MINUTES
kept at the Annual General Meeting of Shareholders of Swedish Match AB, Swedish company reg. no. 556015-0756, on 20th April 2006
Unofficial translation from Swedish

§ 1
Pursuant to the Nominating Committee's proposal, Ingemar Mundebo was elected as Chairman of the Meeting. It was duly noted that Bo Aulin was requested to keep the minutes at the Meeting.

§ 2
The list of shareholders present was approved as the list of those entitled to vote (Appendix 1).

§ 3
Pernilla Klein and Åsa Nisell were appointed to check the minutes together with the Chairman of the Meeting.

§ 4
The Meeting was declared to have been duly convened.

It was resolved that the people granted guest access to the Meeting by the Company shall have the right to attend the Meeting.

§ 5
The Agenda (Appendix 2) was approved.

§ 6
The President gave a speech in which he presented the Company's operations (Appendix 3).

The Chairman of the Board reported on the work of the Board of Directors.

The Chairman of the Audit Committee reported on the work and function of the Audit Committee and presented the consulting costs and other expenses paid to Swedish Match's auditors in 2005.

A presentation was made of the Annual Report and the Audit Report as well as the Consolidated Accounts and the Consolidated Audit Report for the period 1st January – 31st December 2005. In conjunction with the presentation of the Audit Report, Thomas Thiel, auditor, reported on the auditing work.

§ 7
It was resolved to adopt the income statement and balance sheet, along with the consolidated income statement and consolidated balance sheet, presented in the Annual Report (Appendix 4).

§ 8
Pursuant to the Board of Directors’ proposal, it was resolved

that the funds at the disposal of the Annual General Meeting, i.e. SEK 5,402,311,707.61, shall be appropriated as follows: a dividend of SEK 2.10 per share to be paid to the shareholders for each share in Swedish Match AB, SEK 28,800,000 to be utilised for a bonus issue by means of which the share capital after the proposed reduction is restored to its original amount (see item 13 below) and the remaining profits to be carried forward to a new account;

and that the record date for determining who is entitled to receive a cash dividend shall be 25th April 2006.

§ 9
The Chairman of the Board reported on the work and function of the Compensation Committee and on the principles for remuneration and other terms of employment for the Company management.

Pursuant to the Board of Directors’ proposal, it was resolved to adopt principles for remuneration and other terms of employment for the Company management (Appendix 5).

It was duly noted that Lars-Erik Forsgårdh, representing Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, registered a dissenting opinion against the resolution insofar as the resolution related to the stock option programme of the Company.

§ 10
It was resolved to adopt the stock option programme proposed by the Board of Directors (Appendix 6).

It was duly noted that Lars-Erik Forsgårdh, representing Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, registered a dissenting opinion against the resolution.

§ 11
Pursuant to the Board of Directors’ proposal, it was resolved

that the Company shall issue a maximum of 723,333 call options to cover the Company’s stock option programme for 2005;

and that the Company, in a deviation from the preferential rights of shareholders, shall be permitted to transfer a maximum of 723,333 shares in the Company at a selling price of SEK 127.10 per share in conjunction with a demand for the redemption of the call options, whereby the number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure, in accordance with the "Terms and conditions for call options 2006/2011" enclosed to the Agenda (Appendix 7).

It was duly noted that the resolution had been passed with the requisite majority, i.e. it was supported by shareholders representing at least nine-tenths of the votes cast and nine-tenths of the shares represented at the Meeting. It was also duly noted that Lars-Erik Forsgårdh, representing Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, registered a dissenting opinion against the resolution.

§ 12

With the purpose of the repurchase primarily being to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programme, it was resolved, pursuant to the Board of Directors' proposal, to authorise the Board of Directors to decide to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 per cent of all shares in the Company, whereby the shares shall be acquired on the Stockholm Stock Exchange at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest offer price) and repurchase may not take place during the period when an estimate of an average price for the Swedish Match share on the Stockholm Stock Exchange is being carried out in order to establish the terms of any stock option programme for the senior company officials of Swedish Match.

It was duly noted that the resolution had been passed with the requisite majority, i.e. it was supported by shareholders representing at least two-thirds of the votes cast and two-thirds of the shares represented at the Meeting.

§ 13

a) Pursuant to the Board of Directors' proposal, it was resolved

<u>that</u> the Company's share capital shall be reduced by SEK 28,800,000 by means of the withdrawal of 24,000,000 shares in the Company without any refund to the shareholders, which shares have been repurchased by the Company in accordance with the authorisation granted by the General Meeting of Shareholders of the Company;

<u>and that</u> the reduced amount shall be allocated to a fund for use in repurchasing the Company's own shares.

It was duly noted that the resolution under item a) had been passed with the requisite majority, i.e. it was supported by shareholders representing at least two-thirds of the votes cast and two-thirds of the shares represented at the Meeting.

b) Pursuant to the Board of Directors' proposal, it was resolved

that the Company's share capital shall be increased by SEK 28,800,000 through a transfer from non-restricted shareholders' equity to the share capital (bonus issue), whereby the share capital shall be increased without issuing new shares.

§ 14
Pursuant to the Board of Directors' proposal, it was resolved

that the Company's statutory reserve shall be reduced by SEK 80,364,332.20 to SEK 0,

and that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

§ 15
It was resolved to discharge the members of the Board of Directors and the President responsible during the relevant period from liability for the period 1st January – 31st December 2005.

It was duly noted that the members of the Board of Directors did not take part in the resolution.

§ 16
The Chairman of the Nominating Committee reported on how the work of the Nominating Committee has been performed.

Pursuant to the Nominating Committee's proposal, it was resolved that the Board of Directors shall, for the period lasting until the end of the next Annual General Meeting, consist of nine ordinary Board members and no deputies.

§ 17
Pursuant to the Nominating Committee's proposal, it was resolved

that, for the period lasting until the end of the next Annual General Meeting, a fee of SEK 875,000 shall be payable to the Chairman of the Board, and that a fee of SEK 330,000 shall be payable to each of the other ordinary Board members elected by the General Meeting of Shareholders. Board members who are employed by the Swedish Match Group shall, however, receive no Directors' fees;

and that the Board of Directors shall be allocated SEK 500,000 as compensation for committee work, to be distributed within the Board in the manner decided by the Board of Directors.

§ 18
Pursuant to the Nominating Committee's proposal, it was resolved

that, for the period lasting until the end of the next Annual General Meeting, the following people shall be re-elected as ordinary Board members: Sven Hindrikes, Tuve Johannesson, Arne Jurbrant, Bernt Magnusson, Karsten Slotte, Kersti

Strandqvist and Meg Tivéus;

that, for the period lasting until the end of the next Annual General Meeting, Conny Carlsson and Andrew Cripps shall be elected as new ordinary Board members;

and that Bernt Magnusson shall be elected Chairman of the Board of Directors.

It was duly noted that the employees' organisations had, in special elections, appointed Kenneth Ek (the Swedish Federation of Salaried Employees in Industry and Services, PTK), Eva Larsson (the Swedish Trade Union Confederation, LO) and Joakim Lindström (the Swedish Trade Union Confederation, LO) as ordinary Board members, as well as Eeva Kazemi-Vala (the Swedish Federation of Salaried Employees in Industry and Services, PTK) and Håkan Johansson (the Swedish Trade Union Confederation, LO) as deputy Board members.

It was also duly noted that Bernt Magnusson expressed the Board of Directors' and the shareholders' acknowledgement to Jan Blomberg, who resigned from the Board of Directors, for his effort during the ten years as a member of the Board.

§ 19
Pursuant to the Nominating Committee's proposal, it was resolved

that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2007 Annual General Meeting. The four largest shareholders are identified on the basis of their known numbers of votes immediately prior to publication;

and that no remuneration shall be payable to the members of the Nominating Committee and that any expenses incurred in the course of the Nominating Committee's work shall be borne by the Company.

It was duly noted that Lars-Erik Forsgårdh, representing Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, registered a dissenting opinion against the resolution.

§ 20
Pursuant to the Nominating Committee's proposal, it was resolved to adopt the revised Instructions for Swedish Match AB's Nominating Committee (Appendix 8).

It was duly noted that Lars-Erik Forsgårdh, representing Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, registered a dissenting opinion against the resolution.

§ 21
Pursuant to the Board of Directors' proposal, it was resolved

to invite shareholders with a shareholding in Swedish Match AB corresponding to fewer than 200 shares (one trading lot comprises 200 shares) to sell their entire shareholding in the Company, free of brokerage charges;

and to request that the Board of Directors draw up the details of terms and conditions and determine the timing of such an offer, whereby the Board of Directors shall be entitled to adjust the terms and conditions of the offer in different countries, including the right to reduce the number of shares that shareholders are invited to sell, or entirely exclude shareholders in certain countries, for legal, administrative or cost reasons.

It was duly noted that Lars-Erik Forsgårdh, representing Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, encouraged the Board of Directors to consider to offer the shareholders with a shareholding in Swedish Match AB corresponding to fewer than 200 shares to purchase a number of shares in the Company which increases its shareholding in the Company to one trading lot comprising 200 shares, free of brokerage charges.

§ 22
Pursuant to the Board of Directors' proposal, it was resolved

to amend the Company's Articles of Association (Appendix 9);

and to authorise the Company's President to make minor adjustments of an editorial nature to the resolution that may prove necessary in connection with the registration of such a resolution with the Swedish Companies Registration Office (Bolagsverket).

It was duly noted that the resolution had been passed with the requisite majority, i.e. it was supported by shareholders representing at least two-thirds of the votes cast and two-thirds of the shares represented at the Meeting.

§ 23
To afford the Company the maximum possible flexibility in its efforts to optimise the terms and conditions in conjunction with loan financing, it was resolved, pursuant to the Board of Directors' proposal, to authorise the Board of Directors to decide, no later than until the next Annual General Meeting and on one or more occasions, to raise participating loans in the event that the Company, in conjunction with any loan-based financing of the ongoing commercial activities, should deem this loan type to be most advantageous for the Company in the instance in question.

No further items were brought to the attention of the Meeting.

Minutes checked by:	Minutes kept by:
Ingemar Mundebo Pernilla Klein Åsa Nisell	Bo Aulin

AGENDA
OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF SWEDISH MATCH AB
THURSDAY, APRIL 20 2006, AT 4:30 PM

1. Election of Chairman of the Meeting.

    Proposal: Ingemar Mundebo.

2. Preparation and approval of the list of shareholders entitled to vote at the Meeting.

3. Election of one or two ”minute checkers” who, in addition to the Chariman, shall verify the minutes.

4. Determination of whether the Meeting has been duly convened and issues relating to attendance of the Meeting.

    Notice to attend the Meeting has been published in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Industri on March 23, 2006 and on the Company’s web site.

5. Approval of the Agenda.

6. Presentation of the Annual Report and the Auditors’Report and of the Consolidated Financial Statements and the Auditors’ Report on the Consolidated Financial Statements for 2005. In connection therewith, the President’s speech and the Board of Director’s report regarding its work and the work and function of the Audit Committee.

7. Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.

8. Allocation of the Company’s profit as shown in the Balance Sheet adopted by the Meeting.

    Complete proposal: Annex 1.

9. Presentation of the work and function of the Compensation Committee and adoption of principles for remuneration and other terms of employment for the Company management.

    Complete proposal: Annex 2.

10. The Board of Director’s proposal regarding the adoption of the stock option programme for 2006.

    Complete proposal: Annex 3.

11. The Board of Director’s proposal regarding the issue by the Company of call options on repurchased shares in the Company for the stock option programme for 2005, and

the right for the Company to transfer shares in the Company in conjunction with a potential demand for the redemption of the call options.

Complete proposal: Annex 4.

12. The Board of Directors' proposal to authorise the Board of Directors to make decisions concerning the acquisition of shares in the Company.

Complete proposal: Annex 5.

13. a) The Board of Directors' proposal that the Company's share capital shall be reduced by way of a recall of repurchased shares, and that the reduced amount shall be transferred to a fund for use in repurchasing the Company's own shares; and

b) the Board of Directors' proposed decision concerning a bonus issue.

Complete proposal: Annex 6.

14. The Board of Directors' proposal that the Company's statutory reserve shall be reduced by SEK 80,364,332:20, and that the reduced amount shall be transferred to a fund for use in repurchasing the Company's own shares.

Complete proposal: Annex 7.

15. The question of discharging the Board of Directors and of the President from liability for the fiscal year.

16. Determination of the number of Board members and deputy members to be elected by the Meeting.

Proposal: The board shall consist of 9 members.

17. Determination of the fees to be paid to the Board of Directors.

Proposal: It is proposed that the fees to the Board of Directors be paid as follows for the period until the close of the next Annual General Meeting: the Chairman shall receive a fee of SEK 875,000 and the other Board Members elected by the Meeting shall each receive a fee of SEK 330,000. It is furthermore proposed that the Board be allocated SEK 500,000 as compensation for committee work carried out, and that it shall be divided between the Board Members in the manner decided by the Board. It is, however, proposed that Board Members employed by the Swedish Match Group shall not receive any directors' fees.

18. Election of Members of the Board and the Chairman of the Board.

Proposal, Board Members:

Relection of:	Sven Hindrikes
-''-	Tuve Johannesson
-''-	Arne Jurbrant
-''-	Bernt Magnusson

-''- Karsten Slotte
-''- Kersti Strandqvist
-''- Meg Tivéus

Election of: Andrew Cripps

-''- Conny Karlsson

The employees' associations have through special elections elected

as ordinary members:
Kenneth Ek, PTK
Eva Larsson, LO
Joakim Lindström, LO

as deputy members:
Eeva Kazemi-Vala, PTK
Håkan Johansson, LO

19. The question of how members of the Election Committee shall be appointed and the question of remuneration, if any.

    Complete proposal: Annex 8.

20. Adoption of the revised version of The Instructions for Swedish Match AB's Election Committee.

    Complete proposal: Annex 9.

21. The Board of Directors' proposal that shareholders with smaller shareholdings be invited to sell their entire shareholdings to the Company free of brokerage charges, and that the Board be tasked with drawing up the terms and conditions and determining the timing of such an offer.

    Complete proposal: Annex 10.

22. The Board of Directors' proposal regarding amendments to the Articles of Association.

    Complete proposal: Annex 11.

23. The Board of Directors' proposal that it should be authorised to make decisions concerning the raising of participating loans.

    Complete proposal: Annex 12.

Swedish Match – President's address to AGM 2006

Ladies and gentlemen,
shareholders and honored guests

Last year was a highly successful year for the Swedish Match Group. Sales and earnings improved and our financial position strengthened. The dividend will be increased if the Annual General Meeting approves the Board's proposal.

We applied an aggressive strategy, building further on our already strong market positions in two of the tobacco industry's growth segments – moist snuff and cigars. Our brand portfolio continued to develop well, with a number of successful launches. We also improved productivity, with continued restructuring measures in several product areas.

During the year, we followed up social and environmental issues to ensure that we are living up to our goals. Swedish Match strives to conduct its operations in a profitable and efficient manner, while simultaneously assigning high priority to ethical and moral issues and human rights. Within Swedish Match, awareness of social issues has always been an integral part of our corporate culture.

Swedish Match has a long history of high quality and transparency in corporate governance and control of its operations. Accordingly, compliance with the Swedish Code of Corporate Governance is a natural continuation of our established tradition.

**

During 2005, we increased the pace of product launches to further enhance our competitiveness.

- During autumn of last year, we launched the luxury moist snuff brand **Kardus** in Sweden. Kardus is an exclusive moist snuff that is sold in specially selected stores and restaurants.
- **General Onyx** is the latest product in the General family. The new moist snuff variant is characterized by a distinctive flavor, sober packaging and superior quality.
- **Kronan**, launched in Sweden during the latter part of 2005, is a new product that sells at a slightly lower price.
- We relaunched one of our oldest brands, **Röda lacket**, as a portion-packed moist snuff.
- We launched a series of flavored cigars aimed at the Asian market under the **Borkum Riff** brand, well-known as a pipe tobacco brand name.

- In the US, we also extended our range of hand-rolled cigars with the **El Rico Habano** and **Bolivar** brands.
- In the chewing-tobacco segment, we launched an innovative new product, **Red Man Silver Blend**, that contains no sugar – a traditional ingredient in other chewing-tobacco products.

**

During the past two years, we have focused intensively on measures to increase productivity.

In Europe, we have implemented general personnel cutbacks and laid off more than 200 employees, while at the same time successively moving production of cigars and lighters to Asia. We created a more efficient management structure by downsizing Group management and reducing the number of divisions from four to three. We also implemented significant rationalization measures within match operations, including, for example, the closure of two plants in Europe – one in Spain and one in Turkey – and the sale of operations that lacked strategic importance. These measures produced results during the second half of the year, with significant improvements in the Group's operating income and operating margin.

**

It is our policy to return to shareholders surplus funds that are not needed in operations. As the table behind me shows, a total of 7.5 billion SEK has been distributed during the past five years in the form of dividends amounting to 2.9 billion SEK and share buybacks amounting to 4.6 billion SEK.

**

During 2005, we acquired the shares outstanding in premium-cigar company General Cigar for 155 MUSD. The company is among the market leaders in hand-rolled cigars in the US, with a market share above 30 percent. We are currently integrating General Cigar's operations with Swedish Match North America – a process that will yield annual savings of 10 MUSD.

**

Swedish Match's share price rose by 165 percent during the most recent five-year period. The Affärsvärlden General Index rose by 42 percent during the corresponding period.

During the same period, earnings per share increased by 103 percent to 5.61 SEK, which is an average increase of 15 percent per year.

Today, Swedish Match has nearly 86,000 shareholders. Foreign ownership amounts to 80 percent of the share capital and is concentrated in the US and the UK. Among the major foreign institutional shareholders we find such companies as Wellington Management Company, Parvus Asset Management, Morgan Stanley and Cedar Rock Capital. Major Swedish shareholders include Handelsbanken Fonder and Robur.

**

Permit me to continue now with my comments on the Group and the different product areas.

Swedish Match has been a global company for many years. Our products are sold daily to millions of consumers throughout the world. Let me show a few examples:

We have a strong position in the US, with well-established brands such as Red Man and Macanudo. Matches are a major product in South America. The majority of our products are used in Europe. Cigars are highly appreciated on the Continent, while moist snuff is a favorite in the Nordic countries. Snuff, together with our other products, is also well-known in South Africa. If we continue in an easterly direction to Asia and Oceania, we also encounter products from our entire range. The Japanese purchase Firebreak chewing gum, while the Redheads brand of matches has become something of a national symbol in Australia.

We have focused on building a broad product portfolio, with strong and leading positions in many markets. Our international structure and distribution capacity enables us to utilize many marketing opportunities, and this will be a key competitive advantage in the future.

Sales during 2005 amounted to 13.3 billion SEK, which was a 2-percent increase compared with the preceding year.

Operating income amounted to 2.6 billion SEK, which represents an improvement of 306 MSEK, or 13 percent, compared with 2004.

Earnings per share amounted to 5.61 SEK, which has prompted the Board of Directors to propose raising the dividend by 0.20 SEK – or slightly more than 10 percent – to 2.10 SEK, giving a total distribution of 627 MSEK.

**

Now a few comments on individual product areas:

Swedish Match is the only company with significant operations in all the major markets for moist snuff. We are the market leader in the Nordic region and number two in South Africa. In the US, we are number three in a market that is currently showing strong growth.

In Sweden, moist snuff has undergone a unique class migration and its use is now accepted in all social classes. Since 1970, moist snuff volumes have more than doubled, and the product is now used by more than a million people in Sweden. Roughly half of these are former smokers, and women now form a substantial proportion of users – more than 200,000. During 2005, we sold 223 million cans in Scandinavia, which was a 1-percent increase compared with 2004. General, Ettan and Catch are the best-known brands in Scandinavia.

The US is the world's largest market for moist snuff – nearly five times larger than the market in Scandinavia. The total market is growing and currently amounts to around 1 billion cans annually. At year-end, our share of the US market amounted to 10 percent.

Swedish Match has two strong brands in the US: Timber Wolf, which has existed in the market for ten years, and Longhorn, which was launched during 2003. Today, we are well positioned in the market, and our aim is to grow by at least 10 percent in volume during the current year.

Sales for the product area during the year totaled 3 billion 131 million SEK, which was a 2-percent increase.

Operating income improved by 9 percent to 1 billion 504 million SEK.

**

Swedish Match is the world's second largest cigar company. We have an extensive portfolio of brands that are sold in 70 countries. Two thirds of our sales are in North America, where our best-known brands are White Owl for machine-made cigars, and Macanudo, Cohiba, Partagas and La Gloria Cubana for hand-rolled cigars.

Sales in Europe are dominated by machine-made cigars, with la Paz one of the better-known brands. The new Salsa cigar brand was introduced last year. Here in Sweden, the classic Bellman is a well-known brand. A strong focus for operations in Europe during last year was to increase the number of new product launches and achieve substantial cost savings.

Cigars are produced in our plants in the US, the Dominican Republic, Honduras, Belgium and Indonesia.

Sales of cigars increased by 4 percent to 3 billion 283 million SEK, and operating income rose 8 percent to 613 MSEK.

**

With our strong Red Man brand, we are among the leaders in the US market for chewing tobacco.

We are also well positioned in the pipe tobacco segment. Borkum Riff is one of the world's best-known brands, with which we have achieved export successes in Asia and elsewhere. Other strong brands are Boxer and Best Blend in South Africa.

Consumption of chewing tobacco and pipe tobacco is declining, but despite this trend, and thanks to our strong brands, the products continue to generate solid earnings and strong cash flows.

Sales of chewing tobacco rose by 2 percent during the year to 1 billion 79 million SEK. Operating income increased by 14 percent to 347 MSEK.

Sales of pipe tobacco increased by 2 percent to 920 MSEK during the year, while operating income declined by 7 percent to 237 MSEK.

**

Our match brands are extremely strong and well established locally, two pertinent examples being Solstickan in Sweden and Redheads in Australia.

In the lighters segment, Cricket is our best-known brand.

As I noted earlier, match operations underwent extensive restructuring during the year, involving both plant closures and divestment of operations.

Sales for the match product area amounted to 1.3 billion SEK, while operating income was 13 MSEK – an improvement of 25 MSEK compared with 2004. Restructuring costs of slightly more than 100 MSEK were charged against earnings in both 2004 and 2005. The restructuring of match operations is now complete, and we anticipate higher earnings and margins for the current year.

Sales in the lighters product area amounted to 620 MSEK, while operating income increased to 44 MSEK.

**

Now I would like to say a few words about the future of Swedish Match.

The major portion of our earnings derives from sales in those markets where we have leading positions, that is, the Nordic countries and Continental Europe, the US, South Africa and Brazil, to name the most important. We work continuously to secure and strengthen our positions in these regions – by increasing the rate of new product launches for example.

During the first quarter of 2006, we began selling our Firebreak tobacco chewing gum in Sweden and Denmark after noting the positive sales trend in Japan during the past year. Firebreak offers cigarette smokers a smokeless alternative when, for whatever reasons, they cannot or do not wish to continue smoking.

We are continuously seeking new business opportunities. During the first quarter of this year, we acquired the European cigar brands Hajenius and Oud Kampen, which have substantial sales in the Netherlands, Belgium and Germany.

**

Since the preceding Annual General Meeting, we have repurchased shares to a value of 2.3 billion SEK, corresponding to 8 percent of the number of shares outstanding. Within the framework of our financial strategy, we plan to continue buying back shares for significant amounts during the coming years.

As I said initially, we continued with our efforts to reduce the cost mass within the Group during the year. We can now look back on two years of highly focused efforts to enhance productivity. As a result, we have entered 2006 with a more competitive organization, and this year we hope to harvest the fruits of these efforts, while also continuing, of course, with ongoing efficiency-enhancement measures.

And now if I may sum up:

You are shareholders in a unique company in the tobacco industry.

Our strategy includes a continued focus on:

- organic growth, centering on our snuff and cigar products
- complementary acquisitions as opportunities arise
- transfer of surplus funds to shareholders through prioritization of share buybacks
- ongoing efficiency-enhancement measures

Provided we continue to focus on and implement this strategy, I am FULLY convinced that we will continue to see a positive trend for Swedish Match in the long term.

Thank you for your attention.

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

MSEK	Net sales 2005	Net sales 2004	Operating income 2005	Operating income 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:

Country	Currency	Average exchange rate Jan. – Dec. 2005	2004	Exchange rate on December 31 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	Assets 2004	Share of equity in associated companies 2005	Share of equity in associated companies 2004	Total assets 2005	Total assets 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	Liabilities and equity 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	Tangible fixed assets 2004	Intangible fixed assets 2005	Intangible fixed assets 2004	Total investments 2005	Total investments 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 2005	Defined-benefit pension plans 2004	Post-employment medical benefits 2005	Post-employment medical benefits 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 2005	Defined-benefit pension plans 2004	Post-employment medical benefits 2005	Post-employment medical benefits 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 2005	Defined benefit pension plans 2004	Post-employment medical benefits 2005	Post-employment medical benefits 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	Group 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	Note	Reported Dec. 31, 2003	Effect of transition to IFRS: Biological assets IAS 41	Effect of transition to IFRS: Pensions IAS 19	IFRS Jan. 1, 2004	Reported Dec. 31, 2004	Effect of transition to IFRS: Goodwill IAS 38	Effect of transition to IFRS: 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

(MSEK)	Restricted equity Share capital	Reserve fund	Unrestricted equity 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

Item 9

The Board of Directors' proposal under item 9 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on April 20, 2006

The Board of Directors proposes that the following principles for remuneration and other terms of employment be adopted for the Company management:

Swedish Match's remuneration principles shall help ensure that the company is able to recruit and retain employees with the optimum skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard the shareholders' interests.

The fundamental principles stated below shall apply to remuneration and other terms of employment for the Group management, (i.e. the President, Divisional Managers and Vice Presidents in charge of Group functions reporting directly to the President) in all agreements henceforth entered into. These principles already apply at present although in some cases, agreements with somewhat different contents that were previously entered into still apply. The contents of these agreements are presented in Swedish Match's Annual Report for 2005.

The compensation models shall unify the Group, be simple, long-term and quantifiable and shall correspond to market rates. Improvements shall be rewarded, and there shall be a "ceiling" on variable salary components. The total remuneration paid to Group management officials shall comprise the following components: fixed salary, variable salary, employee stock options, pension benefits, terms in conjunction with notice of termination and severance pay, and other benefits.

Fixed salary: The fixed salary for Group management officials shall correspond to market rates and shall be based on competence, responsibility and performance.

Variable salary: Group management officials shall be covered by an annual incentive programme under which improvements in relation to the previous year are rewarded. The final figure for the President and the Vice Presidents in charge of Group functions shall be based on the improvement in the Group's net profit, while for the Divisional Managers, half of the incentive programme shall be based on the improvement in the Group's net profit and half on specified goals for their individual Division's operating result. In addition to this, it shall be possible to have local incentive programmes covering individual Group management officials. The variable salary is maximised to a given percentage of the fixed annual salary.

Employee stock options: Group management officials are covered by an ongoing employee stock option programme under which call options in Swedish Match AB may be allocated. The options have a five-year term and can be redeemed during the fourth and fifth years of the term. The total value of the options allocated shall be maximised and the final figure calculated on the basis of two equally weighted criteria: the total stock return of the Swedish Match share in relation to a selection of other companies in the industry, and the improvement in the Group's net profit in relation to the previous year.

Pensions: Members of the Group management resident in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined-contribution pensions for portions of their salary in excess thereof. Pensions for members of the Group management resident abroad shall preferably comprise defined-contribution pensions and the premium shall be based on the fixed salary.

Severance pay, etc: For members of the Group management, a mutual period of notice of six months shall apply. Severance pay shall total a maximum of eighteen months' fixed cash salary if notice of termination is given by the company. The severance pay shall be reduced by income from other employment or commissions, but by no more than 50 per cent thereof and no more than half of the severance pay.

Other benefits: Other benefits shall be payable to members of the Group management in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to the market norm.

Committee work and decisions: Swedish Match's Board of Directors shall have a Compensation Committee. The Committee shall be tasked with preparing and presenting proposals for decisions to the Board on issues relating to Group management remuneration and other employment terms within the framework of the principles adopted by the General Meeting. In this context, the Committee shall, ahead of decisions by the Board, prepare and present proposals for salaries, bonuses and other employment terms for the President and approve salaries, bonuses and other employment terms proposed by the President for senior officials in an immediately subordinate position.

Item 10

The Board of Directors' proposal under item 10 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on April 20, 2006

Purpose

In 1999, the Board of Directors adopted a stock option programme for senior Swedish Match officials as part of the total compensation package. The purpose of the option programme is to increase still further the involvement of senior Company officials in the Company and their ownership of it, as well as to attract, motivate and retain key employees within the Company. Through the stock option programme, the senior officials' incentives will correspond to the interests of the shareholders.

The Board of Directors proposes

The Board of Directors proposes that the stock option programme for 2006 be approved by the Meeting. The Board of Directors' proposed option programme for 2006 includes a maximum of 62 senior Company officials and key employees. Requirements for the allocation of options in accordance with the programme are as follows:

- firstly, that the total stock return for the Swedish Match share is positive and better than an index comprising the Altadis, Gallaher, Imperial Tobacco, United States Tobacco (UST) and British American Tobacco (BAT) tobacco shares. The maximum allocation in accordance with this criterion will take place when the Company's return exceeds the total return on the other companies' shares by 10 per cent,

- and secondly, that the Group's net profit has increased and exceeds the previous year's net profit. The maximum allocation in accordance with this criterion will take place when the net profit exceeds that of the previous year by 10 percent.

The two requirements (a positive total stock return that is better than that of the competitors, and increased net profit) are equally weighted. When only one of the requirements set forth above is met, allocation will comprise a maximum of 50 per cent of the maximum allocation.

The market value of the options shall be determined by independent valuation institutes in accordance with a generally acknowledged valuation model (Black-Scholes) and the stock options shall be allocated without consideration. The combined value of the options allocated in accordance with the proposed stock option programme for 2006 shall not exceed a ceiling of SEK 27,335,000 (excluding any payroll tax). The stock options are freely transferable and are not linked to employment. The options can be exercised to acquire shares in the Company during the period from March 2010 to February 2012 inclusive and shall carry a redemption price corresponding to 120 per cent of the average share price over a period of time close to the allocation date and subsequent to the publication of the year-end report for 2006.

In the event of maximum allocation in accordance with the proposed stock option programme, the value of the options allocated to the Group management is estimated to total SEK 6,160,000, of which SEK 1,540,000 is accounted for by the President.

Commitments under the stock option programme may be hedged by way of repurchases of the Company’s shares and the transfer of such shares in conjunction with any potential demand for the redemption of the stock options. Any decision regarding the repurchase of shares and issue of call options for the 2006 stock option programme shall be taken by the Annual General Meeting of Shareholders in 2007. Final allocation based on the outcome in 2006 will be determined by the Compensation Committee after publication of the 2006 Annual Report.

Majority requirement

A resolution in accordance with item 10 is contingent upon a simple majority, i.e. upon it being supported by shareholders representing more than half of the votes cast.

Background

At a Board meeting held on March 26, 1999, the Board of Directors of Swedish Match AB decided to introduce a rolling stock option programme with a view to further increasing both the involvement of senior officials in the Company and their ownership of it. Information about the stock option programmes has been provided in the Annual Reports for all relevant years and at the Annual General Meetings in 2002, 2003, 2004 and 2005.

Swedish Match’s remuneration model for senior Company officials recognises that, in addition to their basic salary, the latter also have a short-term incentive programme in the form of variable remuneration and a long-term incentive programme in the form of stock options in Swedish Match AB. Both programmes are performance based and the cost has a defined upper limit or ceiling. The outcome of the variable remuneration has so far been based on an increase in earnings per share and to some extent, for division employees, on an increase in the operating profit of the relevant division. Starting in 2006, the requirement for an increase in earnings per share will be replaced by a requirement stipulating that the Group’s net profit shall increase and exceed that of the previous year. The variable remuneration may, depending on the position in question, not exceed 35 per cent of the basic salary.

The allocation of stock options has, up to and including the 2005 stock option programme, been based partly on the increase in earnings per share and partly on the share’s total return in comparison with the return yielded by a selection of other companies in the industry. With regard to the 2006 option programme and pursuant to what is stated above, the Board of Directors proposes that some of the allocation requirements be amended such that the requirement concerning an increase in earnings per share be replaced by a requirement that the Group's net profit shall have increased and shall exceed that of the previous year. This remuneration model reflects the Board's belief that a measurable increase in value for the shareholders shall form the basis for the Group's incentive programmes for senior Company officials. In light of this, the Board of Directors believes that the proposed stock option programme is, with regard to its terms and conditions and the size of the allocation, both reasonable and beneficial to the Company and its shareholders.

Option programmes for 2001-2004:

Year in which earned	Number of officials concerned	Stock options issued expressed in terms of the number of underlying shares	Outstanding options expressed in terms of the number of underlying shares, Mar. 31, 2006	Redemption price 1)	Value per option on issue 2)	Value per option, Apr. 1, 2005 3)	Redemption period
2001	51	1 518 770	1 518 770	77.50	SEK 10.10	SEK 29.00	15-03-2005-15-03-2007
2002	56	1 428 490	1 428 490	74.00	SEK 8.40	SEK 32.50	01-03-2006-28-02-2008
2003	58	865 259	865 259	84.80	SEK 10.00	SEK 21.70	01-03-2007-27-02-2009
2004	56	661 871	661 871	99.75	SEK 10.80	SEK 6.75	03-03-2008-01-03-2010
Total		4 474 390	4 474 390				

Notes

1. Calculated as 120 per cent of the average last price paid for the Company's share on the Stockholm Stock Exchange over a period of ten banking days at the time the year-end financial statements were announced.

2. Value calculated by independent valuation institutes in accordance with the Black-Scholes valuation model for options.

3. The value has been calculated as the difference between the redemption price and the last price paid for the Company's share on March 31, 2006, which was SEK 106.50. No account has been taken of whether or not it is possible to redeem the options.

In addition to the options specified in the table above, the Board of Directors proposes under item 11 that the Annual General Meeting shall pass a resolution to the effect that the Company shall issue a maximum of 723,333 stock options in accordance with the 2005 option programme. If these options are issued by the Company, the Company has a total of 5,197,723 outstanding options according to the stock option programmes for 2001 to 2005. Under item 11 the Board of Directors also proposes that the Company should deviate from the preferential rights of shareholders and be allowed to transfer a maximum of 723,333 shares in the Company at a selling price of SEK 127.10 per share in the event of redemption of the call options being requested. The number of shares and the selling price of these shares may be recalculated due to a bonus issue, a consolidation or split of shares, a new share issue, a reduction in the share capital or other similar measures.

Allocation to the President in accordance with the stock option programmes for 2001-2004:

Option programme	2001	2002	2003	2004	Total
Number of options allocated	80 099	110 000	30 100	27 222	247 421

Allocation to other members of the Group management in accordance with the stock option programmes for 2001-2004:

Option programme	2001	2002	2003	2004	Total
Number of options allocated	429 360	369 560	252 000	127 590	1 178 510

Swedish Match's share capital breaks down into 324,596,181 shares with a no-par value of SEK 1.20 per share. All shares carry one vote each. Via buy-backs, the Company has a holding on April 1, 2006 of a total of 27,038,076 of its own shares and the net number of outstanding shares therefore totals 297,558,105 shares. The intention is that the options issued will, when exercised, lead to the acquisition of these repurchased shares. Over the period starting in 2000 and lasting until now, the Company has, in accordance with decisions by the Company's shareholders' meetings, bought back shares in the Company with a view, among other things, to covering the allocation of options in the Company's rolling stock option programme. The Board of Directors proposes in item 12 that the 2006 Annual General Meeting should, with a corresponding purpose in mind, authorise the Board to decide on the acquisition of the Company's own shares.

On full exercise of options not redeemed on April 1, 2006 of all options issued in accordance with resolutions passed at the Annual General Meetings in 2002-2006, the number of outstanding shares, net after buy-backs, will increase as follows:

Option programme	2001	2002	2003	2004	Total
Increase in number of shares	1 518 770	1 428 490	865 259	661 871	4 474 390
Percentage increase	0.5 %	0.5 %	0.3 %	0.2 %	1.5 %

On full exercise of the options proposed for issue in accordance with item 11 at the 2006 Annual General Meeting, the number of outstanding shares, net after buy-backs, will increase as follows:

Option programme	2001-2004	2005	Total
Increase in number of shares	4 474 390	723 333	5 197 723
Percentage increase	1.5 %	0.2 %	1.7 %

Calculated in accordance with the accounting standard of the International Financial Reporting Standards (IFRS) applying to earnings per share, options issued by the Company but not redeemed on December 31, 2005 a total dilution effect on earnings per share of SEK 0.02 per share (from SEK 5.61 to SEK 5.59), which is equivalent to 0.4 per cent. The options that may be issued in accordance with the 2006 programme also have a dilution effect on earnings per share to the extent that they are secured by repurchased shares.

Item 11

The Board of Directors' proposal under item 11 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on April 20, 2006

Over the period from 1999 to 2005, Swedish Match has implemented a rolling stock option programme whereby it has been possible to allocate call options on shares in the Company on an annual basis to a number of key Company employees if certain terms and conditons are met. Detailed information about these stock option programmes and their outcomes is provided in the Board of Directors' proposal under item 10.

The Company is bound by the Annual General Meetings decision concerning the stock option programme for 2005. A resolution under item 11 on the agenda concerns the question of whether the Company shall, in order to be in a position to honour the existing stock option programme for 2005, be entitled to issue the relevant call options itself and to transfer shares in connection with requests for the redemption of these call options. The alternative to such a procedure is to purchase options on the open market.

For the sake of order, it must be emphasised here that the shareholders' meeting does not, under this item, have to adopt a position with regard to the stock option programme per se.

The Board of Directors proposes

The Board of Directors proposes that the Meeting resolve that the Company shall issue a maximum of 723,333 call options to hedge the stock option programme for 2005. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer a maximum of 723,333 shares in the Company at a selling price of SEK 127.10 per share in conjunction with a demand for the redemption of the call options. The number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure, in accordance with "Terms and conditions for call options, 2006/2011", Appendix 4 A.

The resolution of the Meeting in accordance with the Board's proposals in item 11 is contingent upon it being supported by shareholders representing at least nine-tenths of both the votes cast and the shares represented at the Meeting.

Background to the Board of Directors' proposal

At a Board meeting held on March 26, 1999, the Board of Directors of Swedish Match AB originally decided to introduce a rolling stock option programme with a view to further increasing both the involvement of senior officials in the Company and their ownership of it. The stock option programme for 2005 which was approved by the Annual General Meeting in 2005 is part of this rolling stock option programme. According to the 2005 stock option programme, certain senior Company officials shall be allocated a total of 723,333 stock options, and the allocation per person shall be a minimum of 4,900 options and a maximum of 46,666. The stock options can be used to buy shares over the period from March 2, 2009 to February 28, 2011 at a redemption price of SEK 127.10. Among those to be allocated options is the Group management. Other senior Company officials covered by the stock option programme for 2005 include key employees at the Group who report directly to members of the Group management. The terms and conditions applying to the stock options were established on the basis of the average price of the Swedish Match share on the Stockholm Stock Exchange over the period from February 15, 2006 to February 28, 2006, which was SEK 105.88. The stock options have been valued by Handelsbanken Capital Markets in accordance with the Black-Scholes model. In this model, volatility has been assumed to be 22 per cent and the risk-free interest rate 3.12 per cent. In addition, an assumption concerning dividend growth has been used when calculating the value. Account has been taken of the fact that the options' liquidity will be limited. The market value of the options, calculated on the basis of the conditions prevailing at the time at which the terms and conditions applying to the options were established, is deemed by Handelsbanken Capital Markets to be SEK 13.20 per option, corresponding to a total maximum value of SEK 9,548,000.

The stock option programme for 2005 covers 51 senior Company officials. The allocation of options was approved by the Compensation Committee in February 2006.

Swedish Match's share capital breaks down into 324,596,181 shares with a no-par value of SEK 1.20 per share. All shares carry one vote each. Via buy-backs, the Company has a holding on April 1, 2006 of a total of 27,038,076 of its own shares and the net number of outstanding shares therefore totals 297,558,105 shares. The intention is that the options issued will, when exercised, lead to the acquisition of these repurchased shares. Over the period starting in 2000 and lasting until now, the Company has, in accordance with decisions by the Company's shareholders' meetings, bought back shares in the Company with a view, among other things, to covering the allocation of options in the Company's rolling stock option programme. The Board of Directors proposes in item 12 that the 2006 Annual General Meeting should, with a corresponding purpose in mind, authorise the Board to decide on the acquisition of the Company's own shares.

If the stock options proposed for issue in connection with item 11, following a resolution passed at the 2006 Annual General Meeting, are exercised, the net number of shares after repurchases will increase by 723,333, or 0.2 per cent calculated on the basis of the net number of outstanding shares.

The stock options issued have a potential dilution effect. Calculated in accordance with the recommendation of the International Financial Reporting Standards (IFRS) concerning earnings per share, the options issued by the Company and still not redeemed on December 31, 2005 had a combined dilution effect on earnings per share of SEK 0.02 per share (from SEK 5.61 to SEK 5.59), which is equivalent to 0.4 per cent.

Annex 4 A

This is an unauthorized translation of the Swedish original. In case of any discrepancies between this translation and the Swedish original the latter shall prevail.

TERMS AND CONDITIONS FOR CALL OPTIONS 2006/2011 PERTAINING TO PURCHASE OF SHARES IN SWEDISH MATCH AB

§1

DEFINITIONS

All references to the following designations in these terms and conditions shall have the meaning presented below:

"Banking day"	a day that is not a Sunday or other public holiday, or which, with respect to payment of debt instruments, is not the equivalent of a public holiday;
"Bank"	Svenska Handelsbanken AB (publ);
"Company" (also the issuer)	Swedish Match AB (publ), org. no. 556015-0756
"Holder"	Holder of the Call options;
"Call option"	Right to purchase one share of the Company upon payment in cash in accordance with these terms and conditions;
"VPC"	Swedish Central Securities Depository (VPC AB).

§ 2

ACCOUNT-OPERATING INSTITUTE AND REGISTRATION

The maximum number of Call options is 723 333.

The Call options shall be registered by VPC as prescribed in the Share Accounts Act governing financial instruments, in consequence whereof no securities certificates will be issued.

The Call options are registered for the account of the Holder in a VP-account. Registration of Call options, resulting from measures pursuant to § 4, § 5, § 6 and § 7 below, shall be undertaken by the Bank. Other registration measures concerning VP-accounts may be taken by the Bank or other account-operating institute.

§ 3

RIGHT TO PURCHASE SHARES

The Holder shall have the right, but not the obligation, to purchase from the Company one share of the Company for each Call option at an exercise price of SEK 127.10 per share. The exercise price and the number of shares that may be purchased with each Call option may be adjusted in the cases described in § 7 below. Only the full number of shares to which the full number of Call options, which are registered via a given account-operating institute and which one and the same Holder wishes to exercise at the same time, carry rights, may be purchased. Such purchase shall exclude the excess portion of a Call option that cannot be exercised.

The Company shall be obligated, if the Holder so demands within the time period specified in § 4 below, to sell the number of shares designated in the application to purchase.

§ 4

PURCHASE OF SHARES

If the Holder wishes to exercise the Call option, the application to purchase shares must be made during the period from March 2, 2009 through February 28, 2011, or at a later final date or prior to an earlier final date for application to purchase that may be established in the cases described in § 7, Subsections C, D, E, L and M below. When such application is made, an application form duly filled out as prescribed shall, for purposes of registrations, be presented to the Bank. As soon as possible following receipt of such application, the Bank will prepare a settlement note between the Company and the Holder pertaining to the purchase of the shares specified in the application. An application to purchase is not possible to make and the Company is not obliged to transfer shares during such period when trading with shares in the Company is prohibited according to § 15 of the Act concerning reporting obligations for certain holdings of financial Instruments (or other at each time prevailing legislation).

The application to purchase is binding and may not be withdrawn.

If the application to purchase is not made within the time period stated in the first paragraph above, all rights accruing to the Call options shall cease to be valid.

§ 5

PAYMENT IN CONNECTION WITH PURCHASE OF SHARES

Payment for shares that are purchased shall be made not later than the payment date set forth in the settlement note, but not later than five (5) Banking days after filing of application to purchase shares. The payment shall be remitted in cash to an account designated by the Bank. After full payment has been made and the Bank is in receipt of shares from the Company, the Bank shall ensure that the Holder is duly registered in the specified VP-account as the owner of the shares acquired through exercise of the Call options. The Holder shall pay any tax or fee that may be due in accordance with Swedish or foreign legislation, or the decisions of Swedish or foreign authorities as a consequence of the sale, holding or exercise of Call options.

§ 6

POSITION OF CALL OPTION HOLDERS

These terms and conditions do not give the Holders any rights that accrue to shareholders of the Company, such as voting rights or rights to dividends.

Holders are entitled to receive dividends on the shares they acquire in accordance with these terms and conditions, if the record date for payment of a dividend occurs not earlier than 10 Banking days after payment for the shares has been made.

§ 7

ADJUSTMENTS, ETC.

The following shall apply with respect to the rights that shall accrue to Holders in the situations described in this paragraph.

A. If the Company effects a <u>bonus issue</u>, effective on the date when the Company's shares are quoted without rights of participation in the bonus issue, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustments will be made by the Bank in accordance with the following formulas:

$$\text{adjusted number of shares that each Call option carries entitle to purchase} = \frac{\text{preceding number of shares that each Call option carries entitlement to x number of shares after bonus issue}}{\text{number of shares before bonus}}$$

$$\text{adjusted exercise price} \quad \frac{\text{preceding exercise price x number of shares prior to the bonus issue}}{\text{number of shares following the bonus issue}}$$

If the bonus issue consists of shares of a class other than the class to which the Call options applied when issued, the new shares and the original class of shares shall constitute valid and indivisible delivery in connection with exercise of the Call option.

B. If the Company effects a <u>consolidation</u> or a <u>share split</u>, a corresponding adjustment of the number of shares covered by the Call options, and of the exercise price, shall be made by the Bank in accordance with the same principles applied in adjustments for a bonus issue, as described in Subsection A.

C. If the Company issues new shares, with the shareholders having preferential rights to subscribe for the new shares to be paid for in cash, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustment will be made by the Bank in accordance with the following formula:

Adjusted number of shares that each Call option carries entitlement to purchase =	Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the theoretical value of the subscription right calculated on the basis of this) / Average price of the share

Adjusted exercise price =	Preceding exercise price x average market price of the share during the subscription period specified in the resolution authorizing the issue (average share price) / Average share price increased by the calculated theoretical value of the subscription right

The average price shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the subscription period. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

The theoretical value of the subscription rights shall be calculated as follows:

Maximum number of new shares that may be issued as specified in the resolution authorizing the issue x the

$$\text{value of subscription right} = \frac{\text{(average price of the share - the issue price of the new shares)}}{\text{Number of shares prior to the resolution authorizing new shares}}$$

When calculating, using the formula above, shares held by the Company shall be disregarded. If the formula above results in a negative value, the calculated value of subscription rights shall be fixed at zero (0).

The adjusted number of shares and exercise price as calculated above is determined by the Bank two Banking days after expiration of the subscription period and shall be applied in purchases effected after such determination is made.

During the period from and including the day the shares are quoted ex-rights to participate in the new issue to and including the day the adjustment is determined, shares may not be purchased. If the final day for application to purchase falls during the subscription period, the final day is extended to the second trading day after expiration of the subscription period.

D. If the Company effects an issue in accordance with Chapter 14 or 15 of the Swedish Companies Act, with the shareholders having preferential rights to subscribe for in cash, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustment will be made by the Bank in accordance with the following formula:

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (the average price of the share increased by the theoretical value of the subscription right)}}{\text{average price of the share}}$$

Preceding exercise price x average market price of the share during the

Adjusted exercise price =	subscription period specified in the resolution authorizing the issue (average share price)
	Average share price increased by the calculated theoretical value of the subscription right

The average price is calculated in accordance with that stated in Subsection C.

The value of the subscription right shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the subscription period. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

The adjusted number of shares and exercise price as calculated above is determined by the Bank two Banking days after the expiration of the subscription period and shall be applied in purchases effected after such determination is made.

If application of purchase is made until the adjustment is made the last paragraph of Subsection C shall apply.

E. Should the Company, in cases other than those specified in Subsections A-C, make an offering to the shareholders giving the shareholders preferential rights, in accordance with Chapter 13, § 1 of the Swedish Companies Act, to acquire securities or rights of another type from the Company, or should the Company decide, in accordance with the above principles, to distribute such securities or rights without charge, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustment will be made by the Bank in accordance with the following formula:

Preceding exercise price x average market price of the share during the subscription period specified in the resolution authorizing the issue

$$\text{Adjusted exercise price} = \frac{\text{(average share price)}}{\text{Average share price increased by the calculated theoretical value of the subscription right}}$$

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (the average price of the share increased by the theoretical value of the subscription right}}{\text{average price of the share}}$$

The average price of the share is calculated in accordance with that stated in Subsection C.

In the event that shareholders received purchase rights and trading with these has occurred, the value of the right to participate in the offering shall be considered to correspond to the value of the purchase right. In this respect, the value of the purchase right shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the application period. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

In the case that shareholders have not received purchase rights and/or such trading in purchase rights as referred to in the preceding paragraph has not occurred, adjustment of the exercise price shall be made by applying to the extent possible the principles stated above in Subsection E, whereby the following shall apply. If there is a listing of the securities or rights offered to shareholders, the value of the right to participate in the offering shall be considered to correspond to the average of the highest and lowest paid prices in transactions involving these securities or rights according to the official list of the Stockholmsbörsen each trading day during 25 days from and including the first day of the listing, in appropriate cases reduced by the consideration paid for these in conjunction with the offering. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation. In adjustment of the exercise price in accordance with this paragraph, the application period specified in the offering shall be considered to correspond to the 25 trading days stated in this paragraph. If such a listing does not occur, the value of rights to participate in the offering to the greatest extent possible shall be determined based on the change in market value regarding the Company's share which can be assessed to have arisen as a result of the offering.

The adjusted number of shares and exercise price calculated in accordance with the above by the Bank shall be determined as soon as possible after expiration of the offering and applied in all purchases effected after such determination is made.

During the application period specified in the offering, no shares may be purchased. Should the final day for application to purchase fall during the subscription period, the final day is extended to the first Banking Day after expiration of the subscription period.

F. Should the Company decide on a cash dividend to shareholders whereby they would receive dividends that, combined with other dividends paid during the same fiscal year, exceed eight (8) percent of the average price of the share during a period of 25 trading days immediately preceding the day the Board of the Company announces its intention to submit a proposal to the General Meeting for such a dividend, an adjusted exercise price and an adjusted number of shares that may be purchased with a Call option shall be applied. The adjustment shall be based on that portion of total dividends that exceed four (4) percent of the average price of the share during the aforementioned period (Extraordinary dividend).

The adjustment will be made by the Bank in accordance with the following formula:

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share over a period of 25 trading days, calculated from and including the day the share is listed ex-rights to the extraordinary dividend (average share price)}}{\text{Average share price increased by the extraordinary dividend payment per share.}}$$

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the extraordinary dividend per share)}}{\text{Average price of the share}}$$

The average price shall be considered to correspond to the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the aforementioned period of 25 trading days. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

The adjusted exercise price and adjusted number of shares as calculated above is determined by the Bank two Banking days after the expiration of the aforementioned 25 trading days and shall be applied in purchases effected after such determination is made.

G. Should the Company decide upon a partial demerger according to Chapter 24 of the Swedish Companies Act through which part of the assets and debts of the Company is taken over by one or more other companies without the dissolution of the Company, an adjusted exercise price and an adjusted number of shares that may be purchased with a Call option is applied. The adjustments shall be made by the Bank according to the following formulas:

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share over a period of 25 trading days, calculated from and including the day the share is listed ex-rights to the demerger payment (average share price)}}{\text{Average share price increased by the demerger payment per share}}$$

$$\text{Adjusted number of shares each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the value of the demerger payment per share)}}{\text{Average price of the share}}$$

The average price shall be considered to correspond to the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the aforementioned period of 25 trading days. In the absence of a quoted paid price, the final bid price shall be included in the calculation.

In the event that shareholders received demerger payment is paid in the form of shares or other securities and trading with these has occurred, the value of the demerger payment shall be considered to correspond to the value of the demerger payment right. In this respect, the value of the demerger payment shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the aforementioned period of 25 trading days. In the absence of a quoted paid price, the final bid price shall be included in the calculation.

In the event that shareholders received demerger payment is paid in the form of shares or other securities and trading in such rights as referred to in the preceding paragraph has not occurred, adjustment of the exercise price shall be made by applying to the extent possible the value of the demerger payment shall be established guided by the change in marker price for the share which can be judged as a consequence according to the demerger payment.

The adjusted exercise price and adjusted number of shares as calculated above is determined by the Bank two Banking days after the expiration of the aforementioned 25 trading days and shall be applied in purchases effected after such determination is made.

If application of purchase is made until the adjustment is made the last paragraph of Subsection C shall apply.

The Holders shall not be able to waive any right according to these terms to that or those companies taking over the assets and debts from the Company following a partial demerger.

H. Should the share capital of the Company be reduced through obligatory repayments to shareholders, an adjusted exercise price shall be applied, as well as adjustments of the number of shares to which each Call option is entitled to subscribe.

The adjustments will be made by the Bank in accordance with the following formula:

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share over a period of 25 trading days, effective from the date of the reduction decision without entitlement to reduced value (average share price)}}{\text{Average share price increased by the repaid amount per share}}$$

$$\text{Adjusted number of shares each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the repaid amount per share)}}{\text{Average price of the share}}$$

The average price is calculated in accordance with that stated in Subsection C.

Adjustments as described above, and in which share value is reduced through redemption of shares, an estimated repayment amount, rather than the actual amount to be repaid per share, will be applied based on the following calculation:

Actual amount to be repaid per purchased share, less average trading price for shares over a period of 25

Estimated repayment amount per share =

trading days, effective from the date of the issue decision without entitlement to reduced value (average share price)

total number of shares in the Company used as basis for purchase of one share, less the value of 1

The average price is calculated in accordance with that stated in Subsection C.

In accordance with the above, the adjusted exercise price and the adjusted number of shares will be established by the Bank two Banking days after the expiration of the aforementioned period of 25 trading days and shall be applied to purchases effected thereafter.

If the Company's share capital is reduced by a redemption of shares with repayment to shareholders, which is not obligatory and whereby, in the judgment of the Bank, as a result of the technical formulation and financial effects, is equivalent to an obligatory reduction of share capital, the Company shall adjust the exercise price and the number of shares to which every Call option is entitled to purchase so that, such adjustments shall correspond to the maximum extent possible with the principles in Subsection H above.

I. Should the Company repurchase shares through an offer to all shareholders in the Company and whereby, in the opinion of the Bank, such measure, taking into account its technical framework and economic effects, is comparable to a mandatory reduction of the share capital, the exercise price and the number of shares to which each Call option carries entitlement shall be adjusted corresponding to the maximum extent possible with the principles in Subsection H above.

J. Should the above stated adjustment rules for the exercise price and number of shares not give reasonable economic effects for the Holder in relation to the shareholder - as a result of the technical formulation of the measures adopted by the Company, according to Subsections A-I above, or for other reasons, the Bank shall - provided that the Board of Directors of the Company agrees - revise the adjustment rules so that a reasonable economic effect arises.

K. Adjustment shall not be such that it results in an increase of the exercise price or a reduction of the number of shares which the Call options entitle to purchase of in cases other than those described in Subsection B. In effecting the adjustment as described above, the exercise price shall be rounded off to the nearest ten öre, with five öre being rounded upward, and the number of shares being rounded off to two decimals.

L. Should the shares covered by the Call options become the object of compulsory redemption proceedings in accordance with Chapter 22 of the Swedish Companies Act, the Bank, in cases where the final day for application to purchase would occur later than 30 days following public announcement of the compulsory redemption, shall set a new final day for application to purchase that occurs prior to expiration of said period.

M. The provisions pertaining to compulsory redemption proceedings in Subsection L shall apply correspondingly if the Company approves an agreement for a merger, whereby the Company would become part of another company, or a demerger whereby all of the assets and debts of the Company is taken over by one or more other companies and the Company is then dissolved without a liquidation, or if a decision is made to liquidate the Company or declare the Company in bankruptcy. In such cases, the time period is calculated from the date of announcement of the decision to merge, demerge, liquidate or enter into bankruptcy.

§8

SPECIAL OBLIGATIONS OF THE COMPANY

Within a reasonable period of time, the Company is obliged to consult with the Bank before implementing such measures as specified in §7 above.

§9

REPURCHASE

The Company is obliged to repurchase the Call options if a formal offer to acquire all shares in the Company is to be completed.

The repurchase price for every Call option will correspond to the higher of

(i) the number of underlying shares per Call option, multiplied by the value of the payment offered in the formal acquisition offer per share, less the exercise price; and

(ii) average market value of the Call options, based on calculations performed by independent financial institutions appointed by the Company (and based on generally accepted calculation models) during a period of five trading days immediately prior to the announcement of the acquisition offer, using the same percentage of the offer premium in the formal acquisition offer regarding shares and calculation of their market value during the aforementioned period. The repurchase price shall be rounded off to the nearest 10 öre, with 5 öre rounded upward.

Repurchase is requested by sending a written request with a signed application on preprinted forms, which will be provided to all Holders following formal announcement of the offer to acquire all shares in the Company. The forms shall be submitted to the Company before the acceptance period for offer expires (including any extensions). Repurchase is effected on the date when it is announced that the acquisition offer will be completed, but not earlier than the first Banking day after the acceptance period expires (including any extensions). The Company shall prepare a settlement note as soon as possible after the effective date and remit cash payment for repurchase of the Call options.

§ 10

TRUSTEES

For Call options registered with trustees in accordance with legislation governing accounts for financial instruments, the trustee shall be considered the Holder in all applications of these terms and conditions.

§ 11

LIMITS OF LIABILITY OF THE BANK AND VPC

With respect to the actions incumbent on the Bank and VPC – and in the case of VPC, taking into account the provisions of the Share Accounts Act – the Bank and VPC cannot be held liable for loss due to Swedish or foreign legal decrees, actions by Swedish or foreign authorities, acts of war, strikes, blockades, boycotts, lockouts or other similar circumstances. The reservations with respect to strikes, blockades, boycotts or lockouts also apply if the Bank or VPC undertake, or are the objects of, such hostile measures.

Neither the Bank nor VPC is under obligation to provide compensation for loss arising in other situations, if the Bank and VPC has exercised normal prudence. In no case is the Bank liable for indirect damages.

If the Bank or VPC is hindered from taking action by circumstances such as those described in the first paragraph, the action may be deferred until the hindrance has ceased to exist.

§ 12

NOTICES

Notices pertaining to the Call options shall be provided to every registered Holder and other entitled holders registered in a VP-account.

§ 13

CONFIDENTIALITY

The Bank or VPC may not, without prior authorization, provide information on the Holder to a third party. The Company reserves the right to receive the following information from VPC about the Holder’s account in the Company’s register:

1. Holder’s name, personal or organization number and postal address,
2. Number of Call options held.

§ 14

CHANGES IN TERMS AND CONDITIONS

The Company reserves the right to change these terms and conditions to clarify, revise or supplement regulations governing these terms and conditions in whatever manner is deemed necessary by the Company provided that such changes do not cause significant financial harm to the Holders. Furthermore, the Company reserves the right, without regard for eventual financial harm to the Holder, to change the terms and conditions if such changes are required by legislation, court decision or the decision of a public authority.

§ 15

APPLICABLE LAW

Swedish law is applicable to these terms and conditions and to related legal matters. Claims pertaining to the terms and conditions shall be filed with the Stockholm district court or such other forum whose authority is accepted by the Company.

INSTRUCTIONS FOR SWEDISH MATCH AB'S ELECTION COMMITTEE ADOPTED AT THE ANNUAL GENERAL MEETING HELD ON APRIL 20, 2006

1. DUTIES

The Election Committee shall prepare and submit to the General Meeting proposals regarding:

(i) the election of the Chairman and other Members of the Board, and determination of the Directors' fees to be divided between the Chairman and other Members, and any remuneration for committee work,

(ii) the election of and payment of fees to auditors, when applicable, and

(iii) the election of a Chairman of the Annual General Meeting; and

The Election Committee shall prepare their proposals and present and explain them to the General Meeting, and shall give an account of the way in which this work has been carried out in accordance with the provisions of the Swedish Corporate Governance Code.

The Election Committee shall supply the company with information on the Election Committee, its work and proposals. The information shall be submitted in sufficient time and in such a way that the company is able to comply with its duty to provide information in accordance with the provisions of the Articles of Association, legislation, stock market regulations, the Swedish Corporate Governance Code, and other recommendations that may be deemed to constitute good practice in the Swedish stock market.

The Election Committee shall obtain information on the way in which the work of the Board of Directors has been evaluated and the results of such evaluations.

2. MEMBERS AND CHAIRMAN

The Election Committee shall comprise five members. The appointment of the Election Committee shall entail the Chairman of the Board of Directors, in line with the mandate from the Annual General Meeting, contacting the four largest shareholders in the company and asking them each to appoint a representative, to constitute, together with the Chairman of the Board, the Election Committee for the period until a new Election Committee is appointed in accordance with a mandate from the next Annual General Meeting. If any shareholder waives their right to appoint a representative, the shareholder who is the next largest owner, in terms of number of votes held, shall be offered the opportunity to appoint a representative. The names of the members of the Election Committee shall be published no later than six months before the subsequent Annual General Meeting. The determination of the identity of the four largest shareholders shall be based on the known number of votes held immediately before publication.

If one or more of the shareholders who have appointed members to the Election Committee ceases to be one of the four largest shareholders during the mandate period, the Election Committee shall decide whether it is necessary to replace the representative appointed by this shareholder. If this is to be done, the Chairman of the Board shall contact the shareholder or shareholders who are now among the four biggest shareholders and offer him/her/them the chance to appoint a representative to the Election Committee.

Members who cease to be employed by the shareholder by whom he/she has been appointed shall resign from the Election Committee if the shareholder deems it necessary and a replacement shall be appointed by the shareholder.

The Election Committee shall be entitled to co-opt members if deemed appropriate.

The Election Committee shall appoint a Chairman from their ranks. The Chairman shall not be a Member of the Board of Directors of the company.

3. MEETINGS

The Election Committee shall meet as often as is necessary to enable the Election Committee to carry out its duties, but shall meet a minimum of once a year. The first notice of a meeting, once the Election Committee has been appointed, shall be issued by the Chairman of the Board, and thereafter, by the Chairman of the Election Committee. If a member requests that the Election Committee be convened, the request shall be met.

The Election Committee is quorate if all members are present. The decision of the Election Committee shall be the opinion that is supported by more than half of the members present or, in the event of a voting tie, the opinion supported by the Chairman.

Minutes shall be kept at the Election Committee’s meetings, the Minutes are to be signed or checked by the Chairman and the member designated by the Election Committee. The Minutes shall be kept and stored in the same way as the Minutes of the company’s Board Meetings.

Swedish Match AB
Reg. No. 556015-0756

ARTICLES OF ASSOCIATION

Unofficial translation from Swedish

§ 1

The Company’s trading name is Swedish Match AB.

The Company is a public limited company (publ).

§ 2

The registered office of the Company is in Stockholm.

§ 3

The object of the Company’s operations is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches and lighters, and to carry out other activities that are related to the business.

§ 4

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

§ 5

The number of shares in the Company shall be not less than two hundred million (200,000,000) and not more than eight hundred million (800,000,000).

§ 6

Apart from those who may be otherwise appointed due to legal requirements, the Board of Directors shall comprise a minimum of five and a maximum of ten members.

§ 7

At the general shareholders' meeting, one or two authorised public auditors together with a maximum of the same number of deputy auditors or one or two auditing firms shall be elected as auditors.

The Board of Directors has the right to appoint one or more special auditors or an auditing firm to review all such presentations or plans as are drawn up by the Board in accordance with the Swedish Companies Act in connection with any issuing of shares, share warrants or convertibles that includes provisions concerning non-cash consideration or provisions to the effect that subscription shall take place with right of offset or subject to other terms and conditions, or in connection with the transfer of the Company's own shares in exchange for payment in forms other than cash, or with a reduction in the share capital or the statutory reserve, or with the merger or splitting of limited liability companies.

§ 8

General shareholders' meetings shall be held in Stockholm, Göteborg or Malmö.

§ 9

Notification of general shareholders' meetings shall take the form of an announcement in the Post- och Inrikes Tidningar and in Svenska Dagbladet.

§ 10

Shareholders wishing to take part in the proceedings at general shareholders' meetings shall be registered as shareholders in such print-outs or other versions of the entire shareholders' register as are stipulated in chapt. 7, § 2 , first paragraph of the Swedish Companies Act and as relate to the circumstances prevailing five weekdays prior to the general shareholders' meeting. They must also notify the Company of their intention to attend no later than 16.00 on the day specified in the notification of the shareholders' meeting. This day may not be a Sunday, another public holiday, a Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not fall before the fifth weekday prior to the general shareholders' meeting. Shareholders wishing to be accompanied by one or two assistants at a general shareholders' meeting shall notify the Company of this fact within the period mentioned above.

§ 11

The Company’s financial year shall comprise the period from January 1 to December 31.

§ 12

The Company’s shares shall be registered in a record-day register pursuant to the Swedish Financial Instruments Act (1998:1479).

§ 13

The Board of Directors may collect powers of attorney at the Company’s expense pursuant to the procedure stipulated in chapt. 7, § 4, second paragraph of the Swedish Companies Act (2005:551).

These Articles of Association were adopted at the Annual General Meeting held on April 20, 2006