004. At the end of 2005, the brand's market share was 7.1 percent (AC Nielsen). During 2005, Timber Wolf was launched in the flavor variant Apple Long Cut, and Longhorn in the flavor variant Mint.

The total market for moist snuff in the US grew by 6 percent during 2005, and the low-price segment by 29.3 percent in terms of the number of cans sold, according to AC Nielsen. The low-price segment accounts for approximately 34.9 percent of the US market. Apart from Swedish Match, the largest players in the market are UST (with a market share by volume of 66.1 percent), Conwood (22.8 percent), and Swisher.

Moist snuff is sold throughout the US, with particularly strong sales in the South and Midwest, primarily in rural regions. The main distribution channels are special low-price tobacco stores, supermarkets, convenience stores and gasoline stations. Swedish Match produces snuff for the US market in Owensboro, Kentucky.

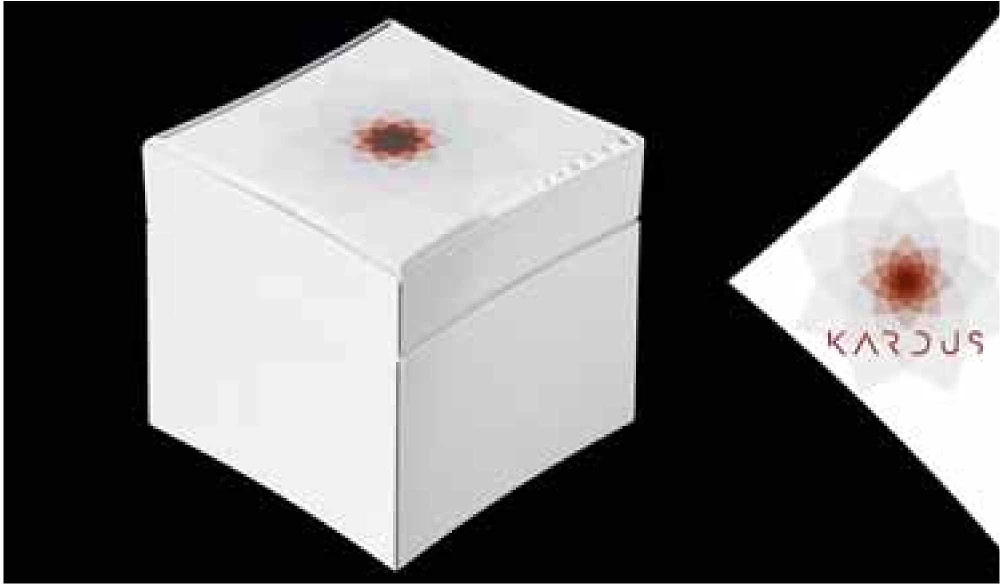
Other markets for snus and moist snuff

Sales of snus and moist snuff are limited outside the US and the Nordic region. Swedish Match is continuing to build on its sales of the General, Ettan and Catch brands in Moscow and Saint Petersburg in Russia. The products are sold via gasoline stations, supermarkets and tobacco stores. In North America, Swedish Match sells Swedish snus in a limited number of cities and via the Internet.

Sales of moist snuff were banned within the European Union in 1992. The ban was legally challenged in two cases that were tried in the European Court of Justice during 2004. In December 2004, the court decided that the ban is not unlawful. Sweden was granted an exemption from the sales ban for the Swedish market when it became an EU member in 1995.

Nasal snuff

In addition to its moist snuff products, Swedish Match sells nasal snuff in both Europe and South Africa. Swedish Match is the second largest player in the South African market with the locally produced Taxi brand, sold



Kardus Superior Blend is a snus for the connoisseur. It is made from a unique blend of tobaccos from the 2004 harvests in Spain, Hungary, Vietnam and India. The snus has no flavorings added to the tobacco, giving it a mild, smoky character with hints of spices, figs and plums. Kardus was launched in Sweden toward the end of 2005 via a small number of selected tobacconists and exclusive restaurants.

mainly via convenience stores, low-price snuff outlets, small stores and kiosks. In Europe, Swedish Match markets nasal snuff under the Singleton's, Kensington and Rumney's brands, mainly in the Alpine region.

Outlook

Snus and snuff producers face tougher challenges as a result of the increasing competition during the past few years and the broader market offering. With its extensive product range and long experience of product development and brand care, Swedish Match is well positioned to meet existing and future demand. At the same time as focusing on existing markets, the Group continues to explore the potential for geographical expansion.

Improved profitability and strong focus on brands

Cigars

Cigar operations in 2005 were characterized by a number of important events. Swedish Match acquired all outstanding shares in General Cigar Holdings Inc. in the US and subsequently integrated the operations in Swedish Match's North America Division. In Europe, desired effects were achieved from efforts to rationalize production and administration, broaden the product range and generate increased customer satisfaction. The result was improved profitability and a stronger and renewed focus on brands and new products.

Sales and earnings in 2005

Sales for the year rose by 4 percent to 3,283 MSEK (3,171). In local currency, sales increased by 2 percent. Operating income for the year rose by 8 percent to 613 MSEK (567). The operating margin amounted to 18.7 percent (17.9). Excluding costs of 75 MSEK relating to the integration of General Cigar during 2005 and 36 MSEK relating to restructuring measures in Europe during 2004, operating income increased by 14 percent and the operating margin improved to 21.0 percent (19.0). Lower costs as a result of earlier restructuring measures were the main reason for the increase in underlying operating income.

Market

Swedish Match estimates the global market at about 15 billion cigars, with an estimated value in the production chain of approximately 5 billion USD. North America and Western Europe are the two largest markets by far, accounting for more than 90 percent of global cigar sales, according to industry estimates. Southeast Asia accounts for less than 10 percent of global cigar sales, while Eastern Europe and Africa/the Middle East still account for only a very limited percentage of the global market.

Handmade cigars account for less than 3 percent of global volume. These premium cigars, which are produced mainly in Latin America and the Caribbean, account for more than 25 percent of the global market's total sales value, according to Swedish Match's estimates. Two of every three premium cigars are sold in the US, but Spain, France and the UK are also important markets. The dominant share of global volume consists of machine made cigars. The market for machine made cigars in the US is estimated at more than 7 billion cigars, while the figure for the European market is around 6 billion, according to Swedish Match's estimates.

The most important business areas for Swedish Match are machine made cigars for the European market and premium as well as machine made

Key data, MSEK*	2005	2004	2003
Sales	3,283	3,171	3,008
Operating income	613	567	393
Operating margin, %	19	18	13
Investments in tangible assets	90	128	193
Average operating capital	4,596	4,441	5,330
Average number of employees	8,529	7,781	7,148

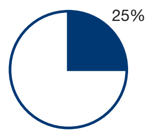
* Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable. See also Note 32 on page 63.

Production units
Belgium, Dominican Republic, Honduras, Indonesia and USA.

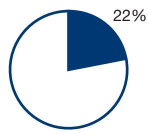
Main brands
La Paz, Willem II, Wings, Clubmaster, White Owl, Bellman, Garcia y Vega, Cohiba (USA), Macanudo and Partagas (USA).

Share of Group

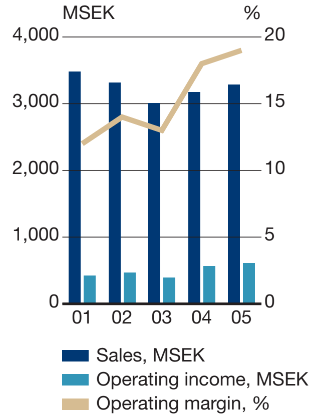
Net sales



Operating income



Sales and earnings



cigars for North America. Swedish Match, which is the world's second largest player in terms of sales, is the largest player in the American market for premium cigars, with well-established positions in the markets for machine made cigars both in Europe and the US. Some of the Group's best known brands are Macanudo, La Paz, Willem II and White Owl. The US accounts for about 63 percent of all Swedish Match's cigar sales.

Cigars are produced at Group plants in Houthalen (Belgium), Pandaan (Indonesia), Santiago (Dominican Republic), Danli and Confradia (Honduras) and Dothan, Alabama (USA). The Group also has tobacco plantations in the Dominican Republic and in Connecticut, in the US. Swedish Match owns 40 percent of Arnold André, a German company with production units in Bünde and Königslutter, in Germany.

North America

Premium cigars

Volumes in the North American market for premium cigars grew by an estimated 2 percent during 2005. Swedish Match is the market leader in the US, with a market share of about 30 percent, measured in number of cigars. Premium cigars account for approximately 37 percent of the Group's total cigar sales. The leading brand in the US is Swedish Match's Macanudo brand. This brand family includes a broad range of handmade Dominican cigars in different shapes and sizes, and with various characteristics. Other major cigar brands from Honduras and the Dominican Republic include Partagas, Punch, Hoyo de Monterrey, Cohiba, La Gloria Cubana, Don Tomas and Helix. A number of new cigar variants were introduced under these brands during 2005.

Machine made cigars

During the past decade, the American market for machine made cigars has grown continuously by 1–3 percent annually in terms of volume, corresponding largely with demographic trends. Flavored cigars have shown the strongest growth during recent years, but growth in this segment slowed somewhat during 2005.

Altadis, Swisher, Middleton and Swedish Match are all players in the American market. Swedish Match's market share by volume is nearly 7 percent, according to AC Nielsen. The American market is characterized by a continuous flow of new products launched under well-established brands. These products are readily available through gas stations and convenience stores, supermarkets and tobacco sales outlets, and include traditional machine made cigars as well as flavored cigars and cigarillos.

Cigars

Swedish Match produces machine made cigars in Dothan, Alabama, in the US, and in the Dominican Republic. Some of the best known Swedish Match brands are White Owl, which has shown significant growth during recent years through the introduction of flavored cigars, and Garcia y Vega.

Europe

The European cigar market was relatively stable in terms of volume during 2005. Market volumes in the Netherlands, France, Spain and Germany were stable or down marginally during 2005, according to estimates by Swedish Match.

Swedish Match's sales in the European market are dominated by machine made cigars. The European market for machine made cigars is highly fragmented, and Swedish Match has a strong position.

The Group's largest competitor is Altadis, and other major competitors include Winterman, Agio and Burger.

Swedish Match markets cigars throughout Europe, with its largest volumes in the Benelux region. Other key markets are France, the Nordic countries and Spain.

The market share in Belgium amounts to 11 percent, in the Netherlands 39 percent, in France 9 percent and in Spain slightly more than 3 percent.

Cigars are sold in Europe mainly through tobacconists, but also via supermarkets, gasoline stations, convenience stores and specialty sales stores. Some of the best known Swedish Match brands are Bellman, Hofnar, La Paz, Willem II, Justus van Maurik and Wings. The Group has achieved success with small and flavored cigars, including Salsa, La Paz Wilde Aroma and Willem II Primo Vanilla. Sales of machine made European cigars accounted for 28 percent of the Group's total cigar sales during 2005.

Other markets

Swedish Match has a small presence that is gaining greater significance in various markets outside the US and Europe. In Australia, Swedish Match is the leading player in the cigar market, with a market share of more than 45 percent. Willem II is the best-selling cigar brand in Australia. Swedish Match is developing new cigar variants adapted to local tastes and demands in Hong Kong, Malaysia and certain other parts of Asia. One example is Borkum Riff's new flavored cigarillos with wooden tips. Cigar volumes are small in Asia and Eastern Europe but, in view of increasing purchasing power

and new lifestyles, there is significant growth potential both for machine made cigars and premium cigars.

Outlook

The international market for cigars has been characterized during recent years by more frequent new product launches and new trends for premium and machine made cigars. The growing popularity of flavored cigars during recent years provides one example. It will be critical for cigar producers in the future to grow with emerging new trends and changes in market demand. Swedish Match aims to improve its market position through determined efforts to meet changes in demand supported by intensified marketing and product development.

Continued good profitability despite lower volumes

Chewing tobacco

Consumption of chewing tobacco continued to decline in the US during 2005. The decline during the past year amounted to more than 7 percent, according to AC Nielsen. The volume decline for Swedish Match's brands was somewhat less, and the Group increased its market share to 44 percent. As a result of reduced costs, more effective production and higher prices, operating income from chewing tobacco remained stable.

Sales and earnings

Sales for the year rose by 2 percent to 1,079 MSEK (1,058), and operating income increased by 14 percent to 347 MSEK (304). Higher average prices offset a decline in volumes, while lower costs and a stronger USD contributed to the improved operating income. The operating margin was 32.1 percent (28.7).

Market

The market for chewing tobacco is estimated by Swedish Match to be 500 MUSD at retail level. Consumption in the US has been declining for many years, and volumes during the past three years have declined by 5–8 percent annually. According to measurements made by AC Nielsen, consumption in 2005 declined by slightly more than 7 percent. Sales are concentrated to the southern US, primarily to rural areas, where the largest customer group consists of consumers with interests in outdoor activities. About 70 percent of sales are attributable to the premium segment, with remaining sales in the low-price segment.

Swedish Match is the largest producer and distributor of chewing tobacco in the US, with a market share of slightly more than 44 percent, according to AC Nielsen. The company's largest brands are Red Man, Southern Pride and Granger Select. The Red Man brand family includes several variants with different flavors, the latest of which is Red Man Silver Blend, a sugar-free product.

Other players in the market include Conwood, National and Swisher. Against a background of declining consumption, all players are working actively to continuously reduce their costs and adjust pricing in order to maintain profitability.

Chewing tobacco is sold in the same stores as other tobacco products, but convenience stores and low-price tobacco outlets account for the bulk of sales.

Swedish Match produces chewing tobacco in Owensboro, Kentucky, in the same plant used to produce moist snuff and pipe tobacco. Production is based on the same types of tobacco

Key data, MSEK*	2005	2004	2003
Sales	1,079	1,058	1,146
Operating income	347	304	336
Operating margin, %	32	29	29
Investments in tangible assets	9	18	23
Average operating capital	184	172	355
Average number of employees	340	346	346

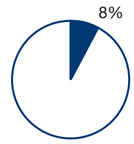
* Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable. See also Note 32 on page 63.

Production unit
USA

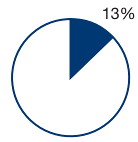
Main brands
Red Man, Southern Pride, Granger Select and JD's Blend.

Share of Group

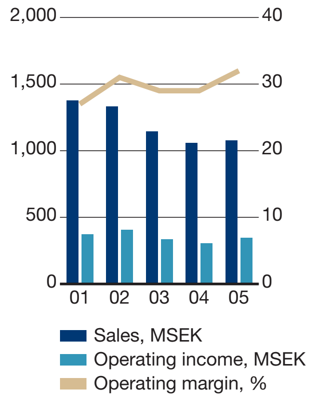
Net sales



Operating income



Sales and earnings



used in machine made cigars, grown mainly in Wisconsin, Pennsylvania, Latin America and parts of Asia. With a joint sales force for all products – chewing tobacco, moist snuff, machine made cigars and pipe tobacco – Swedish Match is able to achieve synergies between the product areas in terms of both sales and distribution.

Other markets
Swedish Match has very limited sales of chewing tobacco outside the US. The Piccanell brand is sold in Sweden, for example, and the modern chewing tobacco product Firebreak, with a chewing gum base, is sold in Japan, primarily in and around Tokyo.

Outlook
Consumption is expected to continue declining in the US at least as rapidly as during the past few years. As the market's leading company for chewing tobacco, Swedish Match will continue to focus on high product quality and effective market communication. The product area is expected to generate a continued strong cash flow.

Strong local and international brands

Pipe Tobacco
and accessories

Consumption of pipe tobacco is declining in most traditional markets due to the low number of new consumers. This trend is most pronounced in Europe, the US and South Africa. In other parts of the world, consumption of pipe tobacco is stable or increasing modestly. Swedish Match is one of the world's largest distributors of pipe tobacco, with strong local and international brands in many countries.

Sales and operating income

Sales for the year amounted to 920 MSEK (901). Lower volumes were offset by improved price levels and a somewhat stronger South African rand. Operating income amounted to 237 MSEK (254) and the operating margin was 25.8 percent (28.2).

Market

Global consumption of pipe tobacco is declining, in terms of both volumes and sales. The largest markets for pipe tobacco are North America and Europe, where consumption in some years can decline by more than 10 percent. A key market for Swedish Match is South Africa, where the Group has a leading market position. In Asia and parts of Eastern Europe, where the use of pipe tobacco is relatively limited, growth in consumer purchasing power and product availability has resulted in steady or increasing volumes. Pipe tobacco is sold in a large number of varieties, from flavored tobacco sold loose by weight and blended by the consumers themselves, and packages of ready-blended tobacco, to premium products in upmarket packages.

Nine producers account for about three fourths of global pipe tobacco production. Most manufacturers also produce other tobacco products for the local or international markets. In addition to Swedish Match, key players include MacBaren, Middleton, Lane, Imperial and Altadis.

Most of Swedish Match's brands are local, examples being Boxer and Best Blend in South Africa, and Half and Half, Paladin and Velvet in the US. In Europe and many other markets, Borkum Riff, which is sold in all parts of the world, is one of the leading brands.

Europe

Swedish Match markets its products throughout all of Europe and commands its strongest positions in Sweden, Austria, Spain and Switzerland. In the accessories segment in the UK, Swedish Match has a leading position in cigarette filters.

The Group outsources a substantial part of its production for the European market to MacBaren, a Danish company that also produces other tobacco products.

Key data, MSEK*	2005	2004	2003
Sales	920	901	909
Operating income	237	254	201
Operating margin, %	26	28	22
Investments in tangible assets	20	28	15
Average operating capital	1,013	1,043	1,107
Average number of employees	524	527	553

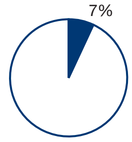
* Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable. See also Note 32 on page 63.

Production units
South Africa and USA.

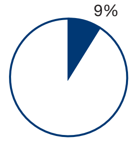
Main brands
Borkum Riff, Half & Half, Paladin, Best Blend, Boxer, Black & White, Greve Gilbert Hamiltons Blandning, 1904 and Velvet.

Share of Group

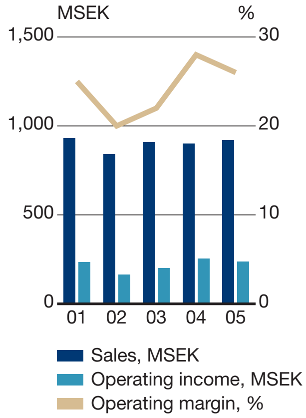
Net sales



Operating income



Sales and earnings



Pipe tobacco is sold mainly through tobacconists' stores, but also through convenience stores and supermarkets. European consumers have varied preferences in pipe tobacco, and Swedish Match offers products that meet many of their demands. Borkum Riff, for example, is sold in a number of flavor variants.

North America

Consumption of pipe tobacco in North America declined by an estimated 14 percent during 2005, according to AC Nielsen's measurements. Swedish Match's market share in terms of volume is considered stable at about 16 percent. Most of the Group's pipe tobacco is produced at the Owensboro plant in Kentucky, but some pipe tobacco is also imported from Europe. In addition to Swedish Match, other major players in the North American market include Lane, Middleton and Altadis. According to AC Nielsen, the major players account for a combined market share of about 75 percent. Half and Half and Borkum Riff are the best-selling Swedish Match brands.

Pipe tobacco is sold mainly through drugstores, supermarkets, convenience stores, low-price outlets and specialty tobacco stores in the US.

South Africa

Consumption of pipe tobacco in South Africa declined by slightly more than 10 percent in terms of volume during 2005, following a decline of about 8 percent in 2004. Swedish Match is the largest player and distributor in South Africa, and brands sold by the Group include Boxer, Best Blend, Nineteen O'Four, Black and White and Giraffe.

Other markets

Swedish Match has only a marginal presence in pipe tobacco outside its main markets. In some cases, sales volumes are increasing outside the Group's main markets. Australia and Asia are two of the most significant markets, and Borkum Riff is the leading pipe tobacco brand in Australia.

Outlook

The market for pipe tobacco is expected to continue declining at least as rapidly as during recent years. Profitability for the product area is strong, however, and cash flow from pipe tobacco operations is expected to remain positive in the years ahead.

Improved margins

Lighters

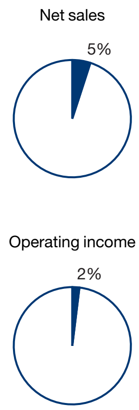
Key data, MSEK*	2005	2004	2003
Sales	620	582	599
Operating income	44	13	14
Operating margin, %	7	2	2
Investments in tangible assets	9	17	11
Average operating capital	279	305	381
Average number of employees	442	460	470

* Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable. See also Note 32 on page 63.

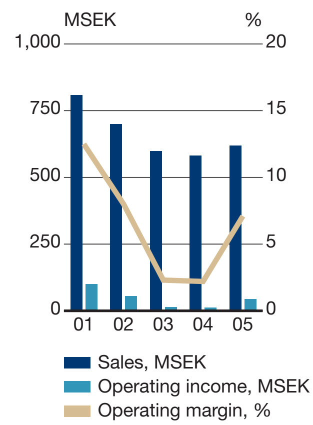
Production units
Brazil, the Philippines and the Netherlands.

Main brands
Cricket and Poppell.

Share of Group



Sales and earnings



Swedish Match markets one of the world's best-known brands of disposable lighter, Cricket, and the Poppell brand. Lighter operations showed improved operating margins after the implementation of a number of measures to reduce costs during recent years. Volumes rose in some markets during 2005, which improved profitability.

Sales and earnings in 2005

Sales for the year rose by 7 percent to 620 MSEK (582). Although volumes increased, the average price per lighter declined. Operating income increased to 44 MSEK (13) as a consequence of higher volumes, cost savings and improved productivity. The operating margin rose to 7.1 percent (2.2).

Market

Sales of lighters follow consumption trends for cigarettes in many developed countries, with the result that global market sales are generally stable, although sales are declining in Europe and the US. Swedish Match is a player in the quality segment of the disposable lighters market. Other players are Bic and Tokai. The world market includes a large number of other manufacturers, based mainly in China and other parts of Asia. Swedish Match manufactures its lighters in Assen in the Netherlands, Manila in the Philippines, and Manaus in Brazil. The main markets for Swedish Match are Russia, the rest of Europe and parts of Asia.

Europe

Swedish Match has its strongest market position in Russia, where Cricket is the leading brand. The Group also has strong positions in the Nordic countries, the UK and France. Retail sales of Swedish Match brands in the European market are estimated to have increased slightly during 2005. Cricket brand lighters are marketed in several different sizes and designs. They are sold through many sales outlets in the everyday commodities sector.

Other markets

Swedish Match is active in the North and South American markets, as well as a number of Asian markets.

Outlook

Swedish Match will continue to focus on marketing the quality of its Cricket brand disposable lighters and utility lighter products. The company will strive to defend and strengthen its positions in key markets, in parallel with continued efforts to reduce costs to maintain profitability.

Restructuring improves profitability

Matches

Key data, MSEK*	2005	2004	2003
Sales	1,316	1,378	1,395
Operating income	13	–12	83
Operating margin, %	1	–1	6
Investments in tangible assets	38	36	81
Average operating capital	684	1,019	1,207
Average number of employees	3,328	4,746	5,388

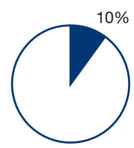
* Data for 2005 and 2004 are based on IFRS accounting standards. Data for the years prior to 2004 are based on the Swedish accounting principles then applicable. See also Note 32 on page 63.

Production units
Brazil, Bulgaria, Sweden, Hungary (being divested) and Turkey (under closure).

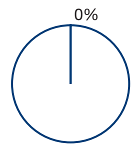
Main brands
Solstickan, Swan, Three Stars, England's Glory, Redheads and Fiat Lux.

Share of Group

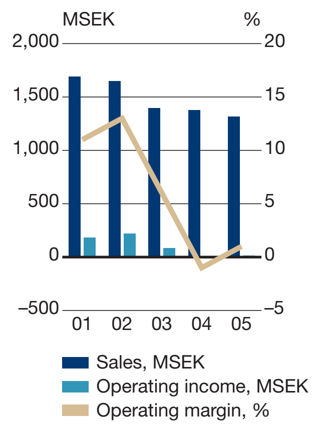
Net sales



Operating income



Sales and earnings



Swedish Match produces and markets matches under strong local brands in many markets. The global match market is highly fragmented, with many small producers and local brands, and consumption is declining in most developed countries. During 2005, Swedish Match continued to restructure and streamline its match operations. The Group sold its holding in associated company Jamafac in Indonesia, and in Indian match producer Wimco. The match factory in Valencia, Spain was also closed during the year and a decision was made to discontinue match production at Orhangazi, in Turkey. Arenco, a Group subsidiary with production units in Kalmar and Halmstad, Sweden and Shanghai, was sold at year-end 2005. Arenco manufactures match production and packaging machines. A letter of intent was also signed to sell the Group's operations in advertising matches.

Sales and earnings

Sales for the year totaled 1,316 MSEK (1,378), a 5-percent increase when adjusted for divested operations. Operating income for the year amounted to 13 MSEK (loss: 12), or 119 MSEK (113) when adjusted for restructuring costs. The operating margin was 1.0 percent (negative: 0.9).

Market

Consumption of matches in the world market continues to decline in most industrialized countries, particularly in Europe, where Swedish Match has historically had a strong presence. Most matches are manufactured and sold locally under strong, local brands. Swedish Match sells matches in many international markets, mainly in Europe and Latin America (particularly Brazil) and parts of Asia.

Europe

Consumption of matches continued to decline during 2005, while the market for specialty matches and products with higher margins, such as grill products and firelogs, continued to grow. The market in Europe is characterized by strong local brands. Imported matches from low-cost countries continue to take market shares and production is still characterized by overcapacity. Matches are sold in Europe mainly through supermarkets and tobacconist stores as well as gasoline stations and service stores.

Latin America

The largest market in Latin America for Swedish Match is Brazil, where the Group has a strong position with the Fiat Lux brand. Swedish Match estimates its market share in Brazil at about 50 percent. In terms of volume,

Matches

the Brazilian market is about the same size as the European market and, as in Europe, consumption is declining.

Other markets

Swedish Match has sales in a number of markets outside Europe and Latin America, but the value of these sales is relatively low. However, Swedish Match is the market leader for match products in Australia, with the country's best-known brand – Redheads.

Outlook

Swedish Match has consolidated its position in the match industry through a rationalization program that was completed during 2005. Following the structural changes implemented, the product area is expected to generate a good cash flow.

Social responsibility and the environment

Within Swedish Match, there is a long tradition of social and environmental responsibility. There is an awareness that the Group can make a positive contribution to social development through participation in a number of projects. Swedish Match strives to conduct its business in a profitable, efficient and competitive manner. This is a prerequisite for achieving growth and performing the Group's most important functions in society, as well as for work in the environment and social responsibility areas.

Social responsibility

Swedish Match's Code of Conduct for social and environmental issues forms the basis for decisions on such issues as human rights, business ethics, health and safety. The Code of Conduct is accessible on the Group's website.

Social responsibility is, by definition, a broad and multifaceted area. Swedish Match has elected to base its guidelines on the issues that are most relevant for the Group's operations. The guidelines on social issues apply to all divisions within the Group. Individual business units may certainly exceed these objectives but never act in a manner that conflicts with the principles in the Code of Conduct.

The basic requirements are:

- Swedish Match does not tolerate child labor as defined by the UN Convention on the Rights of the Child. Neither does the Group accept forced labor or any form of discrimination based on ethnic background, religion, age or gender. The Group maintains that all employees are entitled to voluntarily join associations in accordance with local legislation and rules.
- Swedish Match strives to create a good work environment that safeguards health and safety in the workplace and provides opportunities for personal development and job satisfaction.
- Swedish Match shall adhere to accepted business practices and act in accordance with the Group's ethical norms and expectations.
- Recruitment of and compensation to employees shall always be based on competence, qualifications and experience. Ethnic background, language, religion, skin color, gender, economic or other social status may not influence such decisions.
- Swedish Match's policy regarding tobacco reflects the Group's global commitment to offering tobacco products of high quality to adult consumers (persons above age 18), while respecting the demands and expectations that society places on an international supplier of tobacco products.
- Swedish Match encourages its suppliers to establish and follow their own ethical guidelines in line with international conventions.

The above requirements comply in all significant respects with international conventions and guidelines* on human rights and terms of employment. There is broad international support for these conventions, both from individual countries and from international companies.

Follow-up

Social Review is a process by which Swedish Match follows up its work in the areas of social issues and compliance with corporate guidelines. The follow-up process primarily comprises scrutiny of the Group's own companies. Swedish Match also works actively to ensure that suppliers and subsuppliers comply with these requirements and guidelines. During the year, the Group initiated a partnership with an external party to conduct the review process.

Activities and advances in the areas of business ethics, fundamental human rights, health, safety and social commitment are followed up and reported to an internal Group council that is responsible for reviewing the ethical guidelines for the Group's actions regarding social and environmental issues.

Social responsibility in practice

During the year, a number of projects relating to social commitment were initiated within various Group units.

Swedish Match South Africa is combating HIV/AIDS in a joint project with the International Council of Swedish Industry, the Swedish Metalworkers' Association and the Swedish International Development Cooperation Agency (SIDA). Contributions from project participants during 2005/2006 will fund training programs and individual counseling.

In conjunction with the Asian tsunami disaster, Swedish Match provided a contribution of 250,000 SEK to the Red Cross for its disaster aid program. In addition, an account was established for employees wishing to make contributions to victims of the disaster. The amount collected was matched by an equal amount from the company.

Swedish Match North America contributes to charity organizations and through voluntary projects. The largest efforts during 2005 were the support provided by the company and its employees to victims of hurricanes Katrina and Rita. Swedish Match North America matched the amount collected by the company's employees. A local trade union also contributed generously.

* These international conventions and guidelines are the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the eight central ILO conventions (nos. 87, 98, 29, 105, 100, 111, 138 and 182) and the OECD's guidelines for multinational companies.

Ulf Lindblom, Cecilia Wiksfors, Michael Cox, Bert Meertens, Göran Streiffert, Nina Eskelinen and John Danhauer are key persons for Swedish Match environmental work.

Environment

The importance of environmental issues is increasing in pace with more stringent requirements and increased awareness on the part of consumers, customers, suppliers and authorities. Legislation and other regulations for manufacturing plants and production processes are constantly being tightened.

The production processes and raw materials used within the tobacco industry generally have little impact on the environment. Nonetheless, Swedish Match strives to make improvements in areas with environmental impact, such as water and energy consumption and waste management.

Swedish Match is well placed to meet requirements in these areas, since 80 percent of the company's raw materials are renewable and production only involves environmentally hazardous substances to a limited extent. The Group continuously improves its systems for cleaning and reducing emissions. Environmental management systems have been introduced in most production facilities. The most economically important plants and operations are environmentally certified, with an estimated 80 percent of the Group's sales coming from production units with environmental certification.

Environment policy

In its environmental work, Swedish Match strives to achieve a balance between business goals and the environmental demands from the Group's shareholders, customers and other stakeholders.

Swedish Match's management has adopted an environment policy based to a high degree on the ISO 14001 certification process.

Swedish Match's commitments include:

- complying with prevailing legislation, regulations and other requirements wherever its operations are conducted,
- employing effective environmental management systems designed to prevent pollution and reduce the risk of negative environmental consequences,
- measuring commercial initiatives according to both financial and environmental criteria,
- identifying and implementing changes in products, production processes and services intended to achieve cost-efficient environmental gains.

Environmental work in practice

Swedish Match works constantly to achieve improvements in areas that have an environmental impact, such as water and energy consumption and waste management.

During the year, several energy-saving action programs were implemented in various Group units. As an example, existing lighting systems were replaced by more energy-efficient lighting. In addition, older machines and other equipment were replaced by more energy-efficient alternatives. Work is also in progress in production plants to reduce water consumption and to improve the quality of discharged wastewater.

Swedish Match also works actively to reduce the handling of chemicals. In Brazil, pests attack poplar trees used for match production. These pests were previously eliminated using chemicals. Today, internal studies have shown that biological means can be used that are not harmful to humans or the environment and which are approved by local authorities.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2005. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

The Plant in Vetlanda, Sweden, produces matchsticks and boxes with striking surfaces that are used in match manufacturing in other parts of the world. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

The plant in Tidaholm, Sweden, produces matches, fire lighters and match heads for Swedish Match's own production and for export. These operations require a permit according to the Environmental Protection Act. The permit entitles the plant to increase production of matches and match heads to at most 90 billion matches and at most 2,000 tons of match heads per year. The permit specifies limits for wastewater, the dust content in ventilation outflows and noise levels.

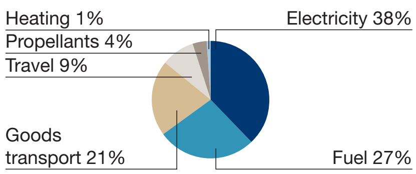
For plants in other countries where Swedish Match has production operations, the Group has permits in accordance with the legislation in each country.

Climate work

The greenhouse effect is considered by many researchers to be one of the most serious global environmental problems. Swedish Match applies goal-oriented measures that are monitored by, among other agencies, Swedish insurance company Folksam in its Climate Index. This index is based on information gathered from all companies listed on the OMX Stockholmsbörsen, as well as ten other companies of general interest. The index includes emissions of carbon dioxide from fuel or the company's own production processes, as well as from purchased electricity, heating, goods transport and travel.

Emissions profile

Swedish Match reports data for all emission categories. The company's emissions are primarily attributable to electricity and fuel.



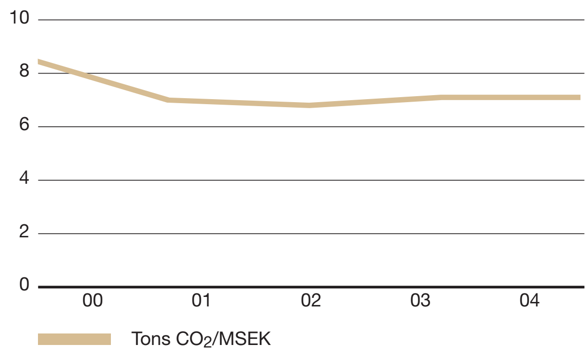
The diagram shows Swedish Match's carbon dioxide emissions, divided according to emission category.

Swedish Match works conscientiously with environment issues. About half of the Group's wholly owned production facilities have so far obtained ISO 14001 certification. Swedish Match works continuously with energy efficiency measures. One example is the North Europe Division, which purchases only electricity labeled as a Good Environmental Choice. The Group strives to achieve a high proportion of renewable fuels for the operation of its plants, as well as for purchased heat.

Emission source	Tons/MSEK
Electricity	2.8
Fuel	1.9
Goods transports	1.5
Travel	0.7
Propellants	0.3
Heat	0.1

Climate trend

The climate trend is the climate indicator's development over time. The Swedish Match climate indicator, which is emissions in relation to sales, amounted to 7.24 tons of CO_2 per MSEK in 2004. This means that the indicator was virtually unchanged compared with the preceding year. The Group's climate trend has been stable over the first half of the current decade.



Human resources

Swedish Match is an international company with manufacturing in 13 countries and sales organizations in several countries. On December 31, 2005, the number of employees was about 14,000 persons.

Swedish Match strives for continuous improvement of its business processes. The keys to success are competent and motivated employees and highly qualified leaders. The Group's work with personnel and skills development focuses on activities that support strong, stable and sustainable development for shareholders, consumers and employees.

Personnel and organization

The Swedish Match organization consists of the head office with the CEO and corporate staff functions and the three operational divisions: North Europe Division, North America Division and International Division.

As of January 1, 2006, company management consists of seven members: the CEO, the heads of Group staff functions and the division presidents. The division presidents have direct responsibility for business in each region and report to the CEO.

During 2005, an extensive restructuring program continued within the Group with the aim of achieving further improvements in productivity and increased flexibility in meeting new consumer trends, while maintaining competitiveness:

- General Cigar's operations, with some 6,000 employees, were integrated into the North America Division.
- The North America Division and the North Europe Division implemented changes in their respective marketing and sales organizations to enhance their ability to meet increasing competition in their home markets.
- During the fourth quarter, the Continental Europe Division and the Overseas Division were merged to form the International Division. The objective of the merger was to shorten decision processes between the various business units, to speed up product development processes and to strengthen market focus.
- Swedish Match implemented an extensive restructuring program in match operations.

Manager supply and skills development

Swedish Match's work with employee and skills development is based on the Group's values in regard to communication, cooperation, trust, innovation, recognition and growth.

Most of the Group's skills development for managers and employees takes place within the respective divisions and is based on the different business units' needs and resources. It includes management programs adapted to local conditions, in which the themes addressed may, for example, include business practices, communication and leadership of groups of individual employees.

Annual surveys of the company's senior management and key personnel are conducted to ensure efficient and reliable succession planning and development of the Group's key positions.

To increase growth and profitability, Performance Management is used as a tool to strengthen the correlation between the company's business objectives and employees' personal development. Work is focused on broadening and deepening the future development of effective leadership and qualified employees, in part through individualized leadership training.

During 2005, a review of various HR-related processes was conducted that included processes relating to the recruitment, orientation and development of employees, as well as processes relating to salary and compensation systems. A fundamental principle is that HR work within the Group must be aimed at motivating and facilitating employee development.

Salary and compensation system

Terms of employment, salaries and benefits at Swedish Match are designed in such a manner as to contribute to attracting, retaining and motivating employees.

In general, compensation issues are handled in accordance with local regulations and conditions in each country where Swedish Match has operations. Decisions on compensation issues are approved by the manager who is at least two levels above the employee concerned, in accordance with what is known as the "grandfather principle."

With respect to compensation of management, the Group works in accordance with a standardized and documented process. This means that decisions on compensation issues for the President are resolved by the Group's Board of Directors based on the Compensation Committee's proposals. Compensation to Group management is proposed by the CEO and approved by the Compensation Committee. Compensation to division managements is proposed by each Division President and approved by the CEO.

The Compensation Committee prepares and submits to the Board of Directors decision proposals concerning matters of principle regarding management's salaries and other terms of employment, and concerning other compensation issues that are of a fundamental nature or of major importance and could affect a large number of persons within the Group.

The Group performs regular comparisons with salary levels and compensation systems in the local markets.

Profit-sharing scheme for Swedish employees

A profit-sharing scheme is offered to Group employees in Sweden. The scheme is based on a profit-sharing foundation with associated funds to which the Swedish companies make allocations in line with the increase in the Group's earnings per share. The funds' assets are invested mainly in Swedish Match shares. No disbursements are made until at least three calendar years after such allocations are made. During 2005, approximately 17 MSEK was allocated to the foundation, based on income for 2004.

Meeting forums

Management conference

During the first quarter of 2005, a three-day management conference was arranged with leading executives from around the world. The conference was focused on future strategies and business goals for the Group and the divisions, and sharing of experience.

Cooperation with the unions

Swedish Match has a cooperation agreement with trade union organizations in the Swedish parts of the Group under the terms of the Swedish Employment Act (MBL). In accordance with this agreement, representatives of Group management and the employee representatives on the Board meet prior to each Board meeting. This group discusses items on the Board's agenda, especially issues that may lead to negotiations under the terms of MBL.

In addition, a reference group consisting of local representatives of the Swedish Trade Union Confederation (LO) and the Negotiation Cartel for Salaried Employees in the Private Business Sector (PTK) meets prior to each Board meeting.

European Works Council

The European Works Council (EWC) was established in compliance with an EU directive (Council Directive 94/45/EG) aimed at improving information provided to employees in companies with more than 1,000 employees and operations in a number of countries within the EU. Employee representatives from seven countries meet within the Group. During 2005, the agreement was extended for a period of two more years. Two EWC meetings were held during the year.

Board of Directors' Report

Net sales

Net sales for the year amounted to 13,311 MSEK (13,007). Excluding divested companies and expressed in local currencies, sales rose by 2 percent.

Sales of snuff amounted to 3,131 MSEK (3,081), up 2 percent. Sales volumes in Scandinavia rose by 1 percent. In the Swedish market, volumes decreased by 1 percent, while volumes in Norway and tax-free sales increased. Loose snus declined in the Swedish market, while sales volumes of portion-packed snus rose. The share of portion-packed snus in the Swedish market during the period amounted to 58 percent. Competition has increased in the Swedish market. In the US, volumes increased by 5 percent in 2005 compared with the preceding year, expressed in terms of the number of cans sold. Sales of the low-price brand Longhorn were considerably higher than in the preceding year, while volumes for Timber Wolf were lower. In December 2004, Timber Wolf was repositioned to a lower price. Swedish Match's average market share in the US market during 2005 was 9.4 percent (8.9), according to Nielsen data.

Sales of chewing tobacco in the US increased by 2 percent to 1,079 MSEK (1,058). A higher average price and the stronger USD offset a decline in volumes.

Sales of cigars totaled 3,283 MSEK (3,171), up 4 percent. In local currencies, sales rose by 2 percent. Volumes declined slightly. Sales of pipe tobacco and accessories amounted to 920 MSEK (901). Better price levels and a somewhat stronger South African rand compensated for reduced volumes.

Sales for the Matches product area declined by 4 percent to 1,316 MSEK (1,378). Adjusted for divested operations, sales increased by 5 percent. A wide-ranging restructuring program was implemented during the year within match operations. The match plant in Valencia, Spain, was closed and the property sold. A decision was also made to close the match plant in Turkey. European match production will be concentrated to the match plant in Tidaholm, Sweden. A number of other units and holdings were also divested. Swedish Match's interest in the Indian match company Wimco was divested in two stages and finally disposed of during the fourth quarter. As of July 1, the company was no longer consolidated within Swedish Match. Swedish Match's holding in the Indonesian associated company Jamafac was sold during the fourth quarter. A letter of intent was signed regarding sale of the European operations producing advertising matches. Divestment of the Arenco Group, with production units for match-production and packaging machines in Kalmar and Halmstad in Sweden and in Shanghai in China, was concluded after year-end.

Operating income

Operating income for the year amounted to 2,825 MSEK, compared with 3,593 MSEK for the preceding year. Operating income for 2004 included a number of major one-time items, such as income of 1,521 MSEK from the settlement with the UST Group and provisions and impairments totaling 240 MSEK in match operations. Excluding a capital gain from the sale of an office property in New York during the

Net sales and operating income by product area

	Net sales		Operating income	
MSEK	**2005**	**2004**	**2005**	**2004**
Snuff	3,131	3,081	1 504	1 376
Chewing tobacco	1,079	1,058	347	304
Cigars	3,283	3,171	613	567
Pipe tobacco and Accessories	920	901	237	254
Matches	1,316	1,378	13	–12
Lighters	620	582	44	13
Other operations	2,962	2,836	–140	–190
Subtotal	**13,311**	**13,007**	**2,618**	**2,312**
Major one-time items				
Gain from sale of office property			206	–
Income from settlement with UST			–	1,521
Match impairment charges			–	–150
Provisions for acquisition of shares in Wimco Ltd.			–	–90
Subtotal			**206**	**1,281**
Total	**13,311**	**13,007**	**2,825**	**3,593**

third quarter of 2005, and major one-time items during 2004, operating income rose 13 percent to 2,618 MSEK (2,312) during 2005. Operating income increased for all product groups except for pipe tobacco and accessories.

The Group's operating margin for the year was 19.7 percent, excluding the capital gain from the sale of the office property in New York. The operating margin for the preceding year, excluding major one-time items, was 17.8 percent.

Other operations

Other operations include the distribution of tobacco products in the Swedish market, an Irish distribution operation, sales of advertising products and corporate overheads. The Irish distribution operation was sold in December, and a letter of intent was signed regarding sale of the advertising-product operations.

The net loss for other operations during 2005 amounted to 140 MSEK (loss: 190). During the preceding year, earnings were charged with 44 MSEK for the closure of a distribution unit in Malmö and provisions related to severance pay and other items for the former CEO.

Research and development

Swedish Match conducts some research and development in Sweden and the US, mainly related to the characteristics of the tobacco plant and tobacco. Costs of 95 MSEK (113) for research and development are included in the company's selling expenses.

Net financial expense

Net interest expense for the year amounted to 106 MSEK (expense: 163). Other financial items amounted to a net expense of 23 MSEK (expense: 2).

Taxes

Total tax expense for the year amounted to 919 MSEK (1,345), corresponding to an overall tax rate of 34.1 percent (39.2). The tax rate for 2005 was affected by the fact that the tax on the capital gain from the sale of the office property in New York was estimated at 55 percent. The high tax rate in 2004 resulted from the high tax charge relating to the settlement income received from UST and from certain non-deductible restructuring costs.

Earnings per share

Basic earnings per share for the year amounted to 5.61 SEK (6.18). Diluted earnings per share amounted to 5.59 SEK (6.15). Excluding major one-time items, earnings per share amounted to 5.30 SEK, compared with 4.19 SEK in 2004.

Summary of consolidated income statement

MSEK	2005	2004
Net sales	13,311	13,007
Operating income	2 825	3,593
Net financing cost	–128	–164
Taxes	–919	–1,345
Net income	**1,777**	**2,084**
Attributable to		
Swedish Match's shareholders	1,769	2,011
Minority interests	9	72
Earnings per share, SEK	5.61	6.18

Summary of consolidated balance sheet

MSEK	2005	2004
Fixed assets	7,903	7,012
Inventories	2,770	2,476
Other current assets	2,475	2,408
Cash and bank balances and investments	3,657	3,002
Total assets	**16,806**	**14,898**
Equity	5,083	5,060
Long-term liabilities and provisions	3,089	2,533
Long-term loans	2,867	2,559
Short-term liabilities and provisions	4,303	3,776
Short-term loans	1,464	970
Total equity and liabilities	**16,806**	**14,898**

Summary of consolidated cash flow statement

MSEK	2005	2004
Cash flow from operations	2,718	3,626
Cash flow from investing activities	–865	–1,118
Cash flow from financing activities	–1,441	–2,779
Cash flow for the year	**412**	**–270**
Cash and bank at the beginning of the year	1,187	1,497
Translation differences in cash and bank	130	–40
Cash and bank at year-end	**1,729**	**1,187**

Distribution of surplus funds

Dividend

Swedish Match's dividend policy is that the dividend should essentially follow the trend of the Group's net income. When establishing a dividend, the size of planned repurchases of shares is also taken into account. It is estimated that the dividend amount will be between 30 percent and 50 percent of net income for the year.

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of 2.10 SEK per share (1.90) be distributed to shareholders. This corresponds to a total of 642 MSEK (612), based on the number of shares outstanding at year-end. The proposed dividend amounts to 36 percent (30) of net income for the year. Non-restricted reserves in the Parent Company amount to 5,402 MSEK.

Repurchase of Company shares

A repurchase of shares is, in principle, a reverse new share issue and makes it possible to work continuously to optimize the capital structure in the balance sheet. In view of Swedish Match's stable and positive cash flow, the position of the Board of Directors with regard to repurchase of shares is positive.

The size and scope of share buybacks depends, in the same way as the size of the dividend, on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments and expansion plans. Other factors that affect repurchases are the price of the shares, the Group's interest and tax expenses, and the earnings available for distribution.

Financial restrictions

In considering the amount of the surplus funds to be distributed to shareholders, it has been decided that the following restrictions shall apply:

- Over time, the Company shall strive for a capital structure with an interest coverage ratio based on EBITA (earnings before interest, taxes and amortization of intangible assets/net interest income) above nine times.
- Over time, the Company shall strive for a level of net debt that, when divided by EBITA, is less than two.

Share structure

At the Annual General Meeting in April 2005, approval was given for renewal of the mandate to repurchase shares up to 10 percent of all the shares in the company. In accordance with the decision of the Annual General Meeting, repurchased shares may be used to acquire companies and to cover options issued within the framework of the company's options program. The Meeting also approved the cancellation of 12.0 million previously repurchased shares. Furthermore, the Annual General Meeting approved a reduction in share capital by decreasing the par value of shares from 2.40 SEK to 1.20 SEK and a reduction of 114 MSEK in the Parent Company's statutory reserve. These reductions were registered in October and resulted in the transfer of 532 MSEK from restricted shareholders' equity to non-restricted shareholders' equity. Following the transfer to non-restricted shareholders' equity, the number of registered shares in the Company amounts to 324,596,181.

During the year 16.2 million shares were repurchased at an average price of 88.37 SEK. In addition, the company sold 0.6 million shares for 23 MSEK during the year as a result of option holders exercising their options. At December 31, 2005, the company held 18.7 million of its own shares, corresponding to 5.8 percent of the total number of shares. Since the buyback program was initiated, the shares repurchased have been purchased at an average price of 55.50 SEK. The total number of shares outstanding, net after buybacks, amounted to 305.9 million at December 31, 2005. In addition, at year-end the company held issued call options on its own holding corresponding to 4.9 million shares, with exercise successively from 2006 to 2010.

The Board of Directors will propose to the Annual General Meeting in April 2006 that the mandate to repurchase shares in such numbers that the company's holding at any given time does not exceed 10 percent of all the shares in the company be renewed. The Board will also propose cancellation of up to 25 million previously repurchased shares, with a simultaneous bonus issue in an amount corresponding to the number of canceled shares times 1.20 SEK. The latter transaction will have the effect that the company's share capital will not be reduced through the repurchase of shares. In addition, the Board will propose that the Parent Company's legal reserves, which amount to 80 MSEK, be reduced through the transfer of funds to non-restricted reserves.

Liquid funds

At the close of the fiscal year, cash and bank deposits plus short-term investments amounted to 3,657 MSEK, compared with 3,002 MSEK at the beginning of the year. In addition to liquid funds, the Company had a confirmed line of credit totaling 250 MEUR at year-end.

Financing

At the close of the period, the Group had a net debt of 674 MSEK, compared with 527 MSEK at December 31, 2004 – an increase of 147 MSEK. Cash flow from operations amounted to 2,718 MSEK, compared with 3,626 MSEK in 2004, when income from the settlement with UST was included. Cash flow from operations was used, among other purposes, to acquire the minority shares in General Cigar for 1,100 MSEK, to repurchase shares with a net value of 1,411 MSEK, and to pay a dividend totaling 612 MSEK.

During the period, new loans totaling 1,685 MSEK were raised. Redemptions during the period amounted to 942 MSEK.

The Group's main financing is effected through a Swedish medium-term note program of 4,000 MSEK and a global medium-term note program with a framework amount of 1,000 MEUR. Utilization of these programs amounted to 3,508 MSEK at December 31, 2005.

For a more detailed description of the Group's financial risk management and holdings of financial instruments, see Note 25, page 58.

Investments and depreciation

The Group's direct investments in tangible fixed assets amounted to 328 MSEK (486). Investments related to capacity increases for portion-packed snus and rationalizations in cigar production. Proceeds from the sale of fixed assets totaled 628 MSEK (42), of which the sale of General Cigar's office property in New York accounted for 490 MSEK. Total depreciation amounted to 458 MSEK (479), of which depreciation of tangible fixed assets amounted to 337 MSEK (332) and amortization of intangible assets amounted to 121 MSEK (147).

Capital structure

At the end of the fiscal year, the Group's equity/assets ratio amounted to 30.2 percent, compared with 34.0 percent a year earlier.

At the end of 2005, the Group had interest-bearing loans that exceeded liquid funds by 674 MSEK. The net debt/equity ratio – that is, net debt as a percentage of shareholders' equity and minority interest – amounted to 13.3 percent at December 31, 2005.

The interest coverage ratio based on EBITA was a multiple of 26.6 (15.4), while net debt divided by EBITA amounted to 0.2 (0.2).

Other events

During the second quarter, Swedish Match acquired the remaining shares in General Cigar. As a result, the Group now owns 100 percent of the shares in the company. The aim is to integrate the operations with other operations in North America, and integration costs of 75 MSEK were charged against earnings. The savings resulting from the integration are expected to take effect as of 2006. As part of the integration process, General Cigar's office property in New York was sold during the year, resulting in a capital gain of 206 MSEK.

On July 1, Swedish Match sold its 74-percent interest in the Indian match company Wimco to a wholly owned subsidiary of Indian tobacco Company (ITC). As a result, Wimco is not included in Swedish Match's consolidated figures after July 1. During the autumn, Swedish Match acquired 16.8 percent of the total number of shares outstanding in Wimco through a public offer in accordance with the terms previously established by the Securities and Exchange Board of India (SEBI). These shares were subsequently sold during 2005 in conjunction with ITC's bid to purchase all the shares outstanding in Wimco.

International Financial Reporting Standard (IFRS)

As of January 1, 2005, the Group applies the IFRS reporting standards approved by the European Commission. The introduction of the new standard has involved changes of reporting standards and has had an effect on the income statements and balance sheets. To achieve comparability regarding the Group's performance, figures for the comparative year have been restated.

For a more detailed description of the Group's transition to IFRS, see note 32, page 63.

Consolidated Income Statement

(MSEK)	Note	2005	2004
Net sales, including tobacco tax		22,120	21,705
Less tobacco tax		–8,809	–8,698
Net sales	2, 3	**13,311**	**13,007**
Cost of goods sold		–7,278	–7,246
Gross profit		**6,033**	**5,761**
Other operating income	4	23	24
Selling expenses		–2,113	–2,238
Administrative expenses		–1,130	–1,471
Other operating expenses	4	–5	–5
Share in earnings of associated companies	13	18	1
Settlement income		–	1,521
Operating income	3, 5, 6, 7	**2,825**	**3,593**
Financial income		91	106
Financial expenses		– 219	– 270
Net financing cost	8	**– 128**	**– 164**
Income before tax		**2,696**	**3,429**
Income tax expense	9	–919	–1,345
Net income for the year		**1,777**	**2,084**
Attributable to:			
Equity holders of the parent		1,769	2,011
Minority interests		9	72
		1,777	**2,084**
Earnings per share	19		
basic, SEK		5.61	6.18
diluted, SEK		5.59	6.15

Consolidated Balance Sheet

(MSEK)	Note	Dec. 31, 2005	Dec. 31, 2004
Assets			
Intangible fixed assets	10	4,265	3,452
Tangible fixed assets	11	2,393	2,614
Biological assets	12	95	98
Shares and participations	13	93	125
Other investments		10	11
Long-term receivables	14	595	316
Deferred tax assets	9	452	397
Total fixed assets		**7,903**	**7,012**
Inventories	15	2,770	2,476
Trade receivables	16	1,845	1,662
Prepaid expenses and accrued income		141	185
Other receivables	14	490	561
Short-term investments	25	1,929	1,815
Cash and bank	17	1,729	1,187
Total current assets		**8,903**	**7,886**
TOTAL ASSETS		**16,806**	**14,898**
Equity	18		
Share capital		390	808
Reserves		651	–96
Retained earnings		4,039	3,867
Equity attributable to equity holders of the parent		**5,079**	**4,579**
Minority interest		3	481
TOTAL EQUITY		**5,083**	**5,060**
Liabilities			
Long-term interest-bearing debt	20, 25	2,867	2,559
Other long-term debt	23	17	21
Provisions for pensions and similar commitments	21	813	739
Provisions	22	1,356	530
Deferred tax liabilities	9	903	1,243
Total long-term liabilities		**5,956**	**5,092**
Short-term interest-bearing debt	20, 25	1,464	970
Accounts payable		758	708
Tax liabilities	9	851	168
Other current liabilities	23	1,621	1,409
Accrued expenses and pre-paid income	24	780	845
Provisions	22	293	647
Total current liabilities		**5,767**	**4,746**
TOTAL LIABILITIES		**11,723**	**9,837**
TOTAL EQUITY AND LIABILITIES		**16,806**	**14,898**

For information on the Group's pledged assets and contingent liabilities, see Note 27.

Summary of changes in consolidated statement of equity

(MSEK)	Note	Equity attributable to equity holders of the parent: Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
Equity at Jan. 1, 2004		**844**	**0**	**2,914**	**3,758**	**604**	**4,362**
Changed accounting principle, PSF				40	40		40
Translation differences for the year			–96		–96	–58	–154
Total wealth changes reported directly against equity		**844**	**–96**	**2,954**	**3,702**	**546**	**4,248**
Net income for the year				2,011	2,011	72	2,084
Total wealth changes		**844**	**–96**	**4,965**	**5,713**	**618**	**6,332**
Dividends				–558	–558		–558
Dividends paid to minority shareholders in subsidiaries						–121	–121
Acquisition of minority shares in Best Blend						–16	–16
Allocation to unrestricted reserves through cancellation of shares		–36		36			
Repurchase of own shares				–658	–658		–658
Exercise of stock options by employees				82	82		82
Equity at Dec. 31, 2004		**808**	**–96**	**3,867**	**4,579**	**481**	**5,060**
Equity at Jan. 1, 2005		**808**	**–96**	**3,867**	**4,579**	**481**	**5,060**
Changed accounting principle, IAS 19			31		31	17	48
Translation differences for the year			707		707	34	741
Financial assets available for sale:							
Revaluations reported directly against equity			9		9		9
Total wealth changes reported directly against equity		**808**	**651**	**3,867**	**5,326**	**532**	**5,858**
Net income for the year				1,769	1,769	9	1,777
Total wealth changes		**808**	**651**	**5,636**	**7,095**	**541**	**7,635**
Dividends				–612	–612		–612
Acquisition of minority shares in General Cigar						–532	–532
Sale of shares in Wimco						-6	–6
Allocation to unrestricted reserves through cancellation of shares		–29		29			
Reduction of par value		–389		389			
Repurchase of own shares				–1,434	–1,434		–1,434
Exercise of stock options by employees				23	23		23
Share-related compensation regulated through equity instruments				8	8		8
Equity at Dec. 31, 2005	18	**390**	**651**	**4,039**	**5,079**	**3**	**5,083**

Consolidated Cash-Flow Statement

(MSEK)	Note	2005	2004
	29		
Operating activities			
Income after financial items		2,696	3,429
Adjusted for non-cash items		323	679
Income tax paid		–606	–819
Cash flow from operations before changes in working capital		**2,413**	**3,289**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in inventories		51	54
Increase (–)/Decrease (+) in operating receivables		–170	136
Increase (+)/Decrease (–) in operating liabilities		423	148
Cash flow from operating activities		**2,718**	**3,626**
Investing activities			
Acquisition of tangible assets		–328	–486
Divestments of tangible assets		628	42
Acquisition of intangible assets		–	–34
Acquisition of minority shares in General Cigar		–1,100	–
Acquisition of subsidiaries		–	–53
Divestment of subsidiaries		184	117
Investments in business-related shares		–92	–10
Change in financial receivables		–44	–47
Change in short-term investments		–113	–646
Cash flow from investing activities		**–865**	**–1,118**
Financing activities			
Repurchase of shares		–1,434	–658
Sale of treasury shares		23	82
Increase of loans		1,685	–
Amortization of loans		–942	–1,819
Dividend paid to Parent Company's shareholders		–612	–558
Dividend to minorities		–	–121
Other		–162	295
Cash flow from financing activities		**–1,441**	**–2,779**
Cash flow for the year		**412**	**–270**
Cash and bank at the beginning of the year		1,187	1,497
Translation differences in cash and bank		130	–40
Cash and bank at year-end		**1,729**	**1,187**

Notes for the Group

Note 1. Accounting Principles

All amounts referred to in notes are in millions of kronor (MSEK) unless stated otherwise.

(a) Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRC), approved by the European Commission for application within the EU. This financial report is the first complete financial report prepared by Swedish Match in accordance with IFRS. In conjunction with the transition from the accounting principles applied previously to reporting in accordance with IFRS, the Group applied IFRS 1, the standard that outlines how the transition to IFRS should be reported. In addition, the Swedish Financial Accounting Standards Council's recommendation RR 30, Supplementary Accounting Regulations for Groups, has been applied.

The transition to accounting in accordance with IFRS for the Group, has been reported in accordance with IFRS 1 and is described in Note 32. In accordance with the voluntary exceptions permitted in IFRS 1, comparative figures for 2004 are not provided for IAS 39 Financial Instruments and IFRS 5 Fixed Assets Held for Sale and Discontinued Operations; instead forward-looking information from January 1, 2005 is used. The application of IAS 39 has meant that equity was affected positively by 31 MSEK as of January 1, 2005. The effects of IAS 39 on the income statement for 2005 were marginal.

The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Accounting principles for the Parent Company." The discrepancies that exist between the principles for the Parent Company and for the Group result from limitations on the applicability of IFRS in the Parent Company as a consequence of the Annual Accounts Act and the Pension Security Act, as well as for tax reasons in certain instances.

(b) Basis for the preparation of the financial reports for the Parent Company and the Group

The financial reports are presented in SEK. Unless otherwise indicated, all amounts are rounded off to the nearest million. Figures in the reports are based on a consolidation system in SEK thousands. By rounding the figures in tables, totals may not always equal the sum of the included rounded numbers.

Assets and liabilities are reported at their historical acquisition value, except for certain financial assets and liabilities and biological assets that are reported at fair value. Financial assets and liabilities reported at fair value comprise derivative instruments and financial assets classified as financial assets reported at fair value in the income statement or as financial assets available for sale.

Fixed assets and disposal groups held for sale are reported at the lower of their previous carrying amount or their fair value less costs to sell.

Preparing financial reports in accordance with IFRS requires that management make evaluations, estimations and assumptions that affect the application of the accounting principles and the reported amounts for assets, liabilities, revenues and costs. The estimations and assumptions are based on historical experience and a number of other factors that may be considered relevant under the prevailing conditions. The actual outcome may deviate from these estimations and assumptions.

Evaluations made by management on the implementation of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in greater detail in Note 30.

(c) Reporting by segment

Swedish Match's operations comprise seven operating segments: snuff, chewing tobacco, cigars, pipe tobacco and accessories, matches, lighters and other operations. Geographic areas constitute secondary segments and cover the following market regions: the Nordic region, Europe excluding the Nordic region, North America and Rest of the World.

(d) Classification, etc.

Fixed assets and long-term liabilities in the Parent Company and the Group essentially consist exclusively of amounts that are expected to be recovered or paid after more than 12 months, from the reporting date. Current assets and accounts payable essentially consist of amounts that are expected to be recovered or paid within 12 months, from the reporting date.

(e) Consolidation principles

The consolidated financial statements include the Parent Company and all subsidiaries and associated companies. Subsidiaries are defined as companies in which Swedish Match holds shares carrying more than 50 percent of the votes or in which Swedish Match has a decisive influence in some other way. Associated companies are defined as companies in which Swedish Match exercises a significant, long-term influence without the jointly owned company being a subsidiary. This normally means that the Group holds 20-50 percent of total voting rights. Holdings in associated companies are reported in accordance with the equity method.

All acquisitions of companies are reported in accordance with the purchase method. The method means that the acquisition of subsidiaries is considered a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and obligations. Divested companies are included in the consolidated accounts up through the time of divestment. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition.

Intra-Group receivables and liabilities, revenues and costs and unrealized gains and losses arising from intra-Group transactions are eliminated in their entirety when the consolidated financial statements are prepared.

(f) Foreign currencies

(i) Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on the reporting date. Exchange-rate differences arising from translation are reported in the income statement. Non-monetary assets and liabilities reported at their historical acquisition values are translated at the exchange rate in effect at the transaction date. Non-monetary assets and liabilities reported at their fair value are converted to the functional currency at the applicable rate at the time of the valuation. Exchange rate differences are then reported in the same manner as other changes in value relating to the asset or liability.

Functional currencies are the currencies of the primary economic environments in which Group companies conduct their operations. SEK is the Parent Company's functional currency, as well as its reporting currency. The Group's reporting currency is SEK.

(ii) Financial reports of foreign operations

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated into SEK at the exchange rate on the reporting date. Revenues and expenses from foreign operations are translated to SEK at an average exchange rate for the year. Translation differences arising from currency translation of foreign operations are reported directly in equity as a translation reserve.

Accumulated translation differences are presented as a separate equity category and contain translation differences accumulated since January 1, 2004. Accumulated translation differences prior to January 1, 2004 are allocated to other equity categories and are not reported separately.

The Group's most significant currencies are shown in the table below:

		Average exchange rate Jan. – Dec.		Exchange rate on December 31	
Country	**Currency**	**2005**	**2004**	**2005**	**2004**
USA	USD	7.48	7.35	7.95	6.61
Euro	EUR	9.28	9.13	9.41	9.00
Brazil	BRL	3.10	2.51	3.42	2.48
South Africa	ZAR	1.17	1.14	1.26	1.17

(g) Revenues

Revenue from the sale of goods is recognized when an agreement with the customer is in place, the delivery has occurred and all key risks and benefits have been transferred to the customer.

(h) Financial income and expenses

Financial income and expenses consist of interest income on bank balances, receivables, interest-bearing securities and dividend income, interest expense on loans, exchange rate differences, unrealized and realized gains on financial investments and derivative instruments used in financial activities. Interest income includes accrued amounts of transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable and the amount received at maturity. Issue expenses and similar transaction costs for raising loans are accrued over the term of the loan.

i) Financial instruments

Financial instruments are valued and reported within the Group in accordance with the rules contained in IAS 39 as of January 1, 2005, without retroactive recalculation of the comparative year.

Financial instruments reported in the balance sheet include, on the asset side, cash and bank, trade receivables, shares and other equity instruments, loans receivable, bonds receivable and derivatives. On the liabilities and equity side are accounts payable, issued liability and equity instruments, loans and derivatives.

Financial instruments are initially reported at their acquisition value, corresponding to the instruments' fair value with additions for transaction costs for all financial instruments except for those that belong to the category of financial assets that are reported at their fair value via the income statement. Reporting thereafter depends on how they are classified in accordance with the criteria below.

The fair value of listed financial assets corresponds to the assets' stated purchase price on the reporting date. The fair value of unlisted financial assets is based on a calculation of the net present value of future cash flows.

IAS 39 classifies financial instruments into categories. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of instruments when they are first acquired. The categories are as follows:

Investments held to maturity

Financial assets that have fixed or determinable payment flows, and with a fixed duration, that the company has an expressed intention and ability to hold until maturity. Assets in this category are valued at their amortized cost.

Financial assets held for trading

Financial assets in this category are valued at fair value with changes in value reported in the income statement.

Financial assets available for sale

The financial assets in this category include financial assets that are not classified in any other category or financial assets that the company initially chose to classify in this category. Assets in this category are valued continuously at their fair value with changes in value reported in equity. At the time when the investments are removed from the balance sheet, previously reported accumulated gains or losses in equity are transferred to the income statement.

Other financial liabilities

Financial liabilities not held for trading are valued at amortized cost.

Derivatives used for hedge accounting

All derivatives are reported at their fair value in the balance sheet. Changes in value are transferred to the income statement when the fair value is hedged. Hedge accounting is described in greater detail below.

Long-term receivables and other current receivables

Long-term receivables and other current receivables are receivables that arise when the company provides money without the intention to conduct trade in the receivable. If the expected holding time is longer than one year, they are long-term receivables, and if it is shorter, they are current receivables. These receivables belong to the category loan receivables and trade receivables.

Trade receivables

Trade receivables are reported at the amount expected to be received after deductions for doubtful receivables assessed individually. Trade receivables have a short anticipated duration and are valued at their nominal amount without discounting. Impairments of trade receivables are reported as operating expenses.

Liabilities

Liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans are valued at amortized cost in accordance with the effective interest method. Long-term liabilities have an anticipated duration of longer than one year, while current liabilities have a duration of less than one year.

(j) Derivatives and hedge accounting

Derivative instruments – including forward contracts, options and swaps – are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in value affecting derivative instruments are reported in the income statement based on the reason for the holding. If a derivative is used for hedge accounting, and assuming this is effective, the change in value of the derivative is reported on the same line in the income statement as the hedged item. Even if hedge accounting is not applied, increases or decreases in the value of the derivative are reported as a revenue or expense item under operating income or under net financing cost, based on the reason for using the derivative instrument and whether its use is related to an operating item or a financial item. When hedge accounting is used, the ineffective portion is reported in the same manner as changes in value affecting derivatives that are not used for hedge accounting.

If hedge accounting is not applied when using interest swaps, the interest coupon is reported as interest and other changes in the value of the interest swap are reported as other financial income or other financial expense.

Receivables and liabilities in foreign currency

For hedging of assets or liabilities against exchange rate risks, forward contracts are used. For these hedges, no hedge reporting is necessary since both the hedged item and the hedging instrument are valued at fair value with changes in value relating to exchange rate differences reported in the income statement. Changes in value relating to operations-related receivables and liabilities are reported in operating profit while changes in value relating to financial receivables and liabilities are reported in net financing cost.

Hedging of the Group's interest-rate risk

Interest swaps are used for hedging of interest rate risk. Interest swaps are valued at their fair value in the balance sheet. In the income statement, the interest coupon portion is reported continuously as current interest income or interest expense, while other changes in the value of interest swaps are reported directly in the hedge reserve in equity, as long as the criteria for hedge accounting and effectiveness are met.

Hedging of fair value
When a hedging instrument is used for hedging of fair value, the derivative is reported at its fair value in the balance sheet and the hedged asset/liability is also reported at fair value in regard to the risk that is hedged. The change in value of the derivative is reported in the income statement together with the change in value of the hedged item.

(k) Leased assets
In the case of leased assets, IAS 17 applies. Leasing of fixed assets, whereby the Group is essentially subject to the same risks and benefits as with direct ownership, is classified as finance lease. However, the Group has entered into certain financial leasing agreements related to company cars, photocopiers, etc. that, based on materiality criteria, are reported as operating leases. Leasing of assets where the lessor essentially retains ownership of the assets is classified as operating leases. Leasing charges are expensed straight-line over the leasing period.

(l) Intangible assets
(i) Goodwill
Goodwill comprises the difference between the acquisition value of acquired operations and the fair value of the acquired assets, assumed liabilities and any contingent liabilities.

For goodwill in acquisitions made before January 1, 2004, the Group has, with the transition to IFRS, not applied IFRS retroactively, but rather the value reported on this date continues to be the Group's acquisition value, following impairment testing, see Note 10.

Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is divided among cash-generating units and is no longer amortized, but is instead tested annually, or upon indication, for impairment. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies.

(ii) Research and development
Research costs for obtaining new technical expertise are expensed continuously as they arise. Development costs in the case of which the research results or other knowledge are applied in order to achieve new or improved products or processes are reported as an asset in the balance sheet, provided the product or process is technically and commercially usable. Other costs are reported in the income statement as they arise.

(iii) Other intangible assets
Other intangible assets acquired by the Group are reported at acquisition value less accumulated amortization and impairments.

(iv) Amortization
Amortization is reported in the income statement straight-line over the estimated useful life of the intangible assets, unless the useful life is indefinite. Goodwill and intangible assets with an indefinite useful life are tested for impairment requirements annually or as soon as indications arise that point toward a decline in the value of the asset. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life periods are as follows:

– trademarks	10–20 years
– capitalized development expenditures	5–7 years

(m) Fixed assets
Tangible fixed assets are reported in the Group at their acquisition value less accumulated depreciation and impairments if applicable. The acquisition value includes the purchase price and costs directly attributable to the asset in order to transport it to its place of use in the appropriate condition for being used in accordance with the purpose of the acquisition.

Borrowing costs are not included in the acquisition value of internally produced fixed assets.

Depreciation
Depreciation is applied straight-line over the asset's estimated useful life; land is not depreciated.

Estimated useful life of:

– buildings, owner-occupied properties	40 year
– machinery and other technical plant	5–12 years
– equipment, tools and fixtures	5–10 years
– major components	3–5 years

Assessment of an asset's residual value and useful life is performed annually.

(n) Biological assets
The Group has forest plantations to secure its raw-material needs for match manufacturing. Growing trees owned by the Group are valued at fair value after deductions for estimated selling expenses. Changes in fair value are included in the Group's earnings for the period during which they arise. The fair value of growing trees is based on estimated market value.

(o) Inventory
Inventory is valued at the lesser of acquisition cost and net realizable value.

The acquisition value for cut timber amounts to the fair value with deductions for estimated selling expenses at the time of felling, determined in accordance with the accounting principles for biological assets.

The acquisition value of other inventory is calculated by applying the first-in, first-out method (FIFO) and includes expenses arising from the acquisition of inventory items and the transport of them to their present location and condition.

(p) Impairments
The carrying amounts for the Group's assets – with the exception of biological assets, assets held for sale and disposal groups reported in accordance with IFRS 5, inventories, plan assets used for the financing of employee benefits and deferred tax assets – are tested on each reporting date to evaluate whether there is an indication of an impairment. Should such an indication exist, the asset's recoverable amount is calculated.

For goodwill and other intangible assets with an indefinite useful life and intangible assets that are not yet ready for use, their recoverable amount is calculated annually, or when an impairment is indicated. An impairment charged against the income statement is made when the carrying amount exceeds the recoverable amount.

(q) Provisions
A provision is reported in the balance sheet when the Group has an existing legal or informal obligation as a result of an event that has occurred and it is probable that expenditure will be required to regulate the obligation, and that a reliable estimate of the amount can be made.

(r) Share capital
Buybacks of own shares are reported directly in equity.

(s) Employee benefits
Within the group there are a number of defined contribution and defined benefit pension plans, some of them with plan assets in special foundations or similar institutions. The pension plans are financed by payments from the Group company concerned and its employees. Independent actuaries compute the size of the commitments attached to each plan and reevaluate the pension-plan assumptions each year.

Obligations regarding fees for defined contribution plans are reported as an expense in the income statement when they occur. Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's active working life. These assumptions are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. In Swedish Match's consolidated balance sheet, the pension commitments for funded plans are reported net after deductions for plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as financial fixed assets. When the calculation leads to an asset for the Group, the carrying value of the asset is limited to the net amount of non-reported actuarial losses and non-reported costs for service during prior periods and the present value of future repayments from the plan or reduced future payments to the plan.

The corridor rule is applied for actuarial gains and losses. In accordance with the corridor rule, the proportion of accumulated actuarial gains and losses that exceeds 10% of the larger of the present value of the obligations and the fair value of plan assets is reported in the income statement over the anticipated average remaining periods of employment for employees covered by the plan. Actuarial gains and losses are otherwise not recognized.

Obligations for old-age pensions and family pensions for salaried employees in Sweden are secured through insurance in a superannuation fund (PSF). This fund also encompasses another employer. Since the company has not previously had sufficient information to report this as a defined benefit plan, it had been reported as a defined contribution plan. During the year, an analysis was completed enabling a reasonable estimate of Swedish Match's assets and liabilities in the superannuation fund. In the 2005 annual accounts, this plan is reported as a defined benefit plan. That change has been reported as a change in accounting principles as of January 1, 2004, and previous report periods in 2004 and 2005 have been restated. The change means that equity brought forward as of January 1, 2004 increased by 40 MSEK and that pension costs during 2004 and 2005 were reported at a lower amount of 32 MSEK and 38 MSEK respectively.

When there is a difference between how pension costs are determined for a legal entity and the Group, a provision or claim pertaining to a special employer's salary tax based on this difference is recorded. The provision or claim is not computed at net present value.

(t) Share-based payments

Under an option program, certain executives are entitled to purchase shares in the company. The fair value of the allotted options is reported as a personnel cost with a corresponding amount reported as an increase in equity. The fair value is expensed during the year the options are earned, because the right to receive the options is irrevocable that year assuming that the employee is still employed at the end of the year. The amount expensed is adjusted to reflect the real number of options earned during the year, but not the portion of the option allotment that depends on the share price.

Social fees attributable to share-based instruments allotted to employees in lieu of purchased services are expensed during the year of vesting. With respect to foreign employees, the amount for social security fees is corrected continuously to take into account the fair value trend of the options.

(u) Taxes

Income taxes consist of current tax and deferred tax. Income tax is reported in the income statement except when the underlying transactions are reported directly in equity, in which case the related tax effect is also reported in equity.

Current tax is tax that shall be paid or is received for the current year, with application of tax rates, that are enacted on the reporting date. Adjustments of current tax attributable to earlier periods are also reported here.

Deferred tax is computed using the balance sheet method, using temporary differences between reported and taxable values of assets and liabilities as the starting point. The following temporary differences are not taken into account: temporary differences arising during the first reporting of goodwill, the first reporting of assets and liabilities that are not the result of business combinations and which, at the time of the transaction, do not affect either the reported or the taxable earnings, or temporary differences attributable to shares in subsidiaries and associated companies that are not expected to be reversed in the foreseeable future. Valuation of deferred tax is based on how the carrying amounts for assets or liabilities are expected to be realized or regulated. Deferred tax is calculated by applying tax rates or tax regulations that are enacted on the reporting date.

Deferred tax assets related to deductible temporary differences and loss carry-forwards are only reported to the extent that it is likely that they will be utilized. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be utilized.

(v) Contingent liabilities

A contingent liability is reported when there is a potential commitment that stems from previous events and whose occurrence is confirmed only by one or more uncertain future events or when there is a commitment that is not reported, as a liability or provision, because it is unlikely that an outflow of resources will be required.

Parent Company accounting principles

The Annual Report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Council's recommendation RR 32 Accounting for Legal Entities. RR 32 entails that in the Annual Report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS. The differences in the accounting principles between the Parent Company and the Group are described below.

In accordance with the transitional rules in RR 32, the company has chosen not to implement chapter 4, paragraph 14a-e, of the Annual Accounts Act, which allows the valuation of certain financial instruments at fair value. Effective January 1, 2006, the rules found in the Annual Accounts Act, chapter 4, paragraph 14a-e, will be applied. This will involve a change in accounting principles.

Changed accounting principles

The Parent Company's changed accounting principles have been reported in accordance with the transitional provisions specified in each standard or in accordance with the rules set forth in IAS 8.

Financial instruments

The Parent Company does not apply the valuation rules in IAS 39. However, what is written about financial instruments elsewhere also applies to the Parent Company. In the Parent Company, financial fixed assets are valued at their acquisition value less any impairments and financial current assets at the lower of cost or net realizable value.

Derivatives and hedge accounting

Derivatives not used for hedging are valued in the Parent Company according to the lower of cost or market. Reporting of derivatives used for hedging is governed by the hedged item. This means the derivative is treated as an off-balance-sheet item as long as the hedged position is not included in the balance sheet, or if it is included in the balance sheet at acquisition value. When the hedged item is reported in the balance sheet, the derivative is reported in the balance sheet at fair value.

Reversal of impairments

Impairments of equity instruments that are classified as "available-for-sale financial assets" are not reversed in the Group via the income statement. However, in the Parent Company, corresponding reversals are affected via the income statement.

Employee benefits

The Parent Company applies different principles for computing defined benefit plans than those specified in IAS 19. The Parent Company follows the provisions of the Pension Security Act and the regulations of the Swedish Financial Supervisory Authority, since that is a prerequisite for tax deductibility. The key differences compared with the regulations in IAS 19 are how the discount rate is determined, that computation of the defined benefit obligations occurs according to current salary levels without assumptions regarding future wage increases, and that all actuarial gains and losses are reported in the income statement as they are incurred.

Taxes

In the Parent Company, untaxed reserves are reported including deferred tax liabilities. In consolidated accounts, however, untaxed reserves are divided into deferred tax liabilities and equity.

Group and shareholder contributions for legal entities

The company reports Group and shareholder contributions in accordance with the opinion from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force. Shareholder contributions are transferred directly to the recipient's equity and are capitalized in shares and participations by the donor, to the extent that an impairment loss is not required. Group contributions are reported in accordance with their economic implication. This means that a Group contribution provided with the aim of

Note 1, cont.

reducing the Group's total tax is reported directly as retained earnings after a deduction for its current tax effect.

A Group contribution that is equivalent to a dividend is reported as a dividend. This means that a received Group contribution and its current tax effect are reported in the income statement. The Group contribution granted and its current tax effect are reported directly in retained earnings.

A Group contribution that is equivalent to a shareholder contribution is reported directly in the recipient's retained earnings, taking account of the current tax effect. The donor reports the Group contribution and its current tax effect as an investment in participations in Group companies, to the extent that an impairment loss is not required.

Note 2. Revenues

The Group's revenues mainly relate to the sales of goods.

Note 3. Segment information

Primary segments – product areas

The Group is organized in six product areas and other operations.

Other operations include distribution of tobacco products on the Swedish market, sales of advertising products and corporate overheads.

Product area assets consist primarily of tangible and intangible fixed assets, inventories and operating receivables.

Product area liabilities comprise operating liabilities. Non-allocated assets and liabilities are mainly assigned to financial items and taxes.

Investments consist of purchase of tangible and intangible assets, including increases as a result of acquisitions.

No sales are transacted between the different product areas.

Revenues	**External sales**	
	2005	**2004**
Snuff	3,131	3,081
Chewing tobacco	1,079	1,058
Cigars	3,283	3,171
Pipe tobacco and accessories	920	901
Matches	1,316	1,378
Lighters	620	582
Other operations	2,962	2,836
Total	**13,311**	**13,007**

	Operating income		**Share of operating income from associated companies**		**Total operating income**	
Income	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Snuff	1,503	1,375	1	1	1,504	1,376
Chewing tobacco	347	304	–	–	347	304
Cigars	606	570	7	–3	613	567
Pipe tobacco and accessories	237	254	–	–	237	254
Matches	4	–14	9	2	13	–12
Lighters	42	12	1	1	44	13
Other operations	–140	–190	–	–	–140	–190
Subtotal	**2,601**	**2,311**	**18**	**1**	**2,618**	**2,312**
Settlement income	–	1,521	–	–	–	1,521
Match impairment charges	–	–150	–	–	–	–150
Provision for acquisition of shares in Wimco Ltd	–	–90	–	–	–	–90
Gain from sale of office building	206	–	–	–	206	–
Total	**2,807**	**3,592**	**18**	**1**	**2,825**	**3,593**
Non-allocated costs and revenues						
Financial income					91	106
Financial expenses					–219	–270
Income taxes					–919	–1,345
Net income for the year					**1,777**	**2,084**
Attributable to:						
Equity holders of the parent					1,769	2,011
Minority interest					9	72
Net income for the year					**1,777**	**2,084**

Note 3, cont.

Assets	Assets 2005	2004	Share of equity in associated companies 2005	2004	Total assets 2005	2004
Snuff	1,739	1,645	–	–	1,739	1,645
Chewing tobacco	499	396	–	–	499	396
Cigars	6,021	5,062	85	75	6,106	5,137
Pipe tobacco and accessories	1,370	1,262	–	–	1,370	1,262
Matches	1,068	1,219	–	42	1,068	1,261
Lighters	479	461	8	7	487	468
Other operations	924	880	–	–	924	880
Non-allocated assets	4,613	3,849	–	–	4,613	3,849
Total	**16,713**	**14,774**	**93**	**125**	**16,806**	**14,898**

Liabilities	Liabilities and equity 2005	2004
Snuff	539	513
Chewing tobacco	291	235
Cigars	1,124	927
Pipe tobacco and accessories	325	281
Matches	563	410
Lighters	197	202
Other operations	1,389	1,166
Non-allocated liabilities*	7,296	6,103
Equity	**5,083**	**5,060**
Total	**16,806**	**14,898**

* Non-allocated liabilities mainly pertain to taxes and financial items.

Investments	Tangible fixed assets 2005	2004	Intangible fixed assets 2005	2004	Total investments 2005	2004
Snuff	157	242	–	–	157	242
Chewing tobacco	9	18	–	–	9	18
Cigars	90	128	5	45	95	173
Pipe tobacco and accessories	20	28	–	–	20	28
Matches	38	36	2	18	40	54
Lighters	9	17	–	14	9	31
Other operations	6	18	3	1	9	19
Total	**328**	**487**	**10**	**78**	**338**	**565**

Note 3, cont.

Depreciation and amortization	Tangible fixed assets 2005	2004	Intangible fixed assets 2005	2004	Total depreciation and amortization 2005	2004
Snuff	110	95	16	43	126	138
Chewing tobacco	23	24	–	–	23	24
Cigars	100	113	69	68	169	181
Pipe tobacco and accessories	16	15	24	24	40	39
Matches	46	51	6	6	52	57
Lighters	33	26	2	2	35	28
Other operations	9	8	5	4	14	12
Total	**337**	**332**	**121**	**147**	**458**	**479**

During 2005, write downs of intangible fixed assets of 67 MSEK affected the Matches product area. During 2004, write downs of intangible fixed assets affected product areas as follows: Matches, 17 MSEK; Lighters, 6 MSEK; cigars, 31 MSEK.

Write downs of tangible fixed assets were charged against the Matches product area at an amount of 38 MSEK (219 MSEK) and against the Cigars product area at an amount of 15 MSEK.

Secondary segments – geographic areas

The Group's operations are primarily conducted in four geographic areas. The sales figures relate to the geographic area where the customer is domiciled. Assets and investments are reported where assets are located respectively. Non-allocated assets and liabilities consist mainly of financial items and taxes.

Revenues	External sales 2005	2004
Nordic region	5,356	5,087
Europe excluding Nordic region	1,920	1,912
North America	3,974	4,036
Other areas	2,061	1,972
Total	**13,311**	**13,007**

Assets	Assets 2005	2004
Nordic region	3,590	3,356
Europe excluding Nordic region	1,762	1,855
North America	5,030	3,952
Other areas	1,811	1,885
Non-allocated assets	4,613	3,849
Total	**16,806**	**14,898**

Investments	Tangible fixed assets 2005	2004	Intangible fixed assets 2005	2004
Nordic region	160	245	5	19
Europe excluding Nordic region	14	84	5	58
North America	79	112	–	–
Other areas	75	46	–	1
Total	**328**	**487**	**10**	**78**

Note 4. Other operating income and other operating expenses

Other operating income include foreign exchange rate gains of 23 MSEK (6).
Other operating expenses include foreign exchange rate losses of 5 MSEK (5).

Note 5. Personnel

The average number of employees in the Parent Company during 2005 was 47, and in the Group 14,333. The corresponding numbers in 2004 were 47 and 15,039 respectively.

Wages, salaries, other remuneration and social costs are summarized below:

	2005			2004		
	Salaries and other compensation	**Social costs**	**of which, pension costs**	**Salaries and other compensation**	**Social costs**	**of which, pension costs**
Parent Company	54	50	29	55	34	13
Subsidiaries	1,655	621	138	1,671	583	104
Group	**1,709**	**671**	**167**	**1,726**	**617**	**117**

Wages, salaries and other remuneration distributed by country and between members of the Board, etc., and other employees, are summarized below:

	2005			2004		
	Board and CEO	**of which, bonuses, etc.**	**Other employees**	**Board and CEO**	**of which, bonuses, etc.**	**Other employees**
Parent Company						
Sweden	13	–	41	22	4	33
Subsidiaries						
Total in subsidiaries	31	5	1,624	34	7	1,637
Group total	**44**	**5**	**1,665**	**56**	**11**	**1,670**

During 2005, 17.4 MSEK (11.7) was paid into a profit-sharing foundation on behalf of Group personnel in Sweden.
No provision will be made during 2006.

Note 5, cont.

Group employees divided by country are summarized in the table below:

	2005		2004	
	Average number of employees	(of whom, men, %)	Average number of employees	(of whom, men, %)
Parent Company				
Sweden	47	55	47	49
Subsidiaries				
Australia	48	63	49	57
Austria	14	64	15	67
Belgium	349	32	317	29
Brazil	758	73	741	71
Bulgaria	105	42	107	43
China	258	82	265	65
Dominican Republic	3,908	47	3,339	41
France	65	55	66	56
Germany	40	63	40	63
Honduras	1,801	50	1,623	41
Hungary	149	32	172	36
India	1,496	99	2,877	99
Indonesia	1,617	27	1,512	15
Ireland	36	72	37	73
Netherlands	333	81	419	80
Norway	33	70	27	63
New Zealand	8	88	6	83
Philippines	129	53	128	51
Poland	16	56	17	71
Portugal	23	78	22	73
Slovenia	13	92	14	93
South Africa	472	89	493	91
Spain	75	77	123	78
Sweden	1,066	58	1,050	59
United Kingdom	54	65	59	61
United States	1,217	64	1,273	59
Turkey	183	85	180	87
Other countries	20	70	21	71
Group total	**14,333**	**58**	**15,039**	**58**

Leading executives, distributed by gender:

	2005		2004	
	At end of period	(of whom, men, %)	At end of period	(of whom, men, %)
Parent Company				
Board members	11	73	9	78
CEO and other management	9	100	10	100
Group				
Board members	108	91	136	93
CEO and other management	115	90	126	94

Compensation

Compensation to Swedish Match AB's Board members

Fees are paid to the Chairman of the Board and Board members in accordance with decisions of the Annual General Meeting. No Board fee is paid to the President (CEO). A study fee in an amount of 43,000 SEK was paid to each of the three employee representatives on the Board, and in an amount of 32,250 SEK to each of the three deputy members. The fees paid to Board members elected by the Annual General Meeting for Board work during 2005 are shown in the table below:

Board fees paid to Board members elected by AGM in 2005

	Board fees	Compensation Committee	Audit Committee	Total fees for Board work
Bernt Magnusson	737,500	86,250		823,750
Jan Blomberg	300,000	48,250	86,250	434,500
Tuve Johannesson	300,000			300,000
Arne Jurbrant	300,000	48,250		348,250
Meg Tivéus	300,000		48,250	348,250
Karsten Slotte	300,000		48,250	348,250
Kersti Strandqvist	200,000		30,667	230,667
Total	**2,437,500**	**182,750**	**213,417**	**2,833,667**

In 2004, The Annual General Meeting decided that remuneration to the Board Chairman up until the end of the 2005 Annual General Meeting would be 700,000 SEK and 300,000 SEK each to the other Board members elected by the AGM, and to give the Board 400,000 SEK as compensation for committee work, to be distributed within the Board as it decides.

The Annual General Meeting in 2005 decided that compensation for the Board Chairman until the end of the next AGM was to be 750,000 SEK and 300,000 SEK to each of the other Board members elected by the AGM, and to give the Board 400,000 SEK as compensation for committee work, to be distributed within the Board as it decides.

Compensation and other benefits to Group management during 2005

(TSEK)		Fixed salary	Variable salary	Options	Other benefits	Pension costs[1]	Total
President	2005	5,665	1,628	700	121	1,991	10,104
	2004	5,452	1,855	700	209	2,256	10,471
Other members of Group management	2005	18,677	4,678	2,450	1,482	5,809	33,096
	2004	20,464	6,879	3,850	1,781	5,031	38,005
Total	**2005**	**24,342**	**6,305**	**3,150**	**1,603**	**7,800**	**43,200**
	2004	**25,915**	**8,734**	**4,550**	**1,990**	**7,287**	**48,476**

1) Pertains to expensed pensions.

Note 5, cont.

Comments on the table

- During 2005, the other members of Group management consisted of eight persons. During 2004, the other members of Group management consisted of 10 persons through April, and thereafter of nine persons.
- Variable salary pertains to incentive payments made during the year.
- Options relate to the gross amount disposable for the allocation of options.
- Other benefits pertain to company cars and other benefits.
- Reported pension costs are costs that affect the results of defined contribution pension plans and the service costs according to IAS for defined benefit pension plans. These accounting principles have been applied for the reporting of pension costs since January 1, 2004.

Fixed salary

The fixed salaries paid to members of Group management shall be based on market terms, competence, responsibilities and position.

Variable salary

In 2005, Group management was covered by an incentive program (variable salary). This variable salary could amount to a maximum of 35 percent of the employee's fixed salary. For the President and corporate staff function managers, the outcome of the incentive program was based on achieving an increase in Group earnings per share. For division presidents, 50 percent of the outcome of the incentive program was based on achieving an increase in earnings per share, while the remaining 50 percent was based on achieving an increase in operating income of the individual divisions. Maximum payment in the case of the portion based on earnings per share required that earnings per share increase by 20 percent or more compared to the preceding year. For division presidents, maximum payment was dependent on an improvement in operating income compared to the preceding year and upon the achievement of set targets.

In addition to the program noted above, one member of Group management based outside Sweden is also covered by a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome for this member of Group management corresponds to fixed annual salary every second year.

Options

The Group has an options program that can result in an allocation of call options on shares in Swedish Match AB. The options are allotted to participants subject to the fulfillment of certain established targets. In 2005, the options program covered 56 senior executives, including the President and other members of Group management. The options have a lifetime of five years and may be exercised for the purchase of shares during the fourth and fifth year. During this period, the shares can be purchased at a price that corresponds to 120 percent of the average price paid for the share during the ten days following the publication of the year-end report for 2005.

The allotment of options is calculated based on meeting two key criteria:

- The total return on the Swedish Match share shall be positive and better than the return on the shares of a selection of other companies in the industry. Based on this criterion, a maximum allotment is made if the return on the Swedish Match share is 20 percentage points higher (or more) than the return on the shares of the selected companies.
- Earnings per share (EPS) for the year shall be higher than the average EPS for the most recent three-year period. A maximum allotment is made if the EPS is 20 percent higher (or more) than this average.

These criteria have the same value. If the allotment criteria are fulfilled, the senior executives will be allotted options at no cost and after allotment the options are vested. For program participants in Sweden, the allotment of options constitutes a taxable income. The options are valued by an external institution in accordance with the Black & Scholes model. Using the Black & Scholes model, the options are valued by the external institution based on the following conditions: the share price at the time of allotment is 83.21 SEK, volatility is 23 percent and the risk-free interest rate is 3.27 percent. An assumption in regard to dividend growth is also made to compute the value of the options.

Based on the targets achieved in 2004, 661,871 options were allotted during 2005. These can be exercised between March 3, 2008 and March 1, 2010. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 99.75 SEK per share. The computed value is 10.80 SEK per option, corresponding to a total of 7,148,207 SEK. During 2005, the consolidated income statement was charged with 10 MSEK pertaining to options earned during the year.

Number and weighted average of exercise prices related to options

	2005		2004	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of optioner
Outstanding at beginning of period	69.87	4,848,549	57.84	6,001,950
Allotted during period	99.75	661,871	84.80	865,259
Exercised during period	37.78	613,902	40.51	2,018,660
Matured during period	34.70	4	–	–
Outstanding at period-end	**77.93**	**4,896,514**	**69.87**	**4,848,549**
Exercisable at period-end	70.32	1,940,894	40.52	1,036,030

The average share price for share options exercised in 2005 was 84.40 SEK. The average share price for options exercised in 2004 was 73.70 SEK.

The options outstanding on December 31, 2005 are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2004-03-13—2006-03-14	44.50	1,812,309	1,390,185	422,124
2005-03-15—2007-03-15	77.50	1,518,770	–	1,518,770
2006-03-01—2008-02-28	74.00	1,428,490	–	1,428,490
2007-03-01—2009-02-27	84.80	865,259	–	865,259
2008-03-03—2010-03-01	99.75	661,871	–	661,871
		6,286,699	**1,390,185**	**4,896,514**

During the latter half of 2005, a review was started of the principles that should be applied for the allotment of variable salary and options. This review is expected to result in the application of new principles as of 2006.

Note 5, cont.

Pensions

Introduction

Members of Group management resident in Sweden shall normally be covered by the ITP (supplementary pensions for salaried employees) plan for that portion of salary up to 30 income base amounts and, for fixed salary in excess of that, by a defined contribution pension plan. Those members of Group management who are based abroad shall primarily be covered by defined contribution pension solutions, with pensionable salary based on their fixed salary amounts.

The minimum retirement age for members of Group management is 62.

President

Sven Hindrikes' retirement age is 62 and he is covered by the ITP plan for that portion of salary up to 30 times the base income amount. According to the ITP plan, the pension shall be fully paid at age 60. In addition, the company pays a pension premium amounting to 40 percent of that portion of fixed salary that exceeds 30 income base amounts to an external insurance provider.

Other members of Group management

The following pension terms and conditions apply to other members of Group management:

For those members of Group management who are resident in Sweden, two of them are subject to terms and conditions in accordance with the principles noted earlier. For the other two members, the terms and conditions have been renegotiated with the result that their defined benefit pensions remain unchanged, their pensionable salaries have been locked at the 2005 level, and their pensionable age remains unchanged at 60.

For those members of Group management who are resident abroad, one of them is covered by a defined benefit pension plan, with a retirement age of 65. The other is covered by a defined contribution pension solution, with a retirement age of 62.

Funding of pension commitments

For members of Group management resident in Sweden, pensions on salary portions of up to 30 income base amounts are funded in PSF, the Swedish Match Superannuation Fund. The commitment for defined benefit pensions for salary portions in excess of 30 income base amounts is funded in the Swedish Match Pension Foundation, or through an external insurance provider. For members of Group management resident abroad, defined benefit pension commitments are funded in local pension foundations.

All pension benefits are vested benefits.

Other employment conditions

Severance pay, etc.

For the President, a mutual period of notice of six months applies. A maximum severance payment of 18 months' fixed salary is payable if the company terminates the employment contract. Severance pay will be reduced by a maximum of 50 percent of any income received from another employer or assignment, but not to less than half of the contracted severance pay amount.

The President is entitled to terminate his employment with the right to receive severance pay in accordance with the above terms should a major organizational change occur that significantly restricts his position.

A mutual period of notice of six months applies for other members of Group management. Severance pay in an amount equivalent to 18 months of fixed salary is paid if the company terminates the employment contract.

Preparation and decision-making process

The Board of Directors of Swedish Match AB has appointed a Compensation Committee to prepare decisions for the Board in matters involving the principles underlying management's fixed and variable portions of salary, other employment conditions, pension benefits and other fundamental principles or matters of importance to the Group.

The President's fixed salary and terms for the variable portions of his salary, as well as other employment conditions in regard to financial year 2005, were approved by the Board. The President's proposals in regard to the fixed salary and terms for variable portions of salary, as well as other employment conditions for the other members of Group management were approved by the Compensation Committee. The Board approved the Compensation Committee's proposal in regard to the Group's options program and profit-sharing scheme, which were subsequently approved by shareholders at the Annual General Meeting.

Note 6. Selling and administrative expenses

Selling expenses include expenses for research and development and similar expenses at a total of 95 MSEK (113).

Administration expenses include expenses for auditors' fees in accordance with the table below:

	2005	2004
KPMG		
Auditing	14	13
Other	2	0
Total	**16**	**13**

Note 7. Operating expenses classified by nature

	2005	2004
Personnel expenses	–2,424	–2,314
Depreciation/amortization	–458	–479
Write downs	–120	–274
Other operating expenses	–7,707	–7,630
Total	**–10,710**	**–10,696**

Note 8. Net financing cost

	2005	2004
Interest income	91	103
Net foreign exchange rate gain	–	3
Financial income	**91**	**106**
Interest expense	–197	–266
Net foreign exchange rate loss	–5	–
Other financial expenses	–17	–4
Financial expenses	**–219**	**–270**
Net financing cost	**–128**	**–164**

Interest expenses of financial liabilities which are not reported at fair value via the income statement amounts to 36 MSEK.

Note 9. Income tax expense

Income taxes in 2005 and 2004 were distributed as follows:

	2005	2004
Current income taxes	–1,375	–1,196
Deferred income taxes	504	–76
Deferred withholding tax on unremitted earnings	–48	–73
Total	**–919**	**–1,345**

Note 9, cont.

The tax effects of taxable temporary differences that resulted in deferred tax liabilities at December 31, 2005, and December 31, 2004, are summarized below:

	Short-term		Long-term		Total	
	2005	2004	2005	2004	2005	2004
Pension and healthcare benefits	1	4	90	52	91	57
Tax allocation reserve, etc.	–	421	–	–	–	421
Depreciation in excess of plan	1	15	465	435	466	450
Inventory reserve	48	35	26	30	73	65
Deferred withholding tax on unremitted earnings	–	–	163	120	163	120
Other	7	14	213	204	221	219
Netting against deferred tax assets	–	–	–	–	–111	-89
Net deferred income tax liabilities					**903**	**1,243**

During the year, deferred tax liabilities decreased by 339 MSEK, of which an increase of 96 MSEK was reported directly in equity. Of the deferred tax liability reported directly in equity during 2005, 25 MSEK relates to adjustments as a result of the transition to IAS 32 (Financial instruments; disclosure and presentation) and IAS 39 (Financial instruments; recognition and measurement), and 71 MSEK to translation differences. During 2004, a negative amount of 12 MSEK of the total increase in deferred tax liability of 162 MSEK was reported directly in equity, of which 22 MSEK related to adjustments as a result of the transition to IFRS and a negative amount of 34 MSEK to exchange rate differences.

The tax effects of deductible temporary differences that resulted in deferred tax assets at December 31, 2005, and December 31, 2004, are summarized below:

	Short-term		Long-term		Total	
	2005	2004	2005	2004	2005	2004
Tax-loss carryforwards	26	6	1	7	27	13
Provision for bad debts	8	10	1	1	9	11
Restructuring reserve	9	8	1	5	10	13
Pension and healthcare benefits	0	2	354	274	354	276
Depreciation in excess of plan	0	1	2	16	2	17
Inventory reserve	18	17	2	5	20	22
Other	55	58	86	75	141	133
Netting against deferred tax liabilities					–111	-88
Net deferred income tax assets					**452**	**397**

During the year, deferred tax assets increased by 55 MSEK (24). Translation differences had a positive effect of 60 MSEK (negative: 21).

At December 31, 2005, the Group had deductible tax-loss carryforwards corresponding to 302 MSEK, for which no deferred tax claim was reported. The Group's deductible tax-loss carryforwards expire as follows:

Year	Amount
2006	119
2007	14
2008	19
2009	17
2010	22
Thereafter	111
Total deductible tax-loss carryforwards for which no tax assets were reported	**302**

In 2005 and 2004, the Group's net income was charged with tax of 34.1 and 39.2 percent, respectively. The difference between the Group's tax expense and the tax expense based on the statutory tax rate in Sweden of 28.0 percent is attributable to the items shown in the following table:

	2005 %	2005 MSEK	2004 %	2004 MSEK
Income before tax		2,696		3,429
Swedish tax rate	28.0	755	28.0	960
Adjustments for foreign tax rates	4.7	127	7.8	267
Losses that could not be utilized	0.2	6	0.7	25
Non-taxable items	–3.0	–80	–1.8	–61
Non-deductible amortization of intangible assets	0.3	8	0.2	8
Adjustments for taxes in prior years	–0.4	–11	0.1	3
Non-deductible expenses	2.3	62	4.1	139
Effect of capital gain	2.1	57	–	–
Other items	–0.2	–6	0.1	5
Total	**34.1**	**919**	**39.2**	**1,345**

The tax rate for 2005 was negatively affected by tax on the capital gain from sale of office building and other one-time items. Certain one-time items also had a positive effect on tax. The tax rate for 2004 was negatively affected by one-time items.

Note 10. Intangible fixed assets

Intangible fixed assets at December 31 were as follows:

	Goodwill		Trademarks		Other intangible assets		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Acquisition value brought forward	**2,009**	**2,046**	**2,031**	**2,026**	**149**	**120**	**4,190**	**4,192**
Purchases/investments	0	–	–	–	10	34	10	34
Companies acquired	599	44	–	4	–	–	599	48
Companies divested	–	–	–	–	–24	–	–24	–
Sales/disposals	–	–	–	–	–7	–1	–7	–1
Reclassifications	–4	4	4	–	–	–3	0	1
Exchange rate differences, etc.	328	–85	103	1	6	–1	438	–85
Accumulated acquisition value carried forward	**2,933**	**2,009**	**2,138**	**2,031**	**134**	**149**	**5,205**	**4,190**
Accumulated amortization and write downs brought forward	**–10**	**0**	**–627**	**–495**	**–101**	**–49**	**–739**	**–544**
Amortization	–	–	–108	–136	–14	–11	–121	–147
Write downs	–57	–9	–	0	–10	–46	–67	–55
Companies divested	–	–	–	–	7	–	7	–
Sales/disposals	–	0	–	0	25	1	25	1
Reclassifications	3	–2	–3	0	–	1	0	–1
Exchange rate differences, etc.	–3	1	–36	4	–5	2	–44	7
Accumulated amortization and write downs carried forward	**–68**	**–10**	**–774**	**–627**	**–98**	**–101**	**–940**	**–739**
Book value carried forward	**2,865**	**1,999**	**1,364**	**1,404**	**36**	**48**	**4,265**	**3,452**

The Group's intangible assets are deemed to have definite useful lives, except for goodwill, which according to the IFRS definition has an indefinite lifetime.

Amortization and write downs of intangible fixed assets were charged against administrative expenses in the income statement. During 2005, write downs of intangible assets amounted to 67 MSEK and affected the Matches product area. During 2004, write downs affected product areas as follows: Matches, 17 MSEK, Lighters, 6 MSEK, and Cigars, 31 MSEK. These write downs are not expected to be tax-deductible.

The Group's goodwill is tested for impairment annually and when indications exist. When testing, the value in use is compared to the carrying value of the Group's cash generating units. If the value in use is less than the carrying value, an impairment exists equal to the amount of the difference. The value in use is based on discounted cash flows. The level at which management monitors the operations has formed the basis for determining the groups of cash-generating units. The cash flows used are forecast against the background of market conditions and historical experience, and are based on what management regards as reasonable assumptions. These assumptions may be subject to change if circumstances arise or facts becomes available that affect the assumptions. Calculations of value in use are also sensitive to changes in market interest rates, as these provide the basis for discount rates.

Group goodwill largely relates to the US cigar operations – particularly from the acquisition of General Cigar. At December 31, 2005, the total goodwill attributable to General Cigar amounted to 1,494 MSEK (713). Goodwill attributable to other units is not considered to involve significant values taken separately, and totals 1,371 MSEK (1,286). When goodwill was tested for impairment in 2005, the value in use for match operations was lower than the reported values, while the value in use for other operations exceeded the reported values.

The cash flows underlying the value in use calculation of General Cigar in the 2005 testing, were based on the budget for 2006. Sales growth and cost structure assumptions are in line with historic development, but with consideration given to the integration of General Cigar in the Group's North American cigar operations. Cash flows are explicitly forecasted for the coming five years, after which a growth factor of 1.5 percent has been applied to calculate the value of subsequent cash flows. The discount rate used amounts to 8.8 percent before tax.

In addition to the annual impairment test, certain parts of the match operations were reviewed during 2005 due to a deterioration in market conditions. This resulted in a write down of intangible assets at an amount of 67 MSEK, of which 57 MSEK related to goodwill. Values in use were calculated at discount rates before tax ranging from 6.5 to 18.0 percent, based on local risk and interest-rate levels, among other factors.

Note 11. Tangible fixed assets

Tangible fixed assets at December 31, 2005, included the following:

	Buildings and land* 2005	Buildings and land* 2004	Machinery 2005	Machinery 2004	Equipment, tools and fixtures 2005	Equipment, tools and fixtures 2004	New construction 2005	New construction 2004	Total 2005	Total 2004
Acquisition value brought forward	**1,834**	**1,867**	**3,244**	**3,174**	**538**	**524**	**204**	**124**	**5,820**	**5,689**
Purchases/Investments	–1	80	147	111	92	95	79	189	317	475
Companies acquired	–	18	–	3	–	–	–	–	–	21
Companies divested	–294	–	–88	–	–27	–	–4	–	–414	–
Sales/disposals	–499	–37	–230	–63	–40	–29	14	–2	–756	–131
Reclassifications	16	3	71	119	10	–36	–96	–87	1	–1
Exchange rate differences, etc.	199	–97	359	–100	11	–16	24	–20	593	–233
Accumulated acquisition value carried forward	**1,255**	**1,834**	**3,502**	**3,244**	**584**	**538**	**221**	**204**	**5,562**	**5,820**
Accumulated depreciation and write down brought forward	**–785**	**–684**	**–2,163**	**–1,947**	**–282**	**–279**	**23**	**11**	**–3,207**	**–2,899**
Depreciation	–47	–46	–221	–228	–69	–58	–	–	–337	–332
Write down	–13	–131	–27	–84	–13	–4	–	–1	–53	–219
Companies divested	253	–	88	–	23	–	–	–	364	–
Sales/disposals	205	24	194	54	45	26	–14	–	430	104
Reclassifications	–	–	–	–25	–	26	–	–	–	1
Exchange rate differences, etc.	–103	52	–248	67	–7	7	–9	12	–367	138
Accumulated depreciation and write down carried forward	**–490**	**–785**	**–2,376**	**–2,163**	**–303**	**–282**	**0**	**23**	**–3,170**	**–3,207**
Book value carried forward	**765**	**1,049**	**1,126**	**1,081**	**280**	**256**	**221**	**228**	**2,393**	**2,614**

* Buildings and land include land at a book value of 185 MSEK (253).

Construction in progress primarily relates to investments in production facilities.

Depreciation during the year totaling 337 MSEK (332) was charged against cost of goods sold in the income statement at an amount of 219 MSEK (224), against administration costs at an amount of 66 MSEK (70), and against selling expenses at an amount of 52 MSEK (38). Write downs were charged against cost of goods sold at an amount of 38 MSEK and against administration costs at an amount of 15 MSEK. Write downs during 2004 were charged against cost of goods sold. The total write down of 53 MSEK (219), affected the Match result by 38 MSEK (219) and the Cigar result by 15 MSEK. The impairment losses are not expected to be tax-deductible.

Due to a deterioration in market conditions for certain parts of the match operations, the asset values were reviewed during 2005, resulting in write downs of 38 MSEK of tangible assets. The value in use was calculated at a discount rate before tax of 6.5 percent. Write downs for tangible assets were distributed as follows: 11 MSEK for buildings and land, 14 MSEK for machines and other plant and equipment, and 13 MSEK for equipment, tools and fixtures.

The tax assessment values for properties in Sweden at December 31 are stated below:

	2005	2004
Buildings	273	274
Land	20	20
Total tax assessment values	**294**	**294**

Note 12. Biological assets

Biological assets at December 31, 2005, comprised the following:

	Biological assets 2005	2004
Value brought forward	**98**	**81**
Purchases/Investments/New planting	10	11
Sales/disposals during the year	–	–5
Company sales	–25	–
Change in fair value	–5	15
Reclassification to inventories	–14	–
Exchange rate differences, etc.	31	–3
Value carried forward	**95**	**98**

The Group's biological assets comprise poplar and pine forests with a total area of 6,000 hectares at December 31, 2005. The age of the trees varies from newly planted seedlings up to 35 years. The forest is held to ensure the supply of wood for parts of the match operations.

Timber felled during the year was valued at 14 MSEK at the time of felling, and comprised 103,700 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, with a deduction for selling costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area. Volume growth during 2005 had a positive effect of 1 MSEK on fair value, while lower market prices for timber had a negative effect of 6 MSEK on fair value.

Replanting is required for the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2005, 279 hectares (213) pine forest were replanted. At present, there is no corresponding requirement for poplar.

Forest plantations are subject to damage caused by insect pests, disease and fire. To reduce these risks, a program for damage and fire prevention is in place.

Note 13. Shares and participations

Group	2005	2004
Value brought forward	125	135
Income from associated companies, net after tax	16	3
Dividends from associated companies	–2	–12
Sale of shares in associated companies	–52	–
Exchange rate differences	6	–1
Value carried forward	**93**	**125**

The tables below specify the consolidated value of shares in associated companies.

2005	Country	Revenue	Earnings	Assets	Liabilities	Equity interest	Owner-ship%	Book value
Arnold André GmbH & Co. KG	Germany	184	7	157	72	85	40	85
Malaysian Match Co. SDN. BHD.	Malaysia	11	0	12	6	6	32	8
P.T. Jamafac*	Indonesia	51	9					–
Total shares in associated companies		**246**	**16**	**169**	**78**	**91**		**93**

* The holding in P.T. Jamafac was divested during the fourth quarter of 2005

2004	Country	Revenue	Earnings	Assets	Liabilities	Equity interest	Owner-ship%	Book value
Arnold André GmbH & Co. KG	Germany	190	1	145	70	75	40	75
P.T. Jamafac	Indonesia	50	2	77	35	42	40	42
Malaysian Match Co. SDN. BHD.	Malaysia	9	0	9	4	5	32	7
Other associated companies								1
Total shares in associated companies		**249**	**3**	**231**	**109**	**122**		**125**

In the normal course of business, Swedish Match conducts various transactions with associated companies. Receivables from these companies totaled 27 MSEK at December 31, 2005, and 24 MSEK at December 31, 2004.

Total sales to associated companies amounted to 142 MSEK in 2005 and 141 MSEK for 2004.

Note 14. Long-term receivables and other receivables

Long-term receivables that were fixed assets at December 31, 2005 comprised the following items:

	2005	2004
Long-term financial receivables	178	67
Net assets in pension plans	190	120
Other long-term receivables	227	129
Total	**595**	**316**

Other receivables that were current assets at December 31, 2005 comprised the following items:

	2005	2004
Short-term financial receivables	131	111
Income tax receivables	195	272
VAT receivables	54	46
Other short-term receivables	110	132
Total	**490**	**561**

Note 15. Inventories

Inventories at December 31, after deductions for obsolescence, and separated into what was deemed recoverable within one year (short-term) and after one year (long-term), consisted of the following items:

	2005			2004		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Finished goods	808	0	809	737	3	740
Work in progress	141	1	142	131	12	142
Leaf tobacco	888	674	1,562	739	629	1,369
Other input materials	248	8	257	218	7	225
Total inventories	**2,086**	**684**	**2,770**	**1,826**	**651**	**2,476**

Felled timber constitutes an immaterial part of other input materials.

Note 16. Provision for bad debts

Provision for bad debts at December 31 had changed as follows:

	2005	2004
Balance brought forward	–99	–111
Provision	–30	–29
Recovery	18	19
Write off	19	19
Companies divested	9	–
Exchange rate differences	–13	3
Closing balance	**–96**	**–99**

Note 17. Liquid funds and short-term investments

Short-term investments	**2005**	**2004**
Treasury bills	79	392
Bank certificates	1,197	429
Mortgage certificates	498	755
Government bonds	108	61
Mortgage bonds	41	166
Other financial investments	5	12
	1,929	**1,815**
Liquid funds		
Cash and bank	1,418	660
Balance in the Parent Company's cash pool accounts	311	442
Cash deposits	0	85
	1,729	**1,187**
Total on balance sheet	**3,657**	**3,002**

Note 18. Equity

Specification of equity reserves

Translation reserve*	2005	2004
Translation reserve, Jan. 1	–96	0
Translation differences for the year	708	-96
Less translation differences attributable to divested companies	–1	–
Translation reserve, Dec. 31	**611**	**-96**

Hedging reserve**	2005	2004
Hedging reserve, Jan. 1	0	0
Change in accounting principle, IAS 39	31	–
Revaluations reported directly against equity	9	–
Hedging reserve, Dec. 31	**40**	**0**

Total reserves	2005	2004
Reserves, Jan. 1	–96	0
Change in reserves for the year		
Translation reserves	707	–96
Hedging reserves	40	–
Reserves, Dec. 31	**651**	**–96**

* Translation reserves include all exchange rate differences that arise in translation of the financial reports from foreign operations who have prepared their financial statements in a different currency from that which is used to present the consolidated financial reports. The Parent Company and the Group present their reports in Swedish krona (SEK).

** Hedging reserves include changes in value, net after tax, of financial instruments defined as assets available for sale in accordance with IAS 39. These value changes are reported directly against equity until realized when the earnings effect is recognized in the income statement.

Buy-back of own shares included in the equity item retained earnings including the profit for the year

	2005	2004
Own shares bought back (treasury shares), Jan. 1	–4,925	–4,385
Purchases during the year	–1,434	–658
Sales for the year	23	82
Allocation to unrestricted reserves through cancellation of shares	29	36
Reduction in par value	389	–
Own shares bought back (treasury shares), Dec. 31	**–5,918**	**–4,925**

Share structure

During the year the Company repurchased 16.2 million shares at an average price of 88.37 SEK. At December 31, 2005, the Company held 18.7 million shares corresponding to 5.8 percent of the number of shares. Since the buy-backs were initiated, the repurchased shares have been acquired at an average price of 55.50 SEK. The total number of shares outstanding, less treasury shares, amounted to 305.9 million on December 31, 2005. In addition, the Company has issued call options on treasury shares corresponding to 4.9 million shares with successive exercise during 2006–2010. At the Annual General Meeting on April 27, 2005, the Meeting resolved to renew the mandate to buy back shares up to 10 percent of all shares in the Company. In addition, it was resolved to cancel 12.0 million previously repurchased shares. Moreover, it was decided to reduce the share capital through a reduction in the par value from 2.40 SEK to 1.20 SEK and on a reduction in the Parent Company reserve fund by 114 MSEK. These reductions were implemented on October 5 and as a result 532 MSEK was transferred from restricted equity to unrestricted equity. After the transfers to unrestricted equity, the number of registered shares in the Company amounts to 324,596,181.

Note 19. Earnings per share

	2005	2004
Income for the year attributable to equity holders of the Parent	1,769	2,011

Weighted average number of shares outstanding, basic

Number of shares	2005	2004
Weighted average number of shares outstanding, basic	**315,128,554**	**325,708,645**

Weighted average number of shares outstanding, diluted

Number of shares	2005	2004
Weighted average number of shares during the year, diluted	315,128,554	325,708,645
Effect of own shares held	1,097,838	1,304,897
Weighted average number of shares during the year, diluted	**316,226,392**	**327,013,542**

SEK	2005	2004
Earnings per share		
basic	5.61	6.18
diluted	5.59	6.15

Note 20. Interest-bearing liabilities

The maturity structure of the Group's long-term interest-bearing loans is as follows:

Year	2005	2004
2006	0	1,456
2007	396	300
2008	825	713
2009	179	0
2010	947	90
2011 and later	520	0
Total	**2,867**	**2,559**

Current interest-bearing liabilities:

	2005	2004
Next year's amortization of long-term loans	1,432	879
Bank overdraft facilities utilized	8	40
Other current loans	24	51
Total current interest-bearing liabilities	**1,464**	**970**

Note 21. Pensions and similar obligations

Obligations related to employee benefits after the termination of employment as of December 31, 2005 in the balance sheet consist of the following

Net liabilities	2005	2004
Defined benefit plans	343	313
Post-employment medical benefits	416	327
Other long-term benefits	54	99
Provisions for pensions and similar obligations	**813**	**739**

Employee benefits after the termination of employment
The Group has defined-benefit pension plans in a number of subsidiaries, through which the employees are entitled to benefits following the termination of employment based on their pensionable income and the number of service years. The largest plans are in the US, the UK, the Netherlands, Belgium and Sweden. Plans are also in place to provide healthcare to former employees in the US after retirement.

The table below specifies the net value of defined benefit pension obligations.

	Defined-benefit pension plans		Post-employment medical benefits	
	2005	2004	2005	2004
Present value of funded obligations	3,718	3,158	–	–
Fair value of plan assets	–3,313	–2,944	–	–
Deficit, net	**405**	**214**	**0**	**0**
Present value of unfunded obligations	68	47	488	339
Unrecognized actuarial losses, net	–320	–68	–77	–16
Unrecognized service costs	0	0	5	4
Net liability in the balance sheet	**153**	**193**	**416**	**327**
Amounts in the balance sheet				
Liabilities	343	313	416	327
Assets*	–190	–120	–	–
Net liability in the balance sheet	**153**	**193**	**416**	**327**

*See Note 14.

The amounts reported in the income statement on December 31, 2005, consist of the following:

Current service costs	79	76	19	12
Interest on obligation	175	165	23	17
Expected return on plan assets	–202	–185	–	–
Net actuarial losses	1	–	1	–
Past service costs	13	1	–1	–1
Gains on curtailments and settlements	–82	–39	–	–
Net expense reported in the income statement	**–15**	**19**	**43**	**28**

The expenses for defined benefit plans are reported under the following headings in the income statement:

Cost of goods sold	18	14	9	8
Administrative expenses	–50	–8	24	13
Selling expenses	17	13	10	7
Net expense reported in the income statement	**–15**	**19**	**43**	**28**

The changes in the net liability reported in the balance sheet at December 31, 2005, consist of the following:

	Defined-benefit pension plans		Post-employment medical benefits	
	2005	2004	2005	2004
Net liability, Jan. 1	193	–75	327	276
Effects of changes in accounting principle	–	280	–	68
Net liability, Jan. 1, restated	**193**	**205**	**327**	**344**
Net expense reported in income statement	–15	19	43	28
Payment of benefits to employees	–4	–4	–5	–4
Employer contributions to plan	–31	–19	–16	–11
Employee contributions to plan	–8	–1	–	–
Divested companies	–11	–	–	–
Exchange rate differences	30	–7	67	–30
Net liability, Dec. 31	**153**	**193**	**416**	**327**

Significant actuarial assumptions on the closing date (expressed as weighted averages)

	Defined benefit pension plans		Post-employment medical benefits	
	2005	2004	2005	2004
Discount rate, %	4.7	5.6	5.5	6.2
Expected return on plan assets under management, %	6.4	7.3	–	–
Future annual pay increases, %	3.9	4.5	5.0	5.0
Future annual pension increases, %	2.3	2.5	4.5	–
Annual increase in medical care expenses, %	3.0	–	9.6	9.0

The actual return on plan assets in 2005 was 297 MSEK.

Gains and losses resulting from actuarial assumptions, as well as results deviating from anticipated value changes in plan assets, are computed and distributed over the employee's remaining employment period when the total gain or loss lies outside a corridor corresponding to 10 percent of the higher of assumed pension obligations or the fair value of plan assets.

Obligations for retirement pension and family pension for salaried personnel and workers in Sweden is secured through insurance in two superannuation funds, PSF and PSA. These funds also cover other employers outside the Group.

The pension plans secured in PSA are reported as defined contribution plans. At December 31, this plan reported a small surplus. Since the company has not had access to the requisite information to report the plan secured in PSF as a defined benefit plan, it is reported as a defined contribution plan. An analysis performed during the year enabled a reasonable assessment to be made of Swedish Match's assets and liabilities. Accordingly, this plan is reported as a defined-benefit plan in the year-end report for 2005. The change is reported as a change of accounting principle as of January 1, 2004, and the figures for previously reported periods in 2004 and 2005 have been recalculated. The effect of the change is that equity brought forward at January 1, 2004, increased by 40 MSEK, and that pension costs for 2004 and 2005 are reported at lower amounts of 32 MSEK and 38 MSEK respectively.

Defined contribution plans
Payments into defined contribution plans are continuous.

	Group	
	2005	2004
Costs for defined contribution plans	55	34

Note 22. Provisions

Long-term provisions at December 31 consist of the following:

Long-term provisions	2005	2004
Income tax	1,068	414
Restructuring	11	11
Tobacco tax, etc.	68	35
Guarantee commitments	0	3
Other	209	67
Total	**1,356**	**530**

Short-term provisions at December 31 consist of the following:

Short term provisions	2005	2004
Income tax	0	506
Restructuring	115	1
Tobacco tax, etc.	70	68
Guarantee commitments	3	0
Other	105	72
Total	**293**	**647**
Total provisions	**1,649**	**1,177**

Provisions changed as follows during the year:

	Total	Income tax provisions	Restructuring provisions	Tobacco tax provisions	Guarantee commitment provisions	Other provisions
Opening balance at Jan. 1, 2005	**1,177**	**920**	**12**	**103**	**3**	**139**
Provisions	349	36	140	24	0	150
Utilization	–41	–3	–25	0	0	–13
Reversals for the year	–27	–23	–3	0	0	–1
Divested companies	–12	–8	–3	0	0	0
Reclassifications	–28	–35	0	–2	0	10
Translation differences	230	181	6	14	0	29
Closing balance at Dec. 31, 2005	**1,649**	**1,068**	**126**	**138**	**3**	**314**

Note 23. Other liabilities

Other long-term liabilities at December 31 consisted of the following:

	2005	2004
Non-interest-bearing long-term liabilities	17	21

Other current liabilities at December 31 consisted of the following:

	2005	2004
Tobacco taxes	1,043	827
VAT liabilies	330	249
Other	247	332
Total	**1,621**	**1,409**

Note 24. Accrued expenses and deferred income

Accrued expenses and deferred income at December 31 consisted of the following:

	2005	2004
Accrued wage/salary-related expenses	120	139
Accrued vacation pay	69	69
Accrued social security charges	92	77
Other	499	560
Total	**780**	**845**

Note 25. Financial instruments

Operations

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit.

To manage its financial risks, Swedish Match has a finance policy established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and rules governing the management of financial risks and finance operations in general. Responsibility for the Group's financing, financial risk management and other finance-related matters is mainly centered in the Parent Company's Treasury department. The Group's financial operations are centralized to exploit advantages of scale and synergy effects and to minimize operating risks.

Financial instruments

Swedish Match uses various types of financial instruments to hedge the Group's financial exposure that arises in business operations and as a result of the Group's financing and asset and debt management activities. In addition to loans, investments and spot instruments, derivative instruments are also used to reduce Swedish Match's financial exposure. The most frequently used derivative instruments are currency forwards, currency swaps and interest rate swaps.

Note 25, cont.

Currency risks

Exchange rate fluctuations affect Group earnings and shareholders' equity in various ways:

- Earnings – when sales revenues and production costs are denominated in different currencies (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement contains exchange rate differences of 17.4 MSEK (0) in operating income and negative 5.3 MSEK (3.0) in net financing cost.

Transaction exposure

For the Group as a whole, there is a balance between inflows and outflows in the major currencies EUR and USD, which limits the Group's transaction exposure.

Transaction exposure arises when certain of the Group's production units in South Africa and Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD.

The anticipated commercial currency flow after net calculation of the reverse flows in the same currencies (transaction exposure) amounts to approximately 495 MSEK on an annual basis.

Swedish Match's policy for managing the Group's transaction exposure is to hedge inward and outward flows in foreign currency within certain frameworks. The hedging transactions are mainly initiated via currency forward contracts with durations of up to 12 months, and relate to projected currency flows. At December 31, 2005, approximately 2 percent of net exposure for 2006 was hedged.

It has been estimated that a general rise of 1 percent in the value of the SEK against all of the Group's transaction currencies would reduce consolidated earnings before tax by approximately 4.8 MSEK (3.2). for the year ending December 31, 2005. Changes in the value of currency forward contracts were included in this calculation.

Translation exposure

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated into average exchange rates. Significant effects mainly pertain to USD, EUR, the Brazilian real (BRL) and the South African rand (ZAR). The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are entered directly under equity. The Group does not, as a rule, hedge equity in foreign subsidiaries.

If the SEK weakened by 1 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be positive in an amount of approximately 63 MSEK, based on the exposure at December 31, 2005.

Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans result in the Group being exposed to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense.

Swedish Match's policy is that the average fixed-interest period should not exceed 12 months. The major portion of the Group's borrowing was originally assumed at a fixed interest rate but subsequently converted to a floating rate by means of interest rate swaps. How rapidly a permanent change of interest rate impacts on net interest expense depends on the interest maturity periods of the loans. At December 31, 2005, the average interest maturity period for Group loans was 2.1 months, with interest rate swaps taken into account.

At December 31, 2005, it was estimated that a general rise of 1 percent in interest rates would reduce consolidated earnings before tax by approximately 2.6 MSEK (9.2). Changes in the value of interest-rate swaps were included in this calculation.

Refinancing risk and liquidity

Refinancing risk is defined as the risk of not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match tries to create both financial stability and flexibility in connection with its borrowing, and not to be dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of 250 MEUR, with final maturity in 2010. This was unutilized at year-end. The terms of the credit facility were renegotiated in July 2005 and contain no borrowing restrictions.

At year-end 2005, available cash funds and committed credits amounted to 6,009 MSEK. Of this amount, confirmed credit lines amounted to 2,352 MSEK and the remaining 3,657 MSEK consisted of liquid funds.

Most of Swedish Match's medium-term financing consists of a Swedish medium-term note program (MTN) with a limit of 4,000 MSEK, and a global medium-term note program with a limit amount of 1,000 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2005, a total of 1,873 MSEK of the Swedish program and 1,635 MSEK of the global program had been utilized.

The average maturity structure of the Group's borrowing at December 31, 2005 amounted to 2.5 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

Year	Swedish MTN	Global MTN	Other loans	Total
2006	–	1 432	32	1,464
2007	317	–	79	396
2008	652	94	79	825
2009	100	–	79	179
2010	300	94	553	947
2011–	520	–	–	520
Total	**1,889**	**1,620**	**822**	**4,331**

Under the Swedish bond program, Swedish Match issued bonds in SEK, and under the global program, in EUR. Borrowing in EUR is currency hedged through currency swaps and currency interest rate swaps. The average interest rates for outstanding borrowing (including derivative instruments) on December 31, 2005 amounted to:

	2005	2004
Swedish MTN	2.6%	3.2%
Global MTN	5.3%	5.4%
Other loans*	5.6%	5.1%

* Relates mainly to loans in the parent company and the Group's US subsidiaries.

Liquidity within Swedish Match is handled centrally through local cash pools. Group companies are required to deposit liquid funds in local Group accounts or, if these are not available, with the Parent Company's Treasury department.

Accounting principles and hedge accounting

Financial assets, excluding trade receivables, and derivatives are always valued at fair value and taken up in the balance sheet. Trade receivables are reported at nominal value. Financial liabilities are mainly valued at the amortized cost. In cases where financial liabilities are included in a hedging relation, they are reported at fair value.

Swedish Match uses hedge accounting for borrowing, converting fixed interest rates to floating interest rates by means of interest rate swaps by applying the principle of fair value hedges.

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties who have high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in government bonds, treasury bills and bank and mortgage certificates, as well as in certain approved securities with approved counterparties. At December 31, 2005, the average fixed-interest term for the Group's short-term investments was approximately 1.1 months.

Note 25,cont.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least A from Standard & Poor's or Moody's.

To reduce the credit risk in receivables that arise at banks via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2005, credit exposure in derivative instruments amounted to 282 MSEK.

Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable, by dividing accounts receivable among many different customers. At the reporting date, no significant concentration of credit risk exists in the Group's accounts receivable.

Credit ratings

At December 31, 2005, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long-term rating:	A–	Baa1
Outlook:	Stable	Stable

Book value and fair value

The table below shows book value (including accrued interest) and fair value for each type of interest-bearing financial instrument at December 31, 2005. Trade receivables and trade liabilities have a short duration and are reported at nominal value without discounting and have been excluded from the table.The estimated fair value is based on market prices on the closing date. Loans have a market value based on the current interest on remaining time to maturity, original credit spread and present value computation of future cash flow. The values presented are indicative and may not necessarily be realized.

	2005		2004	
	Book value	Estimated fair value	Book value	Estimated fair value
Short-term investments				
Treasury bills	79	79	394	394
Bank certificates	1,199	1,199	429	429
Mortgage certificates	499	499	759	759
Mortgage bonds	42	42	170	169
Government bonds	112	112	62	62
Other financial investments	5	5	12	12
Total	**1,936**	**1,936**	**1,826**	**1,825**
Long-term loans				
Fixed interest	–727	–727	–2,327	–2,471
Floating interest	–2,152	–2,153	–438	–439
Total	**–2,879**	**–2,880**	**–2,765**	**–2,910**
Short-term loans				
Fixed interest	–1,701	–1,701	–309	–314
Floating interest	–33	–33	–672	–672
Total	**–1,734**	**–1,734**	**–981**	**–986**
Derivative instruments				
Currency forwards	0	0	1	0
Currency swaps	–17	–17	–15	–16
Interest rate swaps	289	289	198	260
Total	**272**	**272**	**183**	**245**

Note 26. Pledged assets

	2005	2004
For the Group's own long-term liabilities		
Property mortgages	1	1
Inventories	–	33
Receivables	–	22
Total own long-term liabilities	**1**	**56**
Other collateral pledged		
Liquid funds	2	87
Total other collateral pledged	**2**	**87**

Note 27. Commitments and contingent liabilities

Operating lease agreements

Future annual minimum charges under the terms of irrevocable operating lease agreements with initial or remaining terms of one year or more consisted of the following at December 31, 2005:

Within one year	–104
More than one year but less than five years	–728
More than five years	–55
Total minimum lease income	**–887**

The Group's leasing expenses for operating lease agreements amounted to 116 MSEK (111) for 2005 and 2004.

Future irrevocable minimum lease income for properties sublet is distributed in accordance with expiration dates as follows:

Within one year	56
More than one year but less than five years	28
More than five years	0
Total minimum lease income	**84**

Contingent liabilities

	2005	2004
Guarantees to subsidiaries	159	223
Guarantees to external companies	2	2
Other guarantees and contingent liabilities	72	185
Total	**234**	**411**

Guarantees to subsidiaries pertain to undertakings on behalf of the companies above and beyond the amounts utilized and entered as liabilities in the companies. Other contingent liabilities pertain in part to guarantees placed vis-à-vis government authorities for Group companies' fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Leaf tobacco purchases

Some subsidiaries have entered contractual commitments with tobacco growers regarding future purchases of leaf tobacco.

Legal disputes

The Company is involved in a number of legal proceedings of a routine character. Among other cases, a lawsuit is in progress against General Cigar in which Cubatobacco claims that General Cigar does not have the right to use the Cohiba brand. In February 2005, an appeals court in New York ruled in favour of General Cigar in the case. Cubatobacco has sought leave to appeal to the Supreme Court in the US, and the Supreme Court has asked for a statement from the US Government prior to its decision regarding the leave to appeal. Although the outcomes of these proceedings cannot be anticipated with any certainty, and accordingly no guarantees can be made, the view of management is that liabilities attributable to these disputes, if any, should not have any significant negative impact on the earnings or financial position of Swedish Match.

Note 27, cont.

Swedish Match subsidiaries in the US are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (a subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been initiated in state courts in West Virginia. Pinkerton, however, has been severed out of the consolidated process in these cases and it is unclear whether any of the plaintiffs in the severed cases intend to pursue their claims separately against Pinkerton. Swedish Match North America, Inc. and Pinkerton Tobacco Company are named as defendants in a lawsuit filed in Florida in November 2002 against several different companies active in the American market for smokeless tobacco and their joint interest association. The claim was originally instituted as a class-action suit, but was changed during the year to an individual suit.

Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any ongoing or anticipated disputes of this nature, it holds the view that there are good defenses against all the claims and each case will be defended vigorously.

Note 28. Group companies

Subsidiary holdings*	Subsidiary's domicile, country	Ownership share, % 2005	2004
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
Plam Bulgarski Kibrit Jisco	Bulgaria	99.9	99.9
SM Hungaria KFT	Hungary	100	100
SM France SARL	France	100	100
SM Philippines Inc	Philippines	100	100
SM Cigars BV	Netherlands	100	100
Swedish Match Benelux Sales BV	Netherlands	100	100
NV SM Belgium SA	Belgium	100	100
EMOC BV	Netherlands	100	100
SM Tabaco Espana SL	Spain	100	100
SM Distribution AB	Sweden	100	100
P.T. SM Cigars Indonesia	Indonesia	100	100
SM Deutschland GmbH	Germany	100	100
SM Advertising Products GmbH	Germany	100	100
SM Austria GsmbH	Austria	100	100
SM Fosforos Portugal SA	Portugal	97	97
SM Iberia SA	Spain	100	100
SM Overseas BV	Netherlands	100	100
SM do Brazil SA	Brazil	99.4	99.4
SM da Amazonia SA	Brazil	100	100
SM Commerce Import/Export LTD	Brazil	100	100
SM North Europe AB	Sweden	100	100
SM Cigars NV	Netherlands	100	100
SM Holding Dominicana BV	Netherlands	100	100
SM Dominicana BV	Netherlands	100	100
El Credito BV	Netherlands	100	100
SM South Africa PTY LTD	South Africa	100	100
Leonard Dingler PTY LTD	South Africa	100	100
Best Blend Tobacco PTY LTD	South Africa	100	100

Subsidiary holdings*	Subsidiary's domicile, country	Ownership share, % 2005	2004
Brasant Enterprises PTY Ltd.	South Africa	100	100
Tobacco Service Holland BV	Netherlands	100	100
SV Tändsticksbolaget fsg AB	Sweden	100	100
M.Beraha & Co LTD	Hong Kong	100	100
SM Norway A/S	Norway	100	100
CYAN d.o.o. Slovenia	Slovenia	100	100
SM d.o.o. Zagreb	Croatia	100	100
SM Australia PTY LTD	Australia	100	100
SM New Zealand PTY LTD	New Zealand	100	100
SM Singapore PTE LTD	Singapore	100	100
Seed Trading PTE LTD	Singapore	100	100
Haravon Investments PTE LTD	Singapore	100	100
SM UK LTD	UK	100	100
SM Kibrit ve Cakmak Endustri AS	Turkey	100	100
General Cigars Holding Inc.	US	100	100
SM Suisse SA	Switzerland	100	100
Maga T.E.A.M. SRL	Italy	100	100
SM Polska Sp. z o.o.	Poland	100	100
SM Arenco AB	Sweden	100	100
Arenco Automation AB	Sweden	100	100
Shanghai Arenco Machinery Co Ltd	Shanghai, China	100	100
Svenska Tändsticks AB	Sweden	100	100
SM United Brands AB	Sweden	100	100
SM Industries AB	Sweden	100	100
Intermatch Sweden AB	Sweden	100	100
SM North America INC	US	100	100
SM Cigars INC	US	100	100
Pinkerton Tobacco Company INC	US	100	100
Tobak Fastighets AB	Sweden	100	100

* The designation includes both directly and indirectly owned companies. Dormant companies are not included.

Note 29. Supplementary information to cash-flow statement

Interest paid and dividends received

	2005	2004
Dividends received from associated companies	2	12
Interest received	98	85
Interest paid	202	283
Total	**302**	**380**

Adjustments for items not included in cash flow

	2005	2004
Depreciation and amortization	458	480
Write downs	130	277
Unrealized exchange rate differences	–168	262
Share in earnings of associated companies	–39	11
Capital gain/loss from sale of fixed assets	–289	–18
Change in accrued interest	–6	–35
Realized exchange rate differences, transferred to financing activities	164	–295
Reserves without cash flow effect	43	–
Adjustments for taxes paid	22	–
Other	8	–3
Total	**323**	**679**

Acquisitions of subsidiaries and other business units

	2005	2004
Acquired assets and liabilities		
Tangible fixed assets	–	–1
Intangible fixed assets	–	–44
Inventories	–	–7
Trade receivables	–	–1
Change in liabilities to minority	–	–17
Accounts payable	–	3
Loans in acquired operations	–	5
Other assets/liabilities, net	–	9
Purchase price paid	**–**	**–53**
Cash and bank in acquired companies	–	–
Effect on cash and bank	**–**	**–53**

Divestments of subsidiaries and other business units

	2005	2004
Divested assets and liabilities		
Tangible fixed assets	68	6
Intangible fixed assets	1	0
Inventories	81	80
Trade receivables	122	36
Change in liabilities to minority	–6	0
Accounts payable	–65	–9
Other assets/liabilities, net	0	4
Purchase price received	**201**	**117**
Cash and bank in divested companies	–17	0
Effect on cash and bank	**184**	**117**

Note 30. Critical estimates and judgments

The value of goodwill and other intangible assets is tested regularly for impairment. This evaluation includes a number of assumptions and estimates used as a basis for computing future cash flows. Future events may necessitate revision of these assumptions and estimates, which could have a significant effect on the reported values for intangible fixed assets.

The Group reports deferred tax assets relating to temporary differences between the tax base and the book value of assets and liabilities and to loss carry-forwards. If the assumptions regarding the earning capacity of those Group companies that report deferred tax assets relating to loss carry-forwards change, utilization of these tax assets may be hindered, thereby affecting consolidated earnings.

As explained in Note 27, Swedish Match is involved in a number of legal processes. Although the company is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have a significant impact on the company's earning capacity.

Calculation of pension liability relating to defined-benefit plans involves assumptions concerning discount factors, the return on plan assets and future earnings. The actual outcome may differ from the assumptions made.

Note 31. Information about the Parent Company

Swedish Match AB is a company domiciled in Stockholm and registered in Sweden.

The Parent Company's shares are listed on the Stockholm Stock Exchange. The address of the head office is Rosenlundsgatan 36, SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2005 include the Parent Company and its subsidiaries, jointly referred to as "the Group." Included in the Group are also the ownership shares of associated companies.

Note 32. Comparison between financial reporting in accordance with Swedish GAAP and IFRS

Effective January 1, 2005, Swedish Match prepares its financial reports in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS has affected Swedish Match's reporting of biological assets (IAS 41), goodwill (IFRS 3 and IAS 38), share-based payments (IFRS 2) and financial instruments (IAS 32 and IAS 39). In compliance with the rules, and in order to maintain consistency in comparative data, IFRS has also been applied retroactively to fiscal year 2004 and the opening balance at January 1, 2004. However, no requirement of retrospective application of IAS 32, IAS 39 and IFRS 2, applies to Swedish Match wherefore comparative data has not been restated. More information about the accounting standards applied can be found in Note 1.

The tables below show the financial reporting in accordance with Swedish GAAP, together with the financial reporting in accordance with IFRS, as well as the reconciliation between the two. The effects from the transition to IFRS are explained in the notes following the tables. The differences in the reporting of financial instruments are explained in Note 33.

Consolidated Balance Sheet At December 31			**Effect of transition to IFRS**				**Effect of transition to IFRS**		
	Note	**Reported Dec. 31, 2003**	**Biological assets IAS 41**	**Pensions IAS 19**	**IFRS Jan. 1, 2004**	**Reported Dec. 31, 2004**	**Goodwill IAS 38**	**Biological assets IAS 41**	**IFRS Dec. 31, 2004**
Assets									
Intangible fixed assets	a	3,648			3,648	3,285	167		3,452
Tangible fixed assets		2,788			2,788	2,614			2,614
Biological assets	b	73	8		81	76		22	98
Shares and participations		134			134	125			125
Other investments		11			11	11			11
Long-term receivables	c	226		–21	205	316			316
Deferred tax assets	a, b, c	245		129	373	397			397
Total fixed assets		**7,125**	**8**	**108**	**7,240**	**6,823**	**167**	**22**	**7,012**
Inventories		2,676			2,676	2,476			2,476
Trade receivables		1,880			1,880	1,662			1,662
Prepaid expenses and accrued income		193			193	185			185
Other receivables		562			562	560			560
Short-term investments		1,169			1,169	1,815			1,815
Cash and bank		1,498			1,498	1,187			1,187
Total current assets		**7,977**			**7,977**	**7,886**			**7,886**
TOTAL ASSETS		**15,102**	**8**	**108**	**15,218**	**14,709**	**167**	**22**	**14,898**
Equity									
Share capital		844			844	808			808
Reserves		–			–	–96			–96
Retained earnings	a, b, c	3,166	5	–257	2,914	3,709	143	15	3,867
Equity attributable to equity holders of the parent		**4,010**	**5**	**–257**	**3,758**	**4,421**	**143**	**15**	**4,579**
Minority interest	a, b, c	597	0	7	604	473	7	1	481
Total equity		**4,606**	**5**	**–250**	**4,362**	**4,894**	**150**	**16**	**5,060**
Liabilities									
Long-term interest-bearing debt		4,535			4,535	2,559			2,559
Other long-term debts		66			66	21			21
Provisions for pensions and similar commitments	c	372		361	733	739			739
Provisions		299			299	530			530
Deferred tax liabilities	a, b, c	1,083	2	–4	1,081	1,220	16	6	1,243
Total long-term liabilities		**6,355**	**2**	**357**	**6,713**	**5,069**	**16**	**6**	**5,092**
Short-term interest-bearing debt		846			846	970			970
Accounts payable		719			719	708			708
Tax liabilities		91			91	168			168
Other current liabilities		1,330			1,330	1,409			1,409
Accrued expenses and pre-paid income		790			790	845			845
Provisions		365			365	647			647
Total current liabilities		**4,141**			**4,141**	**4,746**			**4,746**
TOTAL LIABILITIES		**10,496**	**2**	**357**	**10,855**	**9,815**	**16**	**6**	**9,837**
TOTAL EQUITY AND LIABILITIES		**15,102**	**8**	**108**	**15,218**	**14,709**	**167**	**22**	**14,898**

Note 32, cont.

Consolidated Income Statement January 1-December 31	Note	Reported Jan.–Dec., 2004	Effect of transition to IFRS: Goodwill IAS 38	Biological assets IAS 41	IFRS Jan.–Dec., 2004
Net sales, including tobacco tax		**21,705**			**21,705**
Less tobacco tax		–8,698			–8,698
Net sales		**13,007**			**13,007**
Cost of goods sold*	b	–7,262		15	–7,246
Gross profit		**5,745**		**15**	**5,761**
Other operating income		24			24
Selling expenses		–2,238			–2,238
Administrative expenses**	a	–1,646	175		–1,471
Other operating expenses		–5			– 5
Share in earnings of associated companies		1			1
Amortization of intangible assets					
Settlement income		1,521			1,521
Operating income		**3,403**	**175**	**15**	**3,593**
Financial income		106			106
Financial expense		–270			–270
Net financing cost		**–164**			**–164**
Income before tax		**3,238**	**175**	**15**	**3,429**
Income tax expense	a, b	–1,323	–18	–4	–1,345
Net income for the year		**1,915**	**157**	**11**	**2,084**
Attributable to:					
Equity holders of the parent		1,852	149	10	2,011
Minority interest		64	8	1	72
		1,915	**157**	**11**	**2,084**
Earnings per share					
basic, SEK		5.68			6.18
diluted, SEK		5.66			6.15

* Including write downs allocated to the match operations of 150 MSEK.
** Including provision of 90 MSEK for purchase of shares in Wimco Ltd.

a) According to IFRS, the useful life of intangible assets can be defined as either definite or indefinite. Intangible assets with indefinite useful lives are tested for impairment annually or when indications exist. According to IFRS, goodwill has by definition indefinite useful life. According to Swedish GAAP previously applied, all intangible assets have definite useful lives and are amortized according to plan. Since IFRS precludes amortization according to plan, the reported value of goodwill is 167 MSEK higher at December 31, 2004 and operating income for 2004 is 175 MSEK, compared to the figures previously reported in accordance with Swedish GAAP. As a result of these adjustments in accordance with IFRS, deferred tax liability has increased by 16 MSEK and equity by 150 MSEK.

The rules of reporting goodwill are set forth in IFRS 3 and IAS 38.

b) According to IFRS, biological assets are reported at fair value on each reporting date. Changes in fair value may be the result of physical changes or changes in the market price. Increases or decreases in fair value of biological assets are reported in the income statement as gains or losses. This means that in addition to harvesting or felling, the income statement also reflects net growth. When applying Swedish GAAP, biological assets have been treated in the same way as other fixed assets. When IFRS is applied, the carrying value of biological assets is 8 MSEK higher at January 1, 2004, and 22 MSEK higher at December 31, 2004, than when Swedish GAAP is applied. The fair value of biological assets was estimated to have increased by 15 MSEK during 2004, which affected the income statement. Accordingly, operating income for 2004 according to IFRS shows a positive effect of 15 MSEK compared to operating income according to Swedish GAAP. As a result of this adjustment in accordance with IFRS, deferred tax liability has increased by 6 MSEK and equity by 16 MSEK.

The rules for reporting of biological assets are set forth in IAS 41.

c) The IFRS rules for reporting pensions correspond to Swedish GAAP for pensions that Swedish Match began applying on January 1, 2004. Only the opening balance at January 1, 2004 has therefore been affected by the change in reporting standard. The main change in the reporting of pensions, compared to the principles applied to the closing balance for 2003, is that all surpluses and deficits in funded defined-benefit pension plans are reported as asset and liabilities. As a result of the changed accounting standard, financial assets were reduced by 21 MSEK and pension liabilities increased by 361 MSEK at January 1, 2004. Deferred tax assets attributable to pensions increased by 129 MSEK, while deferred tax liabilities were reduced by 4 MSEK. The net effect on equity was a negative of 250 MSEK.

In conjunction with the change of the accounting standard for pensions, it was decided to change the internal definition of operating capital. As of January 1, 2004, pension liabilities and pension receivables are included in operating capital.

The rules for reporting pensions are set forth in IAS 19. A more detailed description of these accounting principles can be found in Note 1.

Comparison between the cash flow statement in accordance with Swedish GAAP and IFRS

In conjunction with the transition to IFRS, the definition of liquid funds was changed, and short term investments are now excluded from the cash and bank balances. There are no other significant differences between cash flow in accordance with Swedish GAAP and in accordance with IFRS.

Note 33. Change of accounting principle for financial instruments and share-based payments

On January 1, 2005, Swedish Match began applying the accounting rules for financial instruments as stated in IAS 32 and IAS 39, and for share-based payments as presented in IFRS 2. The comparative data for 2004 have not been restated, since Swedish Match is not subject to any requirement for retroactive application of these standards.

The rules for reporting of share-based payments (such as Swedish Match's options program), as stated in IFRS 2, prescribe that the estimated fair value at the time of allotment of the options shall be expensed. The application of IFRS 2 has not had any direct effect on the balance sheet.

The rules for reporting financial instruments, IAS 39, state that financial assets and liabilities, including derivatives, must be reported at fair value or amortized cost, depending on the classification of the asset or liability. For assets and liabilities reported at fair value, the change in fair value must be reported in the income statement or in shareholders' equity, depending on whether hedge accounting is applied.

According to IAS 39, companies can choose to use hedge accounting. When hedge accounting is used, a company must link a balance sheet item to a specified hedging instrument. A requirement for being able to apply hedge accounting in accordance with IAS 39 is that this link fulfills strict requirements.

The major part of the Group's borrowing was originally raised at fixed interest rates but subsequently changed to floating rates through interest swaps. Swedish Match has decided to apply hedge accounting to the interest swaps that can be linked to the original loans.

Swedish Match's other financial instruments are reported at fair value, and gains or losses from changes in fair value are reported in the income statement.

When the transition to IAS 39 took place, the financial statements also reported the difference between the market value or amortized cost and the value reported in accordance with Swedish GAAP directly in equity. Accordingly, on January 1, 2005, an increase of 43 MSEK in financial assets, a deferred tax liability of 12 MSEK and equity of 31 MSEK were reported.

A more detailed description of the accounting principles for financial instruments can be found in Note 1.

Note 34. Net income and shareholders' according to United States Generally Accepted Accounting Principles

The accounts of Swedish Match are from January 1, 2005 prepared in accordance with International Financial Reporting Standards (IFRS). In accordance with IFRS 1, "First time adoption of International Financial Reporting Standards", comparative amounts for 2004 have been restated but for IFRS 2, "Share-based payments", and IAS 39, "Financial Instruments". Swedish Match issues certain financial information prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP) and files a report each year (Form 20-F) with the US Securities and Exchange Commission (SEC), which includes additional information about Swedish Match's business activities in accordance with established rules.

A summary of the effects on the Group's income and shareholders' equity due to the application of US GAAP is presented in the tables below:

	Note	2005	2004
Reconciliation of net income			
Net income in accordance with IFRS		1,769	2 011
Items that increase or reduce net income			
Reporting of goodwill, etc.	a	–1	–1
Acquisition of General Cigar	b	–106	–
Restructuring expenses	c	–	–
Sale-leaseback of properties	d	9	7
Derivative instruments	e	–26	–2
Pensions	f	–102	–36
Other	g	–13	–13
Tax effects of the above US GAAP adjustments		99	13
Net income in accordance with US GAAP		**1,629**	**1,979**

	2005	2004
Earnings per share in accordance with US GAAP		
Basic	5.17	6.08
Diluted	5.15	6.05

	Note	2005	2004
Reconciliation of Equity			
Equity in accordance with IFRS		5,079	4,579
Items that increase/reduce equity			
Reporting of goodwill, etc.	a	1,805	1,763
Acquisition of General Cigar	b	98	–
Restructuring expenses	c	–37	–31
Sale-leaseback of properties	d	–269	–277
Derivative instruments	e	–1	25
Pensions	f	68	231
Other	g	14	41
Tax effects of the above US GAAP adjustments		–127	–44
Equity in accordance with US GAAP		**6,630**	**6,287**

a) Reporting of goodwill, etc.

At December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired Swedish Match AB in two stages, November 1993 and June 1994, whereby the purchase method was applied in reporting the transactions.

US GAAP requires that "push down" accounting be applied for the independent annual reports of wholly owned subsidiaries if more than 95 percent of the voting securities are acquired in a purchase transaction. Consequently, the adjustments made in accordance with the purchase method by Volvo, pertaining to Swedish Match, began being reported for US GAAP purposes by Swedish Match in June 1994. Total gross value of goodwill which, according to the above, was transferred to Swedish Match in 1994 amounted to 6,158 MSEK. Adjustments for property, machinery and equipment amounted to 119 MSEK.

In 1999, Swedish Match divested its cigarette operations. This has resulted in a reduction in the goodwill value that was transferred from Volvo to the extent it was applicable to cigarette operations. The original gross value attributable to the cigarette operation amounted to 3,605 MSEK. The net book value of this goodwill amount has, consequently, been netted against the capital gains that arose in the sale of the cigarette operations. The remaining value for goodwill pertaining to the remaining operations within Swedish Match amounts to 1,415 MSEK. The corresponding amount for properties, machinery and equipment is 49 MSEK.

In accordance with IAS 38, "Intangible Assets", which applies from January 1, 2004, and US accounting principles FAS 142,"Goodwill and Other Intangible Assets" which applies from January 1, 2002 goodwill and intangible assets that have indefinite useful lives may no longer be subject to amortization. Instead, an impairment test shall be made on an annual basis or when there is an indication of impairment. The company has determined that trademarks and other intangible assets in the company have thereby been deemed to have a definite useful life.

b) In April 2005 Swedish Match acquired all outstanding minority shares of the American company General Cigar and now owns 100 percent of the company. In accordance with IFRS the difference between purchase price and minority share of equity is accounted for as goodwill. US GAAP require the difference between purchase price and minority share of equity to be accounted for according to a detailed purchase price allocation. Accordingly goodwill of 637 MSEK according to IFRS, is for US GAAP accounted for as goodwill, trademarks, customer relationships, fixed tangible assets, inventory and deferred tax liabilities. Certain of the trademarks have been deemed to have an indefinite useful life.

c) Restructuring expenses

Certain costs for reorganization reserves, related to acquisitions prior to 2002, which pertain to the acquiring company are included in the goodwill amount in the consolidated balance sheet in accordance with IFRS. In accordance with US GAAP, these costs have been expensed since they were not associated with the acquired company.

d) Sale-leaseback of properties

In 1998 and 2002, the Group sold property and is now leasing back the same property in accordance with leasing agreements, which according to IFRS is classified as operating leases. As Swedish Match has an option to repurchase this property, the sales are, in accordance with US GAAP, considered financing arrangements, with the result that income recognition is postponed and the sale proceeds are booked as a liability. The capital gain that arose in 2002 amounted to 27 MSEK, and the capital gain in 1998 was 266 MSEK. Under US GAAP, the property remains in the books of the company and depreciation continues to be recorded.

This adjustment comprises the following components as of December 31:

	2005	2004
Buildings	613	610
Less accumulated depreciation	–176	–160
Buildings, net	436	450
Prepaid expenses	–14	–14
Finance obligation	691	713
Equity adjustment	–269	–277

e) Derivative instruments

Under IFRS, the company applied hedge accounting for 2004. Since the company did not fulfill the requirements under US GAAP for hedge accounting, changes in the fair value of the derivative instruments are reported in the income statement for 2004.

f) Provisions for post-employment benefits

Effective January 1, 2004, pensions and post-retirement benefits are accounted for by the Group in accordance with IAS 19, "Employee benefits". Under US GAAP, pensions and post-retirement benefits are accounted for in accordance with SFAS 87, Employers Accounting for Pensions and SFAS 106 Employers Accounting for Post-retirement Benefits Other than Pensions. Under IAS 19, defined benefit post-employment obligations and expenses are actuarially determined in the same manner as US GAAP SFAS 87 and SFAS 106, using the projected unit credit method. However, some significant differences exist between IFRS and US GAAP:

- IAS 19, was implemented effective January 1, 2004 with a transition amount taken directly to equity in accordance with IFRS. SFAS 87 and SFAS 106 was implemented much earlier. The difference in implementation dates causes a significant difference in accumulated actuarial gains and losses, where the accumulated actuarial gains and losses under IFRS were set to zero as of the implementation date of IAS 19, whereas under US GAAP the accumulated actuarial gains and losses have been accumulating since the implementation dates for those standards.
- Under US GAAP an additional liability (minimum liability) should be recognized when the accumulated benefit obligation exceeds the fair value of the plan assets, and this excess is not covered by the liability recognized in the balance sheet. If a minimum liability is recognized an equal amount is recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost, any excess shall be reported in other comprehensive income. Such "minimum liability" is not required under IAS 19.
- Under IAS 19, the past service costs resulting from plan amendments are recognized immediately if vested or amortized until vested. Under US GAAP, past service costs are generally recognized over the average remaining service life of the plan participants.
- Under IAS 19 the expected return on plan assets is based on actual market values while US GAAP allows an expected return on assets based on market-related values.

The adjustments in the US GAAP reconciliation represent a combination of the above differences.

g) Other

Interest expense which are directly attributable to purchases, construction or production of an asset which requires considerable time to complete for its intended use, shall, in accordance with US GAAP, be included as part of the assets' acquisition value. In accordance with IFRS, these borrowing costs can be expensed on an ongoing basis. During 2002 and 2003, 16 MSEK and 24 MSEK respectively were included in the acquisition value of buildings and land.

The Board of Directors decided in 1999 to introduce an options program for Senior Management. In accordance with IFRS, the Company makes provisions for social fees and withholding tax on the options in the year to which the grant relates. In accordance with US GAAP employer payroll taxes on employee stock compensation are recognized on the date of the event triggering the measurement and payment of the tax to the taxing authority, which normally occurs when the options are issued.

During 2005 the holding in the partly owned match company Jamafac in Indonesia has been sold with a resulting capital gain. According to US GAAP gains can not be recognized to the extent that the proceeds have not been received.

Swedish Match has certain biological assets in forms of trees in a plantation forest to supply raw material in our match producing operations. According to IAS 41, "Agriculture" biological assets shall be reported at its fair value at each reporting date. Change in the fair value of the biological assets shall be recognized in the income statement. Under US GAAP biological assets are reported at cost.

h) Deconsolidation of General Cigar

Swedish Match acquired 64 percent of the American company General Cigar in May 2000. The Cullman family held the remaining 36 percent up to April 2005 when Swedish Match acquired the minority share and became owner of 100 percent of the company. In accordance with the shareholder agreement between Swedish Match and the Cullman family, the minority shareholders were afforded substantive participating rights, which entitled the minority shareholders to actively participate in significant issues pertaining to the daily operations of General Cigar. Accordingly, under US GAAP, General Cigar was not consolidated by Swedish Match in 2004; the investment in General Cigar was accounted for under the equity method. This does not result in any net effect on the reconciliation of net income or shareholders' equity between IFRS and US GAAP. However, the balance sheet was affected by this difference.

The following table presents a condensed consolidated balance sheet in accordance with IFRS and US GAAP as of December 31, 2004 and December 31, 2005, whereby all US GAAP adjustments described in this note are taken into account.

	Reported in accordance with IFRS		Restated values in accordance with US GAAP	
	2005	2004	2005	2004
Fixed assets	7,903	7,003	10,303	9,374
Current assets	8,903	6,528	8,904	6,515
Total assets	**16,806**	**13,531**	**19,208**	**15,889**
Equity	5,079	4,579	6,630	6,287
Minority interest	3	7	3	7
Provisions	3,365	2,448	3,532	2,418
Long-term liabilities	2,884	2,575	3,518	3,213
Current liabilities	5,474	3,922	5,524	3,964
Total liabilities and equity	**16,806**	**13,531**	**19,208**	**15,889**

Parent Company Income Statement

(MSEK)	Note	2005	2004
Net sales	1	**16**	**12**
Cost of goods sold		–9	–6
Gross profit		**7**	**6**
Selling expenses		–12	–42
Administrative expenses	3	–234	–262
Other operating income	2	33	51
Operating income	4	**–206**	**–247**
Income from participations in Group companies		4,070	1,405
Income from other securities and receivables carried as fixed assets		673	–21
Interest income and comparable items		99	334
Interest expense and comparable items		–762	–295
Income after financial items	5	**3,874**	**1,176**
Appropriations	6	1,439	–56
Income before tax		**5,313**	**1,120**
Income taxes	7	–743	–248
Net income for the year		**4,570**	**872**

Parent Company Balance Sheet

(MSEK)	Note	Dec.31, 2005	Dec.31, 2004
ASSETS			
Fixed assets			
Intangible fixed assets	8	40	49
Tangible fixed assets	9	3	3
Financial fixed assets			
Participations in Group companies	21	10,974	6,798
Receivables from Group companies	10	2,812	2,418
Other long-term securities	11	10	10
Deferred tax assets	7	5	5
Total financial fixed assets		13,801	9,231
Total fixed assets		**13,844**	**9,283**
Current assets			
Current receivables			
Receivables from Group companies		2,435	1,410
Receivables from associated companies		2	3
Other receivables		2	6
Prepaid expenses and accrued income	12	49	83
Total current receivables		2,488	1,502
Short-term investments		1,923	1,803
Cash and bank		311	527
Total current assets		**4 722**	**3,832**
TOTAL ASSETS		**18,566**	**13,115**
EQUITY AND LIABILITIES			
Equity	13		
Restricted equity			
Share capital, 324,596,181 shares at 1.20 and 336,596,181 at 2.40 respectively		390	808
Statutory reserve		80	194
Unrestricted equity			
Retained earnings		832	1,507
Net income for the year		4,570	872
Total equity		**5,872**	**3,381**
Untaxed reserves	14	35	1 474
Provisions		**12**	**–**
Long-term liabilities			
Bond loans	15	2,047	2,557
Liabilities to Group companies	16	11	57
Other long-term liabilities	17	4	–
Total long-term liabilities		**2,062**	**2,614**
Current liabilities			
Liabilities to credit institutions	15	1,432	879
Accounts payable		15	19
Liabilities to Group companies	16	8,515	4,534
Current tax liabilities		516	47
Other liabilities	17	88	131
Accrued expenses and prepaid income	18	19	36
Total current liabilities		**10,585**	**5,646**
TOTAL EQUITY AND LIABILITIES		**18,566**	**13,115**
Pledged assets	19	2	87
Contingent liabilities	19	1,101	310

Summary of changes in Parent Company equity

	Restricted equity		Unrestricted equity		
(MSEK)	**Share capital**	**Reserve fund**	**Repurchase of own shares**	**Retained earnings**	**Total equity**
Equity at Jan. 1, 2004	**844**	**194**	**–4,385**	**7 018**	**3,671**
Allocation to unrestricted reserves through cancellation of shares	–36		36		0
Repurchase of own shares			–658		–658
Stock options exercised by employees			82		82
Group contribution paid				–38	–38
Tax effect of Group contribution				11	11
Dividend to Parent Company shareholders				–558	–558
Net income for the year				872	872
Shareholders' equity at Dec. 31, 2004	**808**	**194**	**–4,925**	**7,305**	**3,381**
Equity at Jan. 1, 2005	**808**	**194**	**–4,925**	**7,305**	**3,381**
Allocation to unrestricted reserves through cancellation of shares	–29		29		0
Reduction of par value	–389		389		0
Reduction of reserve fund		–114		114	0
Repurchase of own shares			–1,434		–1,434
Stock options exercised by employees			23		23
Group contribution paid				–82	–82
Tax effect of Group contribution				23	23
Dividend to Parent Company shareholders				–612	–612
Reporting of options program				2	2
Net income for the year				4,570	4,570
Equity at Dec. 31, 2005	**390**	**80**	**–5,918**	**11,320**	**5,872**

Cash-flow statement for the Parent Company

(MSEK)	Note	2005	2004
Operating activities	22		
Income after financial items		3,874	1,176
Adjustments for non-cash items		–2,508	–22
Income tax paid		–252	–208
Cash flow from operations before changes in working capital		**1,114**	**946**
Cash flow from changes in working capital			
Increase (–) Decrease (+) in operating receivables		8	–
Increase (+) Decrease (–) in operating liabilities		–10	45
Cash flow from operating activities		**1,112**	**991**
Investing activities			
Acquisition of tangible assets		–2	–3
Acquisition of intangible assets		–3	–1
Acquisition of subsidiaries		–1,573	–
Divestment of subsidiaries		8	–
Shareholder contribution, paid		–14	–
Change in short term investments		–120	–639
Cash flow from investing activities		**–1,704**	**–643**
Financing activities			
Repurchase of own shares		–1,434	–658
Sale of treasury shares		23	82
Increase of loans		920	–
Amortization of loans		–891	–1,627
Dividend paid to Parent Company's shareholders		–612	–558
Group contribution, paid		–82	–38
Changes in corporate transactions		2,615	1,871
Other		–163	295
Cash flow from financing activities		**376**	**–633**
Cash flow for the year		**–216**	**–285**
Cash and bank at the beginning of the year		527	812
Cash and bank at year-end		**311**	**527**

Notes to the Parent Company financial statements

Note 1. Net sales

The Parent Company's net sales consist exclusively of sales of nasal snuff in Europe, 16 MSEK (12).

Note 2. Other operating income

Other operating income mainly pertains to the portion of joint administration costs charged to Group companies, 31 MSEK (46).

Note 3. Fees and compensation for incurred costs to auditors

Administrative expenses include costs for audit fees in accordance with the table below:

	2005	2004
KPMG		
Audit assignments	5	3
Other assignments	2	0
Total	**7**	**3**

By audit assignments is meant the examination of the annual report and bookkeeping as well as the Board of Directors' and the President's management, other work assignments which are incumbent on the company's auditor to conduct, and advising or other support justified by observations in the course of examination or performance of other such work assignments. All else is other assignments.

Note 4. Sick leave within Parent Company

(percent)	2005	2004
Total sick leave	2.74	2.65
of which long-term sick leave	50.32	70.88
Sick leave for men	5.51	4.60
Sick leave for women	2.16	0.73
Sick leave for employees under 29	*	*
Sick leave for employees age 30–49	3.42	3.92
Sick leave for employees age 50+	1.09	0.12

* No data provided if the group comprises less than 10 persons.

Long-term sick leave is calculated in relation to the total sick leave in hours. Other sick leave is calculated in relation to regular working time.

Note 5. Net financial items

	Income from participations in Group companies 2005	2004
Dividend	3,234	264
Write downs	–489	–23
Group contribution	1,328	1,164
Other	–3	–
Total	**4,070**	**1,405**

Note. 5 cont.

	Income from other securities and receivables carried as fixed assets 2005	2004	Interest income and similar profit items 2005	2004
Interest income, Group companies	189	186	57	29
Interest income, other	0	0	42	63
Currency exchange rate differences	484	–207	–	242
Total	**673**	**–21**	**99**	**334**

	Interest expense and similar profit items 2005	2004
Interest expense, Group companies	–113	–65
Interest expense, other	–157	–219
Fees, banks and credit institutions	–9	–6
Income from sale of short-term investments	–3	–5
Currency exchange rate differences	–480	0
Total	**–762**	**–295**

Note 6. Appropriations

	2005	2004
Difference between reported depreciation and depreciation according to plan:		
Trademarks	–11	23
Equipment, tools and fixtures	0	0
Tax allocation reserve, provision for the year	0	–310
Tax allocation reserve, reversal	1,450	231
Total	**1,439**	**–56**

Note 7. Taxes

Reported in Income Statement	2005	2004
Tax expense for the period	–741	–254
Adjustment of taxes attributable from prior years	–3	1
Deferred tax due to temporary differences	1	5
Total reported tax expense within Parent Company	**–743**	**–248**

Reconcilation of effective tax	2005 (%)	2005 MSEK	2004 (%)	2004 (MSEK)
Income before tax		5,313		1,120
Tax based on applicable tax rate for Parent Company	28.0	–1,488	28.0	–314
Non-deductible expenses	2.7	–143	0.9	–10
Non-taxable revenues	17.1	911	6.7	75
Tax attributable to prior years	0.1	–3	0.1	1
Standard revenue	0.2	–11	–	–
Other	0.2	–9	–	–
Reported effective tax	**14.0**	**–743**	**22.1**	**–248**

Note 7. cont.

Tax items reported directly against equity	2005	2004
Current tax in paid Group contributions	23	11

Current tax liabilities amount to 516 MSEK (47) whereof 508 MSEK (47) represents amount of current tax to be paid on income for the year.

The deferred tax assets reported in the balance sheet of 5 MSEK (5) are attributable to restructuring reserves. This is recognized in other current liabilities and other long-term liabilities. The change in the Parent Company year-on-year is reported as deferred tax income.

Note 8. Intangible fixed assets

	Trademarks	Licenses & Software
Accumulated acquisition value		
Opening balance, Jan.1, 2004	114	2
Investments	–	1
Closing balance, Dec. 31, 2004	114	3
Opening balance, Jan.1, 2005	114	3
Investments	–	3
Closing balance, Dec. 31, 2005	**114**	**6**
Accumulated amortization		
Opening balance, Jan.1, 2004	–27	–1
Amortization for the year	–39	–1
Closing balance, Dec. 31, 2004	–66	–2
Opening balance, Jan.1, 2005	–66	–2
Amortization for the year	–11	–1
Closing balance, Dec. 31, 2005	**–77**	**–3**
Reported values		
At Jan.1, 2004	87	1
At Dec. 31, 2004	48	1
At Jan.1, 2005	48	1
At Dec. 31, 2005	37	3

Amortization is included in the following lines of the Income Statement:

	2005	2004
Administrative expenses	–1	–1
Selling expenses	–11	–39
	–12	**–40**

Trademarks are amortized according to plan over ten years. Licenses and software are amortized over three to five years.

The acquisition value of assets does not include any loan expenses.

Note 9. Tangible fixed assets

Equipment, tools and fixtures

Acquisition value	
Opening balance, Jan.1, 2004	6
Investments	4
Sales/disposals	–1
Closing balance, Dec. 31, 2004	**9**
Opening balance, Jan.1, 2005	9
Investments	2
Sales/disposals	–4
Closing balance, Dec. 31, 2005	**7**
Depreciation	
Opening balance, Jan.1, 2004	–5
Depreciation for the year	–1
Sales/disposals	0
Closing balance, Dec. 31, 2004	**–6**
Opening balance, Jan.1, 2005	–6
Depreciation for the year	–1
Sales/disposals	3
Closing balance, Dec. 31, 2005	**–4**
Reported values	
At Jan.1, 2004	1
At Dec. 31, 2004	3
At Jan.1, 2005	3
At Dec. 31, 2005	3

Depreciation for tangible fixed assets is included in the line Administrative expenses in the Income Statement, in the amount of 1 MSEK (1).

The acquisition value of assets does not include any loan expenses.

Note 10. Receivables from Group companies

	Receivable from Group companies	
	2005	2004
Accumulated acquisition value		
Opening balance, Jan.1	2,418	2,791
Amortization	–90	–139
Currency exchange rate differences	484	–234
Closing balance, Dec. 31	**2,812**	**2,418**

Note 11. Other long-term securities holdings

Other long-term securities holdings are valued at acquisition value 10 MSEK (10).

Note 12. Prepaid expenses and accrued income

	Dec. 31, 2005	Dec. 31, 2004
Accrued interest income, external	27	34
Currency forwards	7	29
Other prepaid expenses	15	20
	49	**83**

Note 13. Equity

	2005	2004
Issued, as of Jan.1	336,596,181	351,596,181
Reduction	–12,000,000	–15,000,000
Issued, as of Dec. 31– paid	324,596,181	336,596,181

Buy-back of shares

Buy-back of shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2005, the Parent Company's holding of treasury shares amounted to 18,694,900 (15,079,288).

Dividend

Following accounting year-end, the Board proposed that the dividend for the year amount to 2.10 SEK (1.90) per share.

Note 14. Untaxed reserves

	2005	2004
Accumulated excess amortization		
Intangible fixed assets		
Opening balance Jan. 1	24	48
Excess amortization for the year	11	–23
Closing balance, Dec. 31	**35**	**24**
Tax allocation reserves		
Tax allocation reserve provisions during taxation years 1999-2004, which were liquidated in their entirety December 31, 2005	–	1,450
Closing balance, Dec. 31	**0**	**1,450**
Total untaxed reserves	**35**	**1,474**

Note 15. Liabilities to credit institutions/bond loans

Liabilities due for payment later than five years after accounting year-end amount to 520 MSEK (90). Liabilities to credit institutions consist of the current portion of bond loans 1,432 MSEK (879).

Note 16. Liabilities to Group companies

Liabilities due for payment later than five years after accounting year-end amount to 0 (0) MSEK.

Note 17. Other liabilities

Liabilities due for payment later than five years after accounting year-end amount to 0 (0) MSEK.

Note 18. Accrued expenses and prepaid income

	Dec. 31, 2005	Dec. 31, 2004
Personnel expense	9	7
Accrued bonus, incl. social security charges	0	12
Other accrued expenses	10	17
	19	**36**

Note 19. Pledged assets and contingent liabilities

Pledged assets	**Dec. 31,2005**	**Dec. 31, 2004**
Assets pledged for own liabilities	2	2
Other pledges and collateral	–	85
Total pledged assets	**2**	**87**

Contingent liabilities	**Dec. 31, 2005**	**Dec. 31, 2004**
Guarantees for subsidiaries	3	1
Guarantees for other Group companies	1,098	309
Total contingent liabilities	**1,101**	**310**

Note 20. Related parties

Summary of transactions with related parties

Nature of relationship	Year	Sale of goods to related parties	Purchase of goods from related parties	Sale of services to related parties	Purchase of services from related parties	Liability to related parties	Receivable from related parties
Subsidiary	2005	2		48	45	8,515	2,435
Subsidiary	2004	2		60	59	4,533	1,410
Associated company	2005	14					2
Associated company	2004	11					3

Transactions with related parties are charged at arms length prices. For remuneration to leading executives, see note 5 for the Group on page 47.

Note 21. Group companies

	2005	2004
Accumulated acquisition values		
Opening balance, Jan. 1	6,581	6,581
Acquisitions	1,573	–
Acquisition through distribution	3,006	–
Divestments	–8	–
Shareholders' contribution	14	–
Closing balance, Dec. 31	**11,166**	**6,581**
Accumulated revaluations		
Opening balance, Jan. 1	3,045	3,045
Closing balance, Dec. 31	**3,045**	**3,045**
Accumulated impairments		
Opening balance, Jan.1	–2,828	–2,805
Write downs for the year	–409	–23
Closing balance, Dec. 31	**–3,237**	**–2,828**

Write downs for the year are reported in the following line of the Income Statement: "Income from participations in Group companies."

Shares in subsidiaries

Subsidiary/Corp. reg. no./Reg. office	Number of shares	Ownership, %	Dec. 31, 2005 Reported value	Dec. 31, 2004 Reported value
Svenska Tändsticksbolaget försäljningsaktiebolag, 556012-2730, Stockholm	34,403,000	100	3,006	0
Swedish Match Industries AB, 556005-0253, Tidaholm	30,853	100	95	195
Intermatch Sweden AB, 556018-0423, Stockholm	710,000	100	85	85
Swedish Match United Brands AB, 556345-7737, Stockholm	200,000	100	32	104
Svenskt Snus AB, 556367-1261, Stockholm	1,000	100	1	47
Svenska Tobaks AB, 556337-4833, Stockholm	8,000	100	1	1
Tobak Fastighets AB, 556367-1253, Stockholm	2,000	100	0	146
Swedish Match Arenco AB, 556040-2157, Kalmar	305,500	100	0	31
Svenska Tändsticks AB, 556105-2506, Stockholm	1,000	100	0	0
Swedish Match US AB, 556013-4412, Stockholm [1]	96,000	100	–	8
Swedish Match Group BV	20,900,000	100	5,331	5,331
General Cigar Holdings, Inc. [2]	11,204,918	63.52	1,573	–
Swedish Match North America Inc	100	100	849	849
Nitedals Taendstiker A/S	500	100	1	1
SA Allumettiére Causemille [3]	10,000	100	0	0
The Burma Match Co Ltd [4]	300,000	100	0	0
Vulcan Trading Co. Ltd [5]	4,000	100	0	0
Swedish Match S.A. In liquidation		100	0	0
Total			**10,974**	**6,798**

1) Transferred to subsidiary in 2005.
2) Remaining shares owned by subsidiary.
3) Nationalized in 1963.
4) Nationalized in 1968.
5) Nationalized in 1969.

In addition, shares are owned in:
– Union Allumettière Marocaine S.A.
Ownership is purely formal. Group companies hold all rights and obligations.

Other shares at December 31, 2005

The Parent Company holds shares in a company connected to operations.

Name	Currency	Par value	Book value	Parent Company holding, %
Yaka Feudor SA	JPY	100,000	0	15.4

Note 22. Cash-flow statement

Liquid funds

The following sub-components are included in liquid funds:

	Dec. 31, 2005	Dec. 31, 2004
Cash and bank	309	442
Deposits	2	85
Total according to balance sheet	**311**	**527**

Interest paid and dividend received

	2005	2004
Dividend received*	3 234	264
Interest received	47	45
Interest paid	–168	–236
Total	**3,113**	**73**

* Amount for 2005 includes 3,006 MSEK in the form of distributed subsidiary

Adjustments for items not included in the cash flow

	2005	2004
Depreciation and amortization	14	41
Write downs	409	23
Unrealized exchange rate differences	–167	–12
Changes in the value of financial instruments	–1	262
Write downs of financial receivables	80	–
Cost for sharebased benefits	2	–
Dividend	–3,006	–6
Change in accrued interest	–6	–35
Realized exchange rate differences, transferred to financing activities	164	–295
Other	3	–
Total	**–2,508**	**–22**

Note 23. Carrying value and fair value of interest-bearing financial instruments

The table below indicates carrying value (incl. accrued interest) and fair value by type of interest-bearing financial instrument as of December 31, 2005. Trade receivable and accounts payable have a short duration and are recorded at nominal value without discounting and have been excluded from the table. Estimated fair value is based on market prices at the closing date. Loans have been marked to market based on current interest for the remaining time to maturity, original credit spread and present-value estimation of future cash flow. The values provided are indicative and may not necessarily be realizable.

	2005		2004	
	Book value	Estimated fair value	Book value	Estimated fair value
Short-term investments				
Treasury bills	79	79	394	394
Bank certificates	1,199	1,199	429	429
Mortgage certificates	499	499	759	759
Mortgage bonds	42	42	170	169
Government bonds	112	112	62	62
Total	**1,931**	**1,931**	**1,814**	**1,813**
Long-term loans				
Fixed interest	–727	–727	–2,325	–2,469
Floating interest	–1,362	–1 363	–438	–439
Total	**–2,089**	**–2,090**	**–2,763**	**–2,908**
Short-term loans				
Fixed interest	–1,701	–1,701	–309	–314
Floating interest	0	0	–581	–581
Total	**–1,701**	**–1,701**	**–890**	**–895**
Derivative instruments				
Currency forwards	0	0	1	1
Currency swaps	–17	–17	–15	–16
Interest-rate swaps	289	289	198	260
Total	**272**	**272**	**183**	**245**

For further information on financial instruments, see note 25 for the Group, page 58.

Proposed distribution of earnings

According to the Parent Company's Balance Sheet, the funds available for distribution by the Annual General Meeting amount to 5,402 MSEK, of which 4,570 MSEK is the net profit for the fiscal year.

The Board of Directors and the President propose that the 5,402 MSEK at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 2.10 SEK per share, amounting to a total of 642 MSEK, based on the number of shares outstanding at year-end, and that the remaining earnings be carried forward.

The income statements and balance sheets will be presented to the Annual General Meeting on April 20, 2006 for adoption. The Board of Directors also proposes April 25, 2006 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

The results of the operations of the Parent Company, Swedish Match AB, and of the Group during 2005, and their respective positions at the close of 2005, are set forth in the income statements and balance sheets and accompanying notes.

The Board of Directors and the President give their assurance that, to the best of their knowledge, the Annual report was prepared in accordance with generally accepted financial reporting standards for a stock market company, that the information given corresponds with the factual conditions and that nothing of material importance has been omitted that could influence the impression of the company created by the Annual Report.

Stockholm, February 15, 2006

Bernt Magnusson
Chairman of the Board

Jan Blomberg

Kenneth Ek

Tuve Johannesson

Arne Jurbrant

Eva Larsson

Joakim Lindström

Karsten Slotte

Meg Tivéus

Kersti Strandqvist

Sven Hindrikes
President

Our audit report was submitted on March 10, 2006.

KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

Auditors' Report

To the Annual General Meeting of Swedish Match AB (publ),
Corporate Registration Number 556015-0756

We have audited the Annual Report, the consolidated financial statements, the accounts and the administration by the Board of Directors and the President of Swedish Match AB (publ) for year 2005. The audit covers pages 32–76. The Board of Directors and the President are responsible for the accounts and administration of the Company and for ensuring that the Annual Report is prepared in accordance with the Annual Accounts Act, and that the consolidated accounts are prepared in accordance with the international financial reporting standards (IFRS) adopted by the EU and with the Annual Accounts Act. Our responsibility is to express an opinion on the Annual Report, the consolidated financial statements and the administration of the Company, based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the Annual Report and the consolidated financial statements are free of material misstatement. An audit includes examining a selection of evidence supporting the amounts and other disclosures in the financial records. An audit also includes assessments of the accounting principles applied and their application by the Board of Directors and President, as well as an appraisal of significant evaluations that the Board and President made when they prepared the Annual Report and consolidated financial statements, and a review of the overall information in the Annual Report and consolidated financial statements. As a basis for our statement of discharge from liability, we have examined important decisions, measures and circumstances in the company in order to determine the possible liability to the Company of any Board member or the President. We have also examined whether any Board member or the President has in some other manner acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

In our opinion, the Annual Report has been prepared in accordance with the Annual Accounts Act and provides a true and fair presentation of the Company's earnings and financial position in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards (IFRS) adopted by the EU and with the Annual Accounts Act, and give a true and fair presentation of the Group's earnings and financial position. The Board of Directors' Report is compatible with the other sections of the Annual Report and consolidated accounts.

We recommend that the income statements and the balance sheets of the Parent Company and the Group be adopted by the Annual General Meeting, that the profit of the Parent Company be dealt with in accordance with the proposal in the Board of Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, March 10, 2006
KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

Corporate governance report

According to the listing agreement with the OMX Stockholm Stock Exchange, Swedish companies listed on the A list and some larger Swedish companies listed on the O list must apply the Swedish Code of Corporate Governance as soon as possible after July 1, 2005, and not later than prior to the 2006 Annual General Meeting. Swedish Match already applies the Swedish Code of Corporate Governance. The Code's rule that at least one interim report must be reviewed by the Company's auditors will be applied for the first time in conjunction with the six-month report for 2006. The corporate governance report was reviewed by the Company's auditors.

Sarbanes Oxley Act

Following a previous listing on the US stock exchange NASDAQ, Swedish Match is obligated to report to the United States Securities and Exchange Commission (SEC). This means that Swedish Match is subject to the regulations of the Sarbanes Oxley Act for corporate governance and internal control regarding financial reporting.

Articles of Association

According to Swedish Match's Articles of Association, the Company's registered name is Swedish Match AB, and the Company is a limited liability company. The company's Board of Directors shall have its registered office in Stockholm. The objective of the Group's operations is to directly or indirectly conduct operations relating to the development, manufacturing and sale of tobacco products, matches and lighters and to conduct other operations compatible with those operations.

The company's share capital shall amount to not less than three hundred million (300,000,000) and not more than one billion two hundred million (1,200,000,000) Swedish kronor.

The company's Board of Directors shall consist of not less than five and not more than ten members to be elected annually by the Annual General Meeting for the period up until the next Annual General Meeting. The number of auditors shall be not more than two, with not more than the same number of deputy auditors or not more than two auditing firms. The company's fiscal year shall comprise the period from January 1 to December 31. The Annual General Meeting shall be held in Stockholm, Gothenburg or Malmö. The Articles of Association list the matters to be considered by the Annual General Meeting. Furthermore, the Articles of Association contain provisions regarding notification of the Annual General Meeting, how registration for the Meeting shall take place and the right to be accompanied by assistants at the Meeting.

The Articles of Association are available in their entirety on the company's website at www.swedishmatch.com.

Annual General Meeting

According to the Swedish Companies Act, the Annual General Meeting is the highest governing body in a limited liability company. The Annual General Meeting elects the Board of Directors and the auditors and takes decisions on such matters as changes in the Articles of Association and changes in the share capital.

Annual General Meeting 2005

Swedish Match's Annual General Meeting was held on April 27, 2005. The Annual General Meeting approved the financial accounts for 2004 and discharged the Board of Directors and the President from liability for fiscal year 2004. The Annual General Meeting approved a dividend to shareholders of 1.90 SEK.

In addition, the Annual General Meeting approved compensation to the Board of Directors for the period up until the next Annual General Meeting totaling 2,550,000 SEK, of which 750,000 SEK goes to the Chairman and 300,000 SEK goes to each member of the Board of Directors, with the exception of members employed by the company, who receive no compensation. The Meeting also approved allocation of 400,000 SEK to the Board of Directors as compensation for committee work, to be distributed in the manner decided by the Board of Directors.

Fees to the auditors are to be paid in accordance with approved invoices. Fees to the Board of Directors and the auditors during 2005 are presented in notes 5 and 6 on pages 48 and 50.

Board members Bernt Magnusson (Chairman), Jan Blomberg, Tuve Johannesson, Arne Jurbrant, Karsten Slotte and Meg Tivéus were reelected by the Annual General Meeting. Kersti Strandqvist and Sven Hindrikes were elected to the Board as new members.

In addition, it was announced at the Meeting that the organizations representing employees in Sweden had appointed Kenneth Ek, Eva Larsson and Joakim Lindström as members of the Board of Directors and Eeva Kazemi Vala, Stig Karlsson and Håkan Johansson as their deputies.

In other business, the Annual General Meeting approved a reduction of the company's share capital by 28.8 MSEK through cancellation of 12 million shares. The shares had previously been repurchased in accordance with authorization from previous shareholders' meetings. The Annual General Meeting also approved a reduction of the share capital through a reduction of the share's par value from 2.40 SEK to 1.20 SEK and a reduction of the statutory reserve in the Parent Company by 114 MSEK. These reductions resulted in a transfer of 532 MSEK from restricted to unrestricted shareholders' equity.

The shareholders also approved the Board of Directors' proposal to authorize acquisition of the company's own shares during the period until the next Annual General Meeting, such that the company's holding at any given time does not exceed 10 percent of the total number of shares in the company. Acquisitions will take place on the Stockholm Stock Exchange at a price within the registered share price interval at any given time (market price).

The Annual General Meeting approved a proposal to allow the company to issue not more than 907,408 options with a total value of not more than 9.8 MSEK, corresponding to the value of options allocated according to the company's 2004 options program. The number of options issued according to the decision by the Annual General Meeting is specified in note 5 on page 49.

The Annual General Meeting also approved the Board of Directors' proposal for an options program for senior executives for 2005 with a total value of not more than 25.2 MSEK.

The Meeting elected a Nominating Committee for the period until the end of the next Annual General Meeting.

Nominating Committee

The Annual General Meeting annually elects members of the Nominating Committee, whose task according to the instructions established by the Annual General Meeting is to prepare and submit proposals to the Annual General Meeting for the election of the Chairman and other members of the Board of Directors, the fees for the Chairman and other Board members and for committee work if applicable, election and remuneration of auditors, election of the Chairman of the Annual General Meeting, and election of the Nominating Committee for the next Annual General Meeting.

In addition, as in previous years, the Nominating Committee devoted considerable time during the year to compensation systems within Swedish Match and related issues.

The 2005 Annual General Meeting elected the following members: Bernt Magnusson (Convener) and Marianne Nilsson (Robur), both of whom were reelected, and Pernilla Klein (Third AP Fund) and Joakim Spetz (Handelsbanken Funds), who were newly elected. Carl Rosén (Second AP Fund) was elected as deputy. The Chairman of the Nominating Committee is elected internally. Joakim Spetz was appointed Chairman. Of the members, only Bernt Magnusson is a member of the Board of Directors. At the time of its election, the Nominating Committee represented 5.8 percent of the company's outstanding shares.

The Nominating Committee submits opinions regarding how evaluation of the work of the Board of Directors should be organized and conducted. The completed evaluation is then reviewed by the Nominating Committee.

The Nominating Committee meets as often as necessary, although at least once during the year. During 2005, the Nominating Committee held six meetings.

Board of Directors

Swedish Match's Board of Directors consists of eight members elected by the Annual General Meeting and three employee representatives plus their deputies.

The Board of Directors meets for a statutory meeting and five regular meetings during the year.

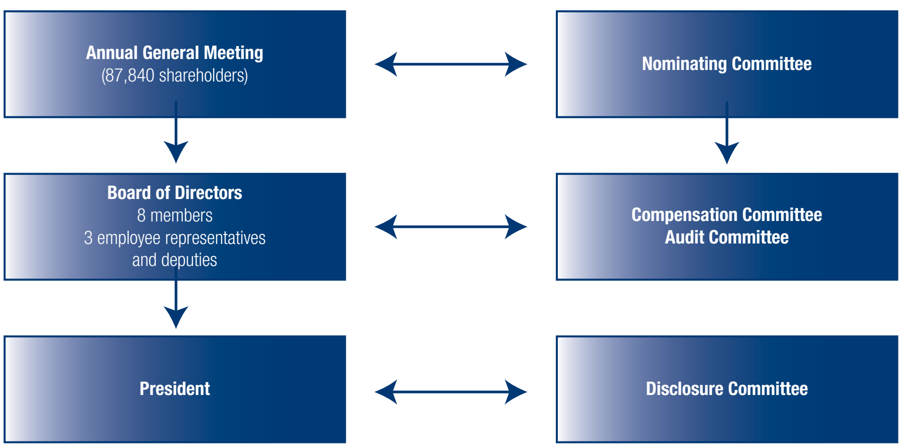
Three ordinary meetings are convened in conjunction with the publication dates of financial information for the first and third quarters and the year-end report. In addition, the Board holds meetings in August and December when the annual budget and the long-term plan are reviewed. The company's auditors attend the meeting at which the year-end financial report is presented in order to inform the Board of points noted during the audit. In addition to the ordinary meetings, the Board is called to other meetings when the situation requires.

In connection with meetings, the Board visits some of the company's major plants.

Responsibilities of the Board of Directors

The Board of Directors is responsible for Swedish Match's general and long-term strategies and goals, establishing the budget and business plans, reviewing and approving the financial accounts, establishing important guidelines and taking decisions regarding investments and divestments.

Governance of the Swedish Match Group



The Board of Directors appoints and issues instructions for the President and determines his salary and other compensation. In addition, the Board of Directors determines the composition of the Audit and Compensation Committees.

The Board of Directors also monitors the President's performance, is responsible for ensuring that the company's organization fulfills its purpose, and conducts continuous evaluations of the company's procedures and guidelines for management and investment of the company's funds. The Board also ensures the quality of financial reporting through the system for internal control that is described in the Board of Directors' report on internal controls on page 86. The company's auditors participated in one meeting with the Board of Directors and eight meetings with the Audit Committee during 2005.

Working procedures for the Board of Directors

The working procedures for the Board of Directors are established annually at the statutory meeting. The working procedures contain instructions relating to the division of responsibilities between the Board of Directors and the President and instructions for financial reporting. The working procedures also stipulate that the Board of Directors must have an Audit Committee and a Compensation Committee. Furthermore, the working procedures define the Chairman's role.

Board of Directors during 2005

The Board of Directors held its statutory meeting on the same day as the Annual General Meeting, at which the customary decisions were made, including the election of the Chairman (Bernt Magnusson), secretary (Bo Aulin) and authorized signatories. Members of the Compensation Committee and Audit Committee were also appointed.

The number of Board meetings during 2005 was eight, of which two were by correspondence.

In addition to following up business results in relation to the budget and strategic plan and strengthening the company's control systems, the Board of Directors devoted considerable time to consideration of the company's incentive and benefits structure, strategic orientation, structural issues, follow-up of acquisitions and distribution of surplus funds.

In conjunction with its meeting in August, the Board of Directors visited the cigar plant in Houthalen, Belgium.

Chairman of the Board of Directors

The Chairman of the Board of Directors is responsible for leading the Board's work and for ensuring that the Board fulfills its obligations according to the Swedish Companies Act and the Board's working procedures. Through regular contacts with the President, the Chairman of the Board of Directors monitors the company's operations and development and ensures that the Board of Directors receives the information required to ensure that the quality of the Board's work is maintained and exercised in accordance with the Swedish Companies Act. The Chairman is also responsible for forwarding the owners' opinions to the Board of Directors.

Bernt Magnusson is Chairman of the Board of Directors.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors.

The committee supervises the procedures for accounting and financial reporting, as well as auditing of the Group. Its reviews focus on quality and accuracy in the Group's financial accounting and the associated reporting work with internal financial controls within the Group, the auditors' work, their qualifications and independence and, as required, transactions between the company and related parties. The Audit Committee also discusses other important issues relating to the company's financial reporting and reports its observations to the Board of Directors. The Audit Committee must meet at least six times each year.

Members during 2005 were Jan Blomberg (Chairman), Meg Tivéus, Karsten Slotte and Kersti Strandqvist (as of April 27).

In addition to supervising financial reporting and auditing, the committee devoted special attention during 2005 to the company's internal control function and its financial strategy.

During 2005, eight meetings were held, of which one was by telephone.

Compensation Committee

The Compensation Committee is appointed annually from within the Board of Directors.

It is charged with discussing and resolving issues concerning salaries and other terms of employment, such as pension benefits and incentive systems for Group management, excluding the President. In addition, it discusses and resolves matters of principle relating to compensation. The Board of Directors (excluding the President) takes decisions on proposals from the Committee relating to compensation to the President, as well as other compensation issues that the Compensation Committee has referred to the Board of Directors, such as incentive programs for management and profit-sharing systems. The Board of Directors' proposals for share based compensation systems are submitted to shareholders' meetings for approval. As of the 2006 Annual General Meeting, principles for compensation and other terms of employment for the company's management will be submitted to the shareholders for approval.

The Committee's Chairman is responsible for continuously informing the Board of Directors about the Committee's work and decisions. The Committee meets as often as necessary and at least two times per year.

The Chairman of the Compensation Committee was the Chairman of the Board of Directors, Bernt Magnusson. Members during the year were Jan Blomberg and Arne Jurbrant.

During 2005, five meetings were held, with special attention being devoted to the following issues: establishment of variable compensation for 2004 to be paid in 2005, establishment, design and specification of targets for variable compensation to the CEO and other management for 2005, as well as principles for future variable compensation, proposals to the Board of Directors for adjustments of the CEO's salary for 2006 and determination of salaries for other managers for 2006.

In addition, the Committee presented a proposal to the Board of Directors to be submitted to the Annual General Meeting to allow the company to issue options relating to the 2004 options program, plus a proposal for an options program for senior executives for 2005.

The Committee's work was performed with the support of external expertise with respect to levels and structures for compensation to senior executives.

Evaluation of the work of the Board of Directors

The Board of Directors continuously evaluates its work through discussions and interviews between the Chairman and Board members. Evaluation also includes a summary of questionnaires completed by each Board member. The questionnaire contains questions to assess individual members, as well as the general quality of Board work. The evaluation is submitted to and reviewed by the Nominating Committee.

Composition of the Board of Directors and committees, number of meetings and attendance during 2005

	Board of Directors	Audit Committee	Compensation Committee
Total no. of meetings	**6***	**8**	**5**
Bernt Magnusson	5		5
Jan Blomberg	6	8	5
Sven Hindrikes (elected in 2005)	4		5
Tuve Johannesson	6		
Arne Jurbrant	6		4
Karsten Slotte	6	8	
Kersti Strandqvist (elected in 2005)	4	6	
Meg Tivéus	6	8	
Kenneth Ek	5		
Eva Larsson	6		
Joakim Lindström	6		
Håkan Johansson	6		
Stig Karlsson	6		
Eeva Kazemi Vala	6		

* Excl. two by correspondence.

Independence of Board members

The President, Sven Hindrikes, in his capacity as a company employee is not independent in relation to the company. In addition, the Chairman of the Board, Bernt Magnusson, is not independent in relation to the company according to the Swedish Code of Corporate Governance, since he has been a member of the Board for 12 years. All other members are considered independent.

Compensation to the Board of Directors

Compensation to the Board of Directors is decided at the Annual General Meeting. Information on Board fees for 2005 is presented in note 5 on page 48.

Executive management

President

The President is appointed by the Board of Directors and manages the company's operations within the framework established by the Board of Directors. The President prepares the required information and documentation prior to Board meetings and submits reasoned proposals for decisions by the Board. The President also provides Board members, on a monthly basis, with the information required to monitor the company's and the Group's position, operations and development, while also providing the Chairman with continuous information regarding the company's operations.

The President and Chief Executive Officer is Sven Hindrikes.

Management group

Swedish Match's management group consists of Sven Hindrikes, President and Chief Executive Officer, Bo Aulin, Senior Vice President, Corporate Affairs, Lars Dahlgren, Senior Vice President, Group Finance and IS/IT, Lennart Freeman, Executive Vice President and President of the North America Division, Lars-Olof Löfman, President of the North Europe Division, Göran Streiffert, Senior Vice President, Group Human Resources, and Jarl Uggla, President of the International Division. These persons constitute Group management.

Remuneration to executive management

For information concerning the remuneration paid to the President and CEO and the management group, see Note 5 on page 48.

Audits and auditors

The auditors are elected by the Annual General Meeting.

Auditors

KPMG Bohlins AB was elected by the Annual General Meeting as the company's external auditors for the period from 2004 until the Annual General Meeting in 2008. Authorized public accountant Thomas Thiel is the senior auditor. Thomas Thiel is also an auditor of such companies as Ericsson, Folksam, Holmen, SKF and Svenska Handelsbanken.

Compensation to Swedish Match's auditors is presented in Note 6 on page 50.

Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports and press releases whose content could have a material impact on the share price, is prepared in accordance with the Group's prevailing routines. Members of the Committee are the managers for Investor Relations, Internal Control, Corporate Communications and Group Corporate Affairs, with the latter manager (Bo Aulin) as Chairman.

During 2005, eight meetings were held.

Board of Directors

Bernt Magnusson Tuve Johannesson Arne Jurbrant Karsten Slotte

Sven Hindrikes Meg Tivéus Jan Blomberg Kersti Strandqvist

Bernt Magnusson
Born 1941. MSc, MA (Econ & Pol. Science). Chairman since 1995. Board member since 1993. Chairman of the Compensation Committee and member of the Nominating Committee.
Other Board assignments: Chairman of Fareoffice AB. Board member of Volvo Car Corp., Höganäs AB, Pharmadule AB, Net Insight AB and Coor Service Management AB. Advisor to the European Bank for Reconstruction and Development.
Previous assignments in the company: Bernt Magnusson has been a member of the Swedish Match Board of Directors for 12 years and is not considered independent in relation to the company according to the Swedish Code of Corporate Governance.
Previous positions: Controller, SCA; Consultant, R.N. Herbert, US; Financial and Administrative Manager, Alfa-Laval, Agri-gruppen; Vice President, Alfa-Laval, South Africa; Vice President Alfa-Laval Agrar, Germany; Division Manager of Uddeholm's Forest-products Industry Division; member of Group Management, Swedish Match AB; Executive Vice President, Swedish Match AB and President of the Match Division, Switzerland; Excutive Vice President, Swedish Match AB; President and CEO, Nordstjernan AB; Board Chairman and CEO, NCC AB.
Own and related parties' shares: 15,858

Jan Blomberg
Born 1939. MBA. Board member since 1996. Chairman of the Audit Committee and member of the Compensation Committee.
Other Board assignments: Chairman of Handelsbanken Regionbank City, Stockholm. Board member of Skandia Investment and Svenska Spel AB.
Independent member.
Previous positions: Auditor; Company Secretary, Financial Planning and Control and CFO at SCA, CFO Uddeholm, CFO Procordia/Pharmacia.
Own and related parties' shares: 3,638

Sven Hindrikes
Born 1950. MBA. President and Chief Executive Officer of Swedish Match AB since 2004. Employed and member of Group management since 1998.
Board assignments: Board member of Arnold André GmbH & Co KG.
Sven Hindrikes is employed by the company and thus not considered independent in relation to the company according to the Swedish Code of Corporate Governance.
Formerly employed by ABB in Mexico and Vice President of ABB Canada, Vice President of Linjebuss AB.
Own and related parties' shares: 5,000.
Call options: 93,595.

Tuve Johannesson
Born 1943. Honorary Doctor, (Economics), MBA. Board member since 2002.
Other Board assignments: Chairman of Arctic Island Ltd, EcoLean International A/S and Findus AB. Board member of SEB, Cardo AB and Chumak. Advisor to J.C. Bamford Excavators Ltd.
Independent member.
Previous positions: Tetra Pak Group (Sweden, South Africa, Australia and Switzerland); President, VME Group; President, Volvo Car Corporation.
Own and related parties' shares: 6,000

Arne Jurbrant
Born 1942, MBA. Board member since 2002. Member of the Compensation Committee.
Other Board assignments: Member of the IFL/MTC Foundation.
Independent member.
Previous positions: President's assistant, Pripps Bryggerier; Product Manager, Pripps Bryggerier; Marketing Manager, General Foods; Sales Manager, General Foods; President, General Foods Denmark; President, General Foods Sweden/Denmark; CEO, Kraft Foods Nordic Region.
Own and related parties' shares: 1,500.

Karsten Slotte
Born 1953. MBA. Board member since 2004. President and CEO of Cloetta Fazer. Member of the Audit Committee.
Other Board assignments: Board member of Oy Onninen, Finnish Association of Convenience Goods Suppliers, Finnish-Swedish Chamber of Commerce in Stockholm.
Independent member.
Previous positions: Commercial attaché, Finnish Consulate-General in Hamburg; Export advisor, Finnish Foreign Trade Agents' Federation; Export Manager, Cultor Vasamills; President, Leipurien Tukku, LT-Tukku; President, Cultor Vasamills; President, Fazer Konfektyr; President and CEO, Cloetta Fazer.
Own and related parties' shares: 3,000

Kersti Strandqvist
Born 1964. B.Sc., MBA. Board member since 2005. Business area manager for Baby Care within SCA Personal Care. Member of the Audit Committee.
Independent member.
Previous positions: Neste Chemicals (Sweden, Finland, Belgium), Elf Atochem (France), SCA.
Own and related parties' shares: 500

Kenneth Ek

Eeva Kazemi Vala

Håkan Johansson

Joakim Lindström

Eva Larsson

Meg Tivéus
Born 1943. MBA. Board member since 1999. Member of the Audit Committee. Other Board assignments: Board member of Statens Provningsanstalt AB, Cloetta Fazer AB, Operan AB, Billerud AB, Danderyds Sjukhus AB, Nordea Fonder AB, SNS and Kommentus AB. Independent member.
Previous positions: Project Manager at McCann Ericsson Advertising, Product Manager at Modo AB, Division Manager at Åhléns AB, Division Manager at Holmen AB, Vice President of Posten AB, President of Svenska Spel.
Own and related parties' shares: 500

Employee representatives
Kenneth Ek
Born 1953. Board member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus plant in Gothenburg, Sweden.
Previous positions: Electrician, electrical manager, technical manager, strategic/industrial projects at Swedish Match's plant in Gothenburg.
Own and related parties' shares: 0

Eva Larsson
Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the trade union association at the match plant in Tidaholm, Sweden.
Previous positions: Line operator, insurance manager for insurance policies of persons employed under collective agreements at Swedish Match's match plant in Tidaholm.
Own and related parties' shares: 0

Joakim Lindström
Born 1965. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Swedish Food Workers' (Livs) trade union association in Solna, Stockholm, Sweden.
Own and related parties' shares: 0

Employee representatives (deputies)
Håkan Johansson
Born 1963. Deputy member since 2004. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match.
Previous positions: Line operator at Swedish Match's plants in Malmö and Gothenburg.
Own and related parties' shares: 0

Eeva Kazemi Vala
Born 1949. Deputy member since 2004. Appointed by the Federation of Salaried Employees in Industry and Services (PTK) within Swedish Match.
Previous positions: Stockholm University; Casco AB; Karolinska Institute; bioanalyst, research chemist, market research manager and market coordinator, Swedish Match North Europe.
Own and related parties' shares: 500

Auditors
KPMG Bohlins AB
Senior Auditor:
Thomas Thiel
Born 1947. Authorized Public Accountant. Swedish Match Auditor since 2004. Thomas Thiel's other auditing assignments include Ericsson, Folksam, Holmen, SKF and Svenska Handelsbanken.

Group management

Sven Hindrikes

Göran Streiffert

Lars-Olof Löfman

Lennart Freeman

Sven Hindrikes
President and CEO of Swedish Match AB since 2004.
Employed and member of Group management since 1998.
Born 1950, MBA.
Own and related parties' shares: 5,000
Call options 93,595

Göran Streiffert
Senior Vice President, Group Human Resources since 1997.
Joined Swedish Match and Group management in 1997.
Born 1946, BA.
Own and related parties' shares: 30,400
Call options: 79,984

Lars-Olof Löfman
President of North Europe Division since 2004.
Joined Swedish Match in 1987.
Member of Group Management since 2004. Born 1956. MSc Eng, controller DIHM.
Own and related parties' shares: 1,400
Call options: 51,426

Lennart Freeman
Executive Vice President of Swedish Match AB since 2005.
President of North America Division since 1999.
Joined Swedish Match in 1975.
Member of Group management since 1999. Born 1951, MBA.
Own and related parties' shares: 300
Call options: 156,763

Jarl Uggla

Bo Aulin

Lars Dahlgren

Jarl Uggla
President of International Division since 2005.
Joined Swedish Match in 2002.
Member of Group management since 2004. Born 1955, Mechanical Engineer.
Own and related parties' shares: 3,000
Call options: 61,203

Bo Aulin
General Counsel, Head of Corporate Communications. Senior Vice President, Corporate Affairs since 1996. Secretary to the Board. Chairman of the Disclosure Committee.
Joined Swedish Match in 1990.
Member of Group management since 1996.
Born 1948, Bachelor of Laws (LLB).
Own and related parties' shares: 4,400
Call options: 79,984

Lars Dahlgren
Chief Financial Officer and Senior Vice President, Group Finance and IS/IT since 2004.
Joined Swedish Match in 1996.
Member of Group management since 2004. Born 1970, MBA.
Own and related parties' shares: 1,000
Call options: 17,314

Internal control report

The Board of Directors' report on internal control over financial reporting for the 2005 fiscal year

The Board of Directors is responsible for internal control in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance. This report was prepared in accordance with the Swedish Code of Corporate Governance, sections 3.7.2 and 3.7.3, and is thus limited to the internal control aspects relating to financial reporting. This report is not a part of the formal annual report documents.

The basis for internal control relating to financial reporting is the control environment, including the organization, decision paths, authorizations and responsibilities that are communicated in such control documents as internal policies, guidelines, manuals and codes. Examples are the division of responsibilities between the Board of Directors and the President and the other bodies that the Board of Directors establishes, instructions rights of authorizations and accounting and reporting instructions.

The company applies a method for risk assessment and risk management that ensures that the risks to which the company is exposed are managed within the limits established. The risks identified that relate to financial reporting are managed via the company's control structure, which is documented in process and internal control descriptions.

The company monitors compliance with control documents in the form of internal policies, guidelines, manuals and codes, as well as the effectiveness of control structures. As a result of having previously been listed on the US NASDAQ stock exchange, Swedish Match is registered with the Securities and Exchange Commission (SEC) and is thus obligated to apply the principles for monitoring internal control relating to financial reporting in accordance with the US Sarbanes-Oxley Act. Work in this area is in progress and will be reported for the first time in conjunction with the 2006 Annual Report.

In addition, follow-ups are conducted of the company's information and communication channels that are intended to ensure that they are appropriate with respect to financial reporting. A committee appointed by company management monitors the completeness of financial reporting with respect to disclosure requirements. The outcome of the company's process for risk management is assessed by the Board of Directors.

The Board of Directors receives monthly financial reports, and the company's and the Group's financial position is discussed at each Board meeting. In addition, the Board's various sub-committees perform important functions for the Board's follow-ups. The work of these committees is described on pages 78–81.

The Board of Directors has evaluated the need for a special internal audit function based on the Group's operations. The existence of a department for internal control in the company, charged with ensuring that internal controls are performed in accordance with the provisions of the Sarbanes-Oxley Act, and of a Disclosure Committee, mean that the board of directors has concluded that there is no need for any internal audit function within the company.

Stockholm, February 15, 2006

Bernt Magnusson Chairman of the Board of Directors	Jan Blomberg	Kenneth Ek
Tuve Johannesson	Arne Jurbrant	Eva Larsson
Joakim Lindström	Karsten Slotte	Meg Tivéus

Kersti Strandqvist

Sven Hindrikes
President

Definitions

Return on equity (%)	100 x	$\frac{\text{Net income for the year}}{\text{Average equity}}$
Return on operating capital (%)	100 x	$\frac{\text{Operating income}}{\text{Average operating capital}}$
Direct return (%)	100 x	$\frac{\text{Dividend}}{\text{Share price at year-end}}$
EBITA		Earnings before financial items, tax and amortization of intangible fixed assets
EBIT multiple		$\frac{\text{Market value + net debt + minority interest}}{\text{Operating income}}$
EBITA interest coverage ratio		$\frac{\text{EBITA}}{\text{Net interest income/expense}}$
Equity per share		$\frac{\text{Equity attributable to equity holders of the parent}}{\text{Number of shares outstanding at year-end}^{1)}}$
Average shareholders' equity		$\frac{\text{Opening + closing equity}}{2}$
Average operating capital		$\frac{\text{Opening + closing operating capital}}{2}$
Net debt		Interest-bearing liabilities [2)] – liquid funds
Debt/equity ratio	100 x	$\frac{\text{Net debt}}{\text{Equity}}$
Operating capital		Current operating assets + intangible assets, property, plant and equipment + other long-term operating assets – current operating liabilities – long-term operating liabilities
P/E ratio after tax		$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$
Operating margin (%)	100 x	$\frac{\text{Operating income}}{\text{Net sales}}$
Equity/assets ratio (%)	100 x	$\frac{\text{Equity}}{\text{Total assets}}$
Total return (%)	100 x	$\frac{\text{(Share price at year-end – share price at preceding year-end) + (dividend paid + return on reinvested dividend)}}{\text{Share price at preceding year-end}}$
Earnings per share		$\frac{\text{Net income for the year attributable to equity holders of the parent}}{\text{Average number of shares after buybacks}^{1}}$

1) The number of shares outstanding refers to shares outstanding, net after buybacks.
2) Pension liabilities are not included in interest-bearing liabilities.

Five-year summary

Condensed consolidated income statements[1)]

(MSEK)	2001	2002	2003	2004	2005
Net sales	**13,635**	**13,643**	**13,036**	**13,007**	**13,311**
Gross profit	**5,928**	**6,124**	**5,933**	**5,761**	**6,033**
Settlement income, UST	–	–	–	1,521	–
Operating income	**2,113**	**2,371**	**2,224**	**3,593**	**2,825**
Net financial items	–273	–245	–50	–164	–128
Income after financial items	1,840	2,126	2,174	3,429	2,696
Net income	**1,228**	**1,429**	**1,558**	**2,084**	**1,777**
Operating income before depreciation/amortization	**2,783**	**3,022**	**2,889**	**4,072**	**3,283**

Condensed consolidated balance sheets[1)]

(MSEK)	2001	2002	2003	2004	2005
Assets					
Intangible fixed assets	4,769	4,145	3,648	3,452	4,265
Tangible fixed assets	2,970	2,938	2,862	2,712	2,488
Financial fixed assets	691	606	616	848	1,150
Inventories	3,753	3,154	2,676	2,476	2,770
Current receivables	2,834	2,588	2,634	2,408	2,475
Liquid funds	1,606	2,016	2,666	3,002	3,657
Total assets	**16,623**	**15,447**	**15,102**	**14,898**	**16,806**
Equity and liabilities					
Equity, including minority interest	4,105	4,007	4,010	5,060	5,083
of which, minority interest	767	686	597	481	3
Long-term provisions	2,311	2,293	2,119	2,512	3,072
Long-term liabilities	5,150	4,603	4,601	2,580	2,884
Current provisions	–	–	–	647	293
Current liabilities	4,290	3,858	3,775	4,099	5,474
Total equity and liabilities	**16,623**	**15,447**	**15,102**	**14,898**	**16,806**

Cash flow[1)]

(MSEK)	2001	2002	2003	2004	2005
Cash flow from operations	1,609	2,585	2,638	3,626	2,718
Cash flow from investing activities	–1,520	–717	–625	–1,118	–865
Cash flow from financing activities	–318	–1,633	–1,469	–2,779	–1,441
Cash flow for the year	**–229**	**235**	**544**	**–270**	**412**
Cash and bank at beginning of the year	1,065	846	989	1,497	1,187
Translation difference in cash and bank	10	–92	–36	–40	130
Cash and bank at year-end	**846**	**989**	**1,497**	**1,187**	**1,729**

1) Data for 2005 and 2004 are based on reporting in accordance with IFRS. Data for the years prior to 2004 are based on the then applicable Swedish GAAP.

Key figures[1)]

	2001	2002	2003	2004	2005
Operating capital at year end, MSEK[2)]	10,548	9,477	8,377	7,314	7,765
Net debt, MSEK	4,410	3,492	2,715	527	674
Investments in tangible fixed assets, MSEK	633	751	551	486	328
Operating margin, %[3)]	15.5	17.4	17.1	17.8	19.7
Return on operating capital, %[3)]	21.3	23.7	24.9	29.4	34.7
Return on equity, %	28.3	35.2	38.9	48.2	36.6
Net debt/equity ratio, %	90.5	74.4	58.9	10.4	13.3
Equity/assets ratio, %	29.3	30.4	30.5	34.0	30.2
Share capital, MSEK	892	868	844	808	390
Dividend per share, SEK	1.45	1.60	1.70	1.90	2.10[4)]
Earnings per share, SEK					
Earnings per share basic, SEK	3.40	4.10	4.68	4.21	5.32
Including major one-time items	3.40	4.10	4.68	6.18	5.61

1) Data for 2005 and 2004 are based on reporting in accordance with IFRS. Data for the years prior to 2004 are based on the then applicable Swedish GAAP.
2) Due to changes in accounting principles governing pensions, the company has decided to amend the internal definition of operating capital. As of January 1, 2004, pension liabilities and pension receivables are included in operating capital. The comparative figures have been restated in line with the same principle.
3) Excluding the sale of office building during 2005, the settlement income from UST, and impairment and reserves in match operations during 2004.
4) Board proposal.

Net sales by product area

(MSEK)	2001	2002	2003	2004	2005
Snuff	2,457	2,788	2,995	3,081	3,131
Chewing Tobacco	1,377	1,333	1,146	1,058	1,079
Cigars	3,481	3,318	3,008	3,171	3,283
Pipe Tobacco and Accessories	933	843	909	901	920
Matches	1,690	1,648	1,395	1,378	1,316
Lighters	809	700	599	582	620
Other operations	2,888	3,013	2,984	2,836	2,962
Total	**13,635**	**13,643**	**13,036**	**13,007**	**13,311**

Operating income by product area

(MSEK)	2001	2002	2003	2004	2005
Snuff	950	1,233	1,386	1,376	1,504
Chewing Tobacco	372	406	336	304	347
Cigars	420	472	393	567	613
Pipe Tobacco and Accessories	236	164	201	254	237
Matches	183	221	83	–12	13
Lighters	101	56	14	13	44
Other operations	–149	–181	–189	–190	–140
Subtotal	**2,113**	**2,371**	**2,224**	**2,312**	**2,618**
Gain from sale of office building	–	–	–	–	206
Settlement income, UST	–	–	–	1,521	–
Impairment and reserves in match operations	–	–	–	–150	–
Costs for acquisition of shares in Wimco Ltd	–	–	–	–90	–
Total	**2,113**	**2,371**	**2,224**	**3,593**	**2,825**

Operating margin by product area

(%)	2001	2002	2003	2004	2005
Snuff	38.7	44.2	46.3	44.7	48.0
Chewing Tobacco	27.0	30.5	29.3	28.7	32.1
Cigars	12.1	14.2	13.1	17.9	18.7
Pipe Tobacco and Accessories	25.3	19.5	22.1	28.2	25.8
Matches	10.8	13.4	5.9	–0.9	1.0
Lighters	12.5	8.0	2.3	2.2	7.1
Group	**15.5**	**17.4**	**17.1**	**17.8**	**19.7**

Quarterly data

Condensed income statements

	2004				2005			
(MSEK)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Net sales	3,002	3,376	3,419	3,211	2,967	3,384	3,461	3,500
Gross profit	1,417	1,512	1,615	1,367	1,338	1,542	1,612	1,540
Gain from sale of office building	–	–	–	–	–	–	206	–
Income from settlement, UST	1,417	104	–	–	–	–	–	–
Impairment and reserves in match operations	–	–	–150	–	–	–	–	–
Costs for acquisition of shares in Wimco Ltd	–	–	–90	–	–	–	–	–
Operating income	**1,932**	**691**	**462**	**508**	**538**	**647**	**962**	**678**
Net financial items	–47	–27	–24	–67	–20	–33	–40	–36
Income after financial items	1,886	664	438	441	518	614	922	642
Income for the year attributable to equity holders of the Parent	**1,146**	**417**	**225**	**297**	**347**	**405**	**569**	**456**
Operating income excluding major one-time items and depreciation/amortization	629	714	829	618	651	763	873	791

Key figures

	2004				2005			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Operating margin, %,[1]	17.2	17.4	20.5	15.8	18.1	19.1	21.9	19.4
Net debt/equity ratio, %	14.4	27.2	24.1	10.4	5.9	57.3	24.2	13.3
Equity/assets ratio, %	34.1	33.7	31.6	34.0	36.2	28.2	31.4	30.2
Investments in tangible fixed assets, MSEK	93	127	129	137	103	100	68	57
Earnings per share, basic, SEK								
Excluding major one-time items	0.96	1.03	1.37	0.86	1.06	1.27	1.53	1.47
Including major one-time items	3.46	1.21	0.65	0.86	1.06	1.27	1.81	1.47

[1] Excluding major one-time items.

Net sales by product area

(MSEK)	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
Snuff	751	814	791	726	703	800	809	819
Chewing Tobacco	254	282	285	237	242	267	290	280
Cigars	687	846	848	790	734	841	874	834
Pipe Tobacco and Accessories	211	214	234	242	216	218	241	245
Matches	324	340	348	366	294	369	298	355
Lighters	146	146	147	142	143	155	156	166
Other operations	628	734	766	708	635	734	792	800
Total	**3,002**	**3,376**	**3,419**	**3,211**	**2,967**	**3,384**	**3,461**	**3,500**

Operating income by product area

(MSEK)	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
Snuff	354	365	371	287	324	388	401	392
Chewing Tobacco	73	82	82	67	69	83	94	100
Cigars	129	156	174	108	136	112	188	176
Pipe Tobacco and Accessories	60	53	69	72	60	56	62	60
Matches	–19	–37	28	15	–17	30	31	–31
Lighters	8	9	6	–10	12	15	16	1
Other operations	–90	–40	–30	–30	–47	–37	–37	–20
Subtotal	**515**	**587**	**702**	**508**	**538**	**647**	**756**	**678**
Gain from sale of office building	–	–	–	–	–	–	206	–
Settlement income, UST	1,417	104	–	–	–	–	–	–
Impairment and reserves in match operations	–	–	–150	–	–	–	–	–
Costs for acquisition of shares in Wimco Ltd	–	–	–90	–	–	–	–	–
Total	**1,932**	**691**	**462**	**508**	**538**	**647**	**962**	**678**

Operating margin by product area

(%)	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
Snuff	47.1	44.8	46.9	39.5	46.0	48.5	49.5	47.8
Chewing Tobacco	28.7	29.0	28.8	28.4	28.6	31.2	32.5	35.6
Cigars	18.8	18.5	20.6	13.6	18.6	13.3	21.5	21.1
Pipe Tobacco and Accessories	28.4	24.6	29.7	29.8	27.6	25.6	25.7	24.4
Matches	–5.7	–11.0	8.1	4.2	–5.6	8.2	10.5	–8.9
Lighters	5.7	5.9	4.4	–7.3	8.6	9.8	10.4	0.4
Group	**17.2**	**17.4**	**20.5**	**15.8**	**18.1**	**19.1**	**21.9**	**19.4**

Information to shareholders

Annual General Meeting
The Annual General Meeting will be held at 4.30 p.m. on Thursday, April 20, 2006 in Hall K1, Stockholm International Fairs (Stockholmsmässan), Älvsjö in Stockholm. Registration for the Meeting will open at 3:00 p.m. Shareholders who are listed in a printout of the shareholders' register produced on April 12, 2006, and have notified Swedish Match of their intention to attend are entitled to participate in the Annual General Meeting.

Listing in shareholders' register
The Swedish Match shareholders' register is maintained by VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in the owner's name. Shareholders whose shares are held in trust must ensure that their shares are re-registered in their own names well in advance so that the shares are owner-registered in the printout of the shareholders' register compiled on April 12, 2006.

Notification of intention to attend Annual General Meeting
Notification of intention to participate in the Annual General Meeting will be accepted as of Thursday, March 23, 2006.

Notifications may be submitted by:
- Telephone +46 20-61 00 10 (1:30 p.m. to 4:30 p.m.)
- Fax +46 8-720 76 56
- Internet www.swedishmatch.se/stamman
- Mail: Swedish Match AB, Legal Affairs, SE-118 85 Stockholm, Sweden

Notifications must include:
Name, personal identification number (registration number), address and telephone number (daytime).

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4:00 p.m. on Wednesday, April 12, 2006, which is the expiration date for receipt of notification by Swedish Match. The Board of Directors has proposed April 25, 2006 as the record date for dividend entitlement. Dividends are expected to be paid by VPC on April 28, 2006.

Financial reports schedule

Interim report for Jan 1–Mar 31, 2006	April 28, 2006
Form 20F-2005	June 2006
Interim report for Jan 1–Jun 30, 2006	August 3, 2006
Interim report for Jan 1–Sep 30, 2006	October 25, 2006
Year-end report on operations in 2006	February 2007
Annual Report 2006	March 2007

The financial reports may be ordered from:
Swedish Match AB
Investor Relations
SE-118 85 Stockholm, Sweden
Telephone: +46 8-658 01 45
Fax: +46 8-658 02 62
E-mail: investorrelations@swedishmatch.com

Financial information is also accessible at www.swedishmatch.com

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