



Swedish Match is a global Group of companies with a broad assortment of market-leading brands in smokeless tobacco products, cigars, pipe tobacco and lights products.

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Swedish Match 2006

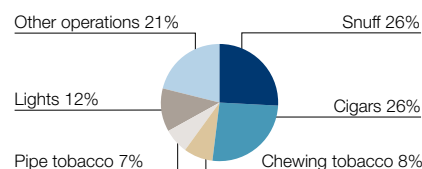
Swedish Match is a global Group of companies with a broad assortment of market-leading brands in smokeless tobacco products, cigars, pipe tobacco and lights products. The Swedish Match share is listed on the Stockholm Stock Exchange.

- Sales amounted to 12,911 MSEK (13,311).
- Operating profit increased by 15 percent, and amounted to 3,235 MSEK (2,825).
- Operating profit excluding larger one time items amounted to 3,087 MSEK (2,618).
- Operating margin for the Group grew to 23.9 percent (19.7).
- EPS (basic) was 8.12 SEK (5.61).
- The Board proposes an increased dividend to 2.50 SEK (2.10).

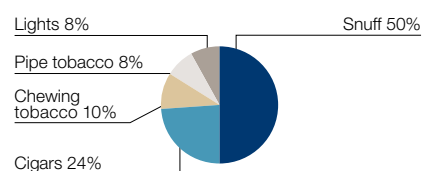
Key data, MSEK	2006	2005	2004
Net sales	12,911	13,311	13,007
EBITDA excluding larger one time items	3,533	3,206	2,916
Operating profit	3,235	2,825	3,593
Operating margin, %	23.9	19.7	17.8
Profit for the year	2,331	1,777	2,084
Earnings per share, SEK	8.12	5.61	6.18
Dividend per share, SEK	2.50*	2.10	1.90
Return on shareholders' equity, %	63.3	36.6	48.2

* Board proposal.

Net sales by product area, %



Operating profit by product area*, %



* Excluding Other operations and larger one time items.

A certain degree of risk and uncertainty is associated with the forward-looking statements made in this Annual Report. Although Swedish Match believes that these statements constitute reasonable assumptions, Swedish Match can not guarantee their fulfillment.



Some of our product news 2006

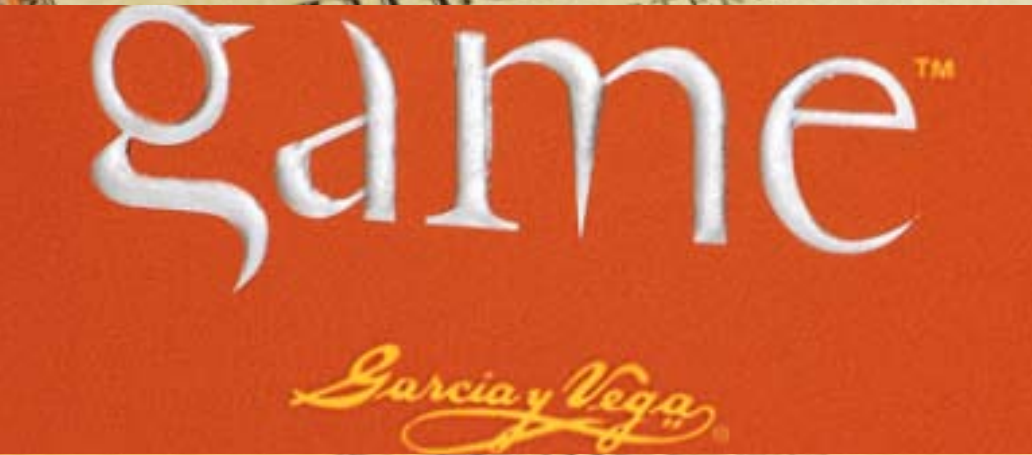
Onico

A tobacco- and nicotine-free alternative to snus was successfully launched on the Swedish market. These vegetable-fiber pouches are flavored with aromas that imitate tobacco and peppermint taste.



Hajenius

Hajenius is one of two strong and well-known brands acquired during the year, the other one being Oud Kampen. The products are sold primarily in the Netherlands, Belgium and Germany, with a substantial share of the Dutch market.



Game

In the US, the natural leaf cigar Game was successfully launched under the well-known Garcia y Vega brand. Game is available in two sizes and five flavors. All are slow burning with a mild and sweet taste.



Partagas 160

Partagas 160 Signature Series is produced in a limited quantity. The cigar is extremely rich and well-balanced, created from a rare Cameroon wrapper aged for nearly three decades.



Timber Wolf Packs

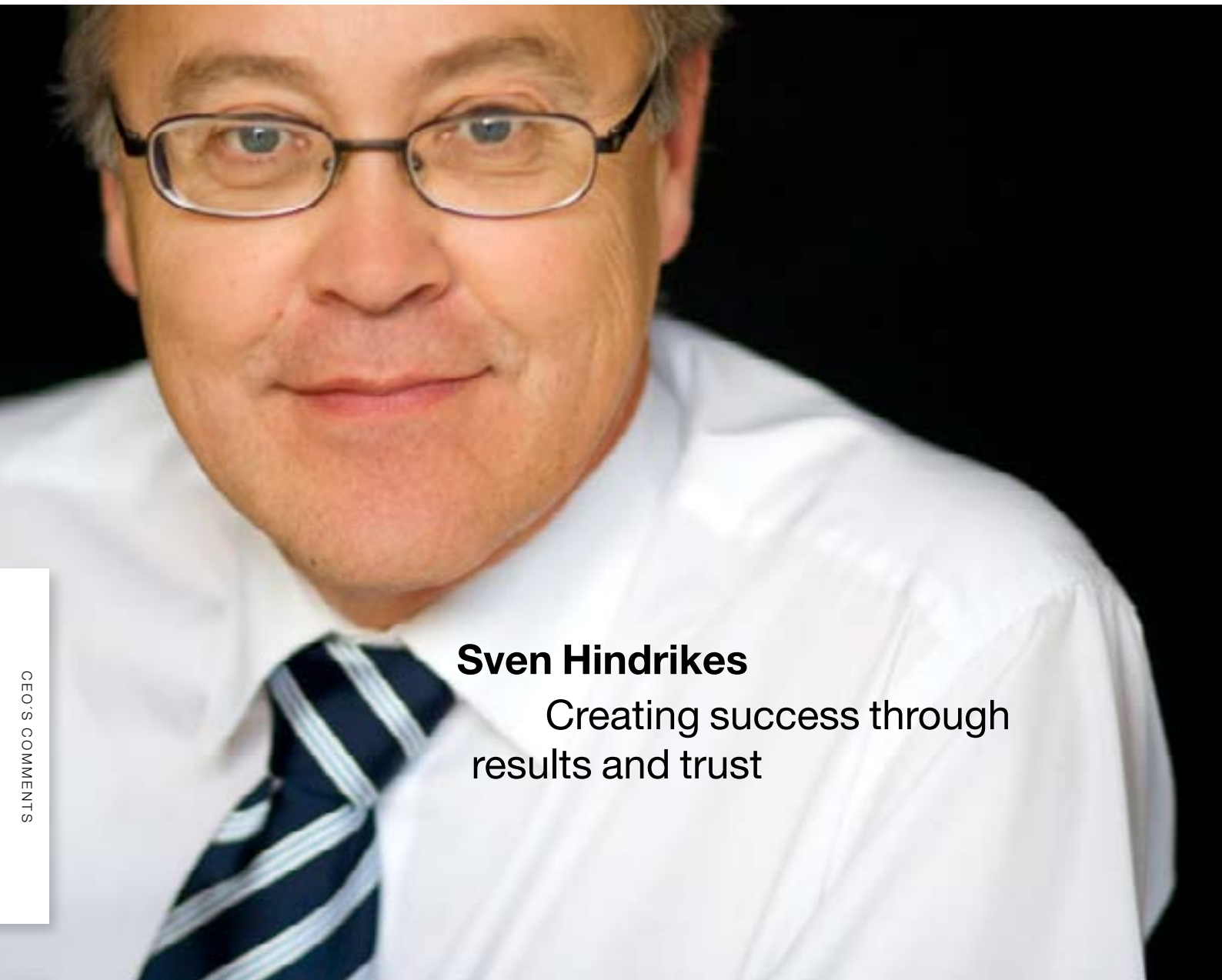
In April, Timber Wolf Packs were launched, the first value-priced moist snuff to offer consumers a premium-quality large pouch. Timber Wolf Packs are available in Wintergreen and Natural flavors.

This is Swedish Match

	Product area	Share of Group total									
 <p>THE ONE TASTE <i>General</i></p>	<p>Snuff and snus</p> <table border="1"> <tr> <td>Sales, MSEK</td> <td>3,363</td> <td>(3,131)</td> </tr> <tr> <td>Operating profit, MSEK</td> <td>1,604</td> <td>(1,504)</td> </tr> <tr> <td>Operating margin, %</td> <td>48</td> <td>(48)</td> </tr> </table>	Sales, MSEK	3,363	(3,131)	Operating profit, MSEK	1,604	(1,504)	Operating margin, %	48	(48)	 <p>Sales 26% Operating profit 50%</p>
Sales, MSEK	3,363	(3,131)									
Operating profit, MSEK	1,604	(1,504)									
Operating margin, %	48	(48)									
 <p>MACANUDO IMPORTED</p>	<p>Cigars</p> <table border="1"> <tr> <td>Sales, MSEK</td> <td>3,407</td> <td>(3,283)</td> </tr> <tr> <td>Operating profit, MSEK</td> <td>747</td> <td>(613)</td> </tr> <tr> <td>Operating margin, %</td> <td>22</td> <td>(19)</td> </tr> </table>	Sales, MSEK	3,407	(3,283)	Operating profit, MSEK	747	(613)	Operating margin, %	22	(19)	 <p>Sales 26% Operating profit 24%</p>
Sales, MSEK	3,407	(3,283)									
Operating profit, MSEK	747	(613)									
Operating margin, %	22	(19)									
 <p>RED MAN CHEWING TOBACCO</p>	<p>Chewing tobacco</p> <table border="1"> <tr> <td>Sales, MSEK</td> <td>1,063</td> <td>(1,079)</td> </tr> <tr> <td>Operating profit, MSEK</td> <td>326</td> <td>(347)</td> </tr> <tr> <td>Operating margin, %</td> <td>31</td> <td>(32)</td> </tr> </table>	Sales, MSEK	1,063	(1,079)	Operating profit, MSEK	326	(347)	Operating margin, %	31	(32)	 <p>Sales 8% Operating profit 10%</p>
Sales, MSEK	1,063	(1,079)									
Operating profit, MSEK	326	(347)									
Operating margin, %	31	(32)									
 <p>BORKUM RIFF</p>	<p>Pipe tobacco and Accessories</p> <table border="1"> <tr> <td>Sales, MSEK</td> <td>899</td> <td>(920)</td> </tr> <tr> <td>Operating profit, MSEK</td> <td>261</td> <td>(237)</td> </tr> <tr> <td>Operating margin, %</td> <td>29</td> <td>(26)</td> </tr> </table>	Sales, MSEK	899	(920)	Operating profit, MSEK	261	(237)	Operating margin, %	29	(26)	 <p>Sales 7% Operating profit 8%</p>
Sales, MSEK	899	(920)									
Operating profit, MSEK	261	(237)									
Operating margin, %	29	(26)									
 <p>EXTRA LÅNGA TÅNDSTICKOR Idealiska för alla typer av ljus SOLSTICKAN</p>	<p>Lights</p> <table border="1"> <tr> <td>Sales, MSEK</td> <td>1,503</td> <td>(1,936)</td> </tr> <tr> <td>Operating profit, MSEK</td> <td>247</td> <td>(58)</td> </tr> <tr> <td>Operating margin, %</td> <td>16</td> <td>(3)</td> </tr> </table>	Sales, MSEK	1,503	(1,936)	Operating profit, MSEK	247	(58)	Operating margin, %	16	(3)	 <p>Sales 12% Operating profit 8%</p>
Sales, MSEK	1,503	(1,936)									
Operating profit, MSEK	247	(58)									
Operating margin, %	16	(3)									



Position	Brands, production and markets	Group
<p>Swedish Match holds a leading position in the Nordic snus market and the snuff market in South Africa. In North America, Swedish Match is one of the major players in the growing value-price snuff segment.</p>	<p>Main brands General, Ettan, Catch, Grovsnus, Göteborgs Rapé, Timber Wolf, Longhorn, Taxi Production units Sweden, US, South Africa Main markets Sweden, Norway, US, South Africa</p>	<p>Group sales: 12,911 MSEK. Average number of employees: 12,465. Production in own production facilities in 11 countries:</p> <ul style="list-style-type: none"> Belgium Brazil Bulgaria Dominican Republic Honduras Indonesia Netherlands Philippines South Africa Sweden US
<p>Swedish Match is the world's second largest producer and distributor of cigars and cigarillos. The Company has a leading position in the US market for premium cigars.</p>	<p>Main brands La Paz, Willem II, Hajenius, Oud Kampen, Bellman, White Owl, Garcia y Vega, Macanudo, Cohiba (USA), Partagas (USA) Production units Belgium, Dominican Republic, Honduras, Indonesia, US Main markets US, France, Spain, Benelux, Germany, Australia</p>	
<p>Swedish Match is the largest player in the US market for chewing tobacco.</p>	<p>Main brands Red Man, Southern Pride, Granger Select, JD's Blend Production units US Main markets US</p>	<p>Organization The Swedish Match head office, where the CEO and Group staffs are based, is located in Stockholm. Operations are conducted in three geographic divisions: North Europe Division, North America Division and International Division.</p>
<p>Swedish Match is one of the world's largest producers of pipe tobacco.</p>	<p>Main brands Borkum Riff, Half and Half, Best Blend, Boxer, Black & White, Nineteen O'Four, Greve Gilbert Hamiltons Blandning Production units South Africa, US Main markets South Africa, Europe, US</p>	<pre> graph TD PC[Parent Company] --> NED[North Europe Division] PC --> NAD[North America Division] PC --> ID[International Division] </pre>
<p>Swedish Match has a strong position in a number of markets for matches. The brands are mostly local and very strong in their respective markets. Swedish Match is a key player in the international market for disposable lighters.</p>	<p>Main brands Solstickan, Swan, Three Stars, England's Glory, Redheads, Fiat Lux, Cricket, Poppell Production units Brazil, Bulgaria, Philippines, Netherlands, Sweden Main markets Sweden, France, UK, Russia, Brazil, Australia</p>	



Sven Hindrikes

Creating success through results and trust

Sven Hindrikes
President and CEO of Swedish Match since 2004.

Our business environment is constantly changing. Competition is increasing in the markets where we operate. Legislation is being tightened, and people's attitudes to tobacco use are changing.

The purpose of Swedish Match's operations is to sell tobacco and lights products within existing ethical and legal frameworks, thereby creating added value for our shareholders. Every day, we supply products of high quality throughout the world, and we are continuously developing new products to meet the varying preferences of consumers. At the same

time, we respect the social demands and expectations imposed on a global company in the tobacco area. Naturally, we comply with legislation in all countries and we work actively with environmental and social responsibility. In this way, we nurture the trust that consumers place in us when they decide to purchase our products, that customers have in us as a reliable partner, and the trust that our shareholders have in the company and its operations as a profitable investment.

Our success depends on our ability to adapt to new conditions. It is a matter of rallying the company around

Sven Hindrikes on the past year

customer satisfaction, product development, growth and – perhaps above all – profitability. This is how we create shareholder value.

Best results ever

I am pleased to note that Swedish Match reported its best results ever for the fiscal year 2006. We retain our position as one of the most profitable companies in niche tobacco products. Due primarily to the launch of new products, a broader product portfolio and extensive restructuring measures to meet the new competitive situation, operating profit rose 15 percent to 3,235 MSEK. The operating margin strengthened to 23.9 percent – an improvement of 4.2 percentage points.

During the year, the share price rose 37 percent to 128 SEK. Earnings per share increased from 5.61 SEK to 8.12 SEK. The dividend to be proposed to the Annual General Meeting represents a 19-percent increase in the dividend per share to 2.50 SEK. During 2006, we also transferred substantial amounts to shareholders through buybacks of our own shares. Shares with a total value of 3,674 MSEK were repurchased during the year.

To reach this point, we have over the past several years systematically and very successfully worked to develop our organization and Group structure to meet changed market and competitive conditions. Rationalizations, investments, acquisitions and divestments have contributed to increased efficiency and profitability. Over the past few years, we have built further on our strong

market positions in the tobacco industry's growth segments: moist snuff/snus and cigars. During 2006, we launched more new products than ever before.

Although competition has increased in the Scandinavian snus market, Swedish Match has successfully defended its position. We are one of the leading players in the growing value-price segment for moist snuff in the US, where our market share has continued to increase.

Swedish Match has defended its position as the world's second largest cigar company, measured in sales value, and we are the market leader in the key segment for hand-rolled cigars in the US. Integration of acquired brands has progressed well, and we were successful with the product launches conducted during the year.

Our corporate governance maintains a high standard, and during 2006 we took further steps to refine our routines and processes. In addition to the requirements imposed by the Swedish Code of Corporate Governance, we have also been subject to requirements, resulting from our earlier listing in the US, to comply with the corporate governance rules set forth in the US Sarbanes-Oxley Act. To meet these requirements, we have developed an effective system of governance and internal control, and transparent reporting to shareholders and the market. We also work continuously to improve activities in such areas as social responsibility and the environment, which are important components in our business operations.

Sven Hindrikes on the business environment

Companies must constantly adapt to various changes in their business environment. For Swedish Match's operations, the most obvious business environment factor is perhaps the international efforts to limit tobacco use, which have had repercussions in society in the form of new regulations, changes in legislation and changed consumption patterns and values. One consequence of this is an increased interest in snuff as an alternative to cigarettes. Other factors that affect our operations are the tougher competitive situation, mainly in the snus and snuff markets, and a growing interest in luxury and pleasurable products.

Legislation

Legislation relating to tobacco has been tightened considerably during recent decades as part of moves to limit the harmful effects caused, in particular, by cigarette smoking. This has resulted, among other developments, in new marketing restrictions, warning texts on packaging and bans on smoking in public places.

While many of the new laws restrict Swedish Match's operations, they also create new market opportunities. Our smokeless tobacco products provide a better alternative for those who choose to stop smoking but do not wish to refrain from using tobacco products. This is clear in Scandinavia, where many smokers have switched to snus. A similar trend can also be observed to some extent in the US, where there are currently some 50 million cigarette smokers. When these people are no longer allowed to or wish not to smoke, they increasingly look for smokeless alternatives.

Changing trends

Luxury and pleasure

A trend that has gathered pace in recent years is the increased interest in consumer goods that give a feeling of luxury and pleasure. Although most consumers are price-conscious, they are nevertheless willing to pay for that little bit extra, with the result that luxury products and premium brands are being sold as never before.

Consumers are enjoying the finest chocolate in beautiful packaging, oak-matured cognac in crystal balloon glasses, expensive vintage wines and aged cheeses. The focus is on quality rather than quantity, and consumers place a high value on their indulgences. For Swedish Match, the trend is reflected in increased sales of premium cigars and the emergence of a totally new category of premium snus.

Smoking cigars is a lifestyle in itself, associated with many positive values by cigar aficionados. Some of them talk of it as a pause for contemplation. Others speak of how their thoughts become clearer and creativity increases, which may be linked to savoring a moment of peace and quiet amid the otherwise frenetic tempo of life. It is almost impossible to feel stressed with a cigar in the corner of your mouth.

Health

Another trend that also affects our operations is the consensus that prevails today regarding the threat to public health represented by cigarette smoking. All over the world, a high priority is given to efforts to persuade people to stop smoking, involving marketing restrictions, bans on smoking in public places and increasingly heavy taxation of tobacco products.

In Sweden, considerable success has been achieved in efforts to restrict cigarette smoking, and a unique situation exists regarding tobacco consumption. The proportion of daily

smokers in the population is currently below 15 percent, which is the lowest in Europe. What is striking is that Swedes' total tobacco consumption is roughly the same as in comparable countries. The unique factor in Swedish tobacco consumption is the large proportion accounted for by snus – there are nearly as many users of snus in Sweden as there are smokers. The positive effect of this is the extremely low incidence of tobacco-related illnesses among Swedish men. Among other things, statistics show that Sweden has the lowest rate of lung cancer of all industrialized countries. This unique situation has attracted much attention in the international health debate and is a key element in what has come to be known as “the Swedish Experience”.

Today, this is playing a prominent role in the international health debate about which strategies are most effective for reducing cigarette smoking. For a growing number of researchers in the tobacco area, it appears increasingly evident that snus can serve as an alternative to cigarettes, with a dramatically lower health risk. Current research shows that snus is the most common and successful aid for Swedish men who have stopped smoking, and that very few snus users switch to smoking.

Seen in this perspective, the EU ban on snus dating from 1992, is a serious obstacle. It preserves the monopoly of the most dangerous tobacco products – cigarettes – while obstructing the freedom of consumers to choose less hazardous products. There is no question that public health in the EU countries would benefit from scientifically based regulation of smokeless tobacco products in place of the present arbitrary ban on snus.

The public health strategy that has become established in recent years is essentially to oppose all tobacco use. I believe it would be desirable to distinguish different tobacco categories

from each other, since it is clear that it is smoking, rather than tobacco as such, that constitutes a health risk.

Effective January 1, 2007 the tax on tobacco products was raised in Sweden. The per stick tax on cigarettes was increased by 40 percent, while the weight based tax on moist snuff was increased by a full 100 percent. It is regrettable that the tax was raised by less for the documented health hazardous cigarettes, and by more for snus. This sends misleading signals to the general public.

Competition

A handful of large multinational companies dominate the global tobacco market. These companies are all characterized by the predominance of their cigarette operations. Swedish Match has chosen a different business profile with the focus on smokeless tobacco products and cigars, which means that we actually benefit from current social trends. Swedish Match has a unique position in the international tobacco market and is playing a prominent role in the development of the modern smokeless-products category.

From a competitive perspective, it is especially interesting that the number of players in the market for the Swedish type of snus has increased sharply over the past few years. In Sweden, several new players have entered the market, and the increasing competition has driven up the pace of development of new flavors and new formats and packaging.

It is also interesting to note that all the major tobacco companies have now complemented their cigarette-dominated product portfolios with snus – primarily through acquisitions.



“A good cigar
closes the door on
the vulgarities of
the world.”

Franz Liszt

Sven Hindrikes on our strategies

Our success during 2006 reflects the strength of our long-term strategy, which is aimed at building a solid business with sustainable profitability that creates value for our shareholders. We strengthen our competitiveness by seeking organic growth, by actively working with acquisitions and divestments when this is required, and through productivity improvements. A clearly defined financial strategy ensures that no more capital is used than is necessary.

Organic growth

Swedish Match is well positioned with its main products: snus and cigars. These segments of the tobacco industry offer scope for further growth, especially for smokeless products.

During the past five years, snus and snuff has grown from 2,788 MSEK to 3,363 MSEK in sales, with improved operating profit and operating margin.

Sales of cigars have grown from 3,318 MSEK to 3,407 MSEK, and operating profit has increased from 472 MSEK to 747 MSEK, with a corresponding improvement in the operating margin.

We have achieved this success through active product development, new product launches and repositionings, new flavors, new formats and various forms of brand expansion. Other factors have been rapid customer adaptation, market positioning and the right mix of products and prices in our broad product portfolio.

Acquisitions and divestments

We work actively to evaluate various acquisition alternatives.

During 2006, we acquired two well-known cigar brands: Hajenius and Oud Kampen. These well-reputed cigars are sold mainly in the

Netherlands, Belgium and Germany.

Swedish Match's most recent major company acquisition occurred in 2005, when we acquired the remaining equity interest of General Cigar in the US. During 2006, this business was successfully integrated into our North American operations and represent a significant share of earnings in the cigar segment.

As part of the restructuring of match operations, Arenco, with operations in packaging and match-making machines, as well as advertising-match operations in Europe were divested at the beginning of the year.

Productivity improvements

In parallel with our focus on organic growth and acquisitions, continuous work is under way to achieve competitive production and create a more innovative and consumer oriented organization and a more efficient production structure. During the past few years, we have taken significant restructuring and rationalization measures, which have resulted in substantial improvement in the Group's operating profit and operating margin.

Financial strategy

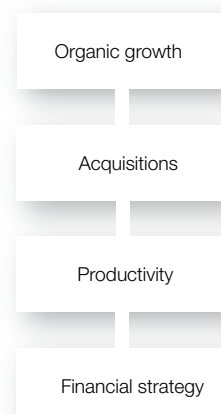
Swedish Match's operations are characterized by strong cash flows and a relatively limited need for investments to increase capacity. Our financial strategy is based on the fundamental principles of not utilizing more capital than is necessary and continuously optimizing our balance sheet with a view to financial flexibility and stability. To this end, we are working over time toward a capital structure with a net debt that is twice EBITA, and an EBITA amounting to at least nine times higher than net interest expense.

The dividend essentially follows the trend of consolidated net profit. The payout ratio is deemed to be within the range of 30-50 percent of net profit.

Ever since our stock market introduction, we have continuously returned surplus capital to our shareholders. During the period from 1998 to the end of 2006, we reduced the number of shares outstanding from 463 million to 274 million – a 40-percent reduction. This was achieved at the same time as we made substantial acquisitions.

During 2006, a revised Companies Act enabled Swedish Match to transfer significant amounts to shareholders via share buybacks, and shares to a value of SEK 3.7 billion were repurchased during the year.

The four parts of the strategy





Our success during
2006 reflects
the strength of our
long-term strategy

The future

Our strategic orientation holds firm. We will continue working with measures to stimulate organic growth particularly for moist snuff and cigars. The work of strengthening the Group's established brands, as well as launching new brands, continues. We are searching for suitable acquisitions that complement our operations. We are continuously focusing on our operations in search of opportunities to improve productivity and efficiency enhancements. We will continue working for an optimization of the balance sheet. These measures will provide the foundation for our ongoing efforts to increase shareholder value in the future.

Furthermore, we will work to derive benefit from changed consumption patterns in the tobacco area by offering consumers modern smokeless tobacco products and attractive cigars. Our efforts to inform about the relative health benefits of moist snuff compared with cigarette smoking will continue.

Swedish Match has a highly motivated organization, with loyal and highly skilled employees worldwide, providing the foundation for continuing to develop the company successfully.

In terms of results, last year was a major success, and I would like to warmly thank all our employees for their excellent work and contributions.

Stockholm, March 2007

Sven Hindrikes
President and CEO

Brand strategy

Brands – Swedish Match's main asset!



Brand expansion

The highly renowned Garcia y Vega brand has now been expanded to include Game, a new sub-brand of aromatic cigars.

Tobacco products are among the most common product categories in the retail sector. Tobacco products, matches and lighters are found in most countries, in most retail outlets, from large shopping centers to small corner stores. Brand loyalty in the tobacco sector is strong. This enables Swedish Match to benefit from its investments over a long period of time.

By choosing to primarily operate within smokeless products and cigars, Swedish Match is well positioned in the tobacco industry's growth segments. One of Swedish Match's main strengths is its broad product portfolio, with a large number of brands that have been well-known for generations within several different product categories. The product portfolio also includes varieties for most preferences in terms of taste, size, form, and price class.

One of the reasons for Swedish Match's success is the intensive work in product development, repositioning, new tastes, product form and size, packaging and in certain instances, completely new brands. Swedish Match invests significantly in research and development, quality improvements, distribution, marketing and sales to create products for the future. Care and development of current brands as well as launching new products and brands that are appreciated and purchased by consumers is one of the core skills of Swedish Match.

Why is it important to have strong brands?

A brand is strong when consumers know it well, feel trust and loyalty to it and when it meets the demands and expectations of consumers. A strong brand facilitates better pricing and stimulates brand loyalty and repeat

purchases. Such brands often have a high turnover rate as well as favorable profitability for the retailer. Accordingly, a brand's potential is an important competitive tool and a valuable asset, which can generate growth in new and current markets. A company with a broad base of brand-loyal consumers has an enhanced financial stability. Based on this position, different brand values could be developed.

Swedish Match owns a large brand equity. We manage this capital through active brand care, in which we work closely with consumers and retailers to ensure that Swedish Match's products and brands fulfill requirements and expectations. Another important aspect of active brand care is our focus on excellence of product quality in procurement, manufacturing and distribution.



Taste varieties

New flavour varieties are launched under a large number of brands, such as Göteborgs Rapé Nr 2 (lingonberry).



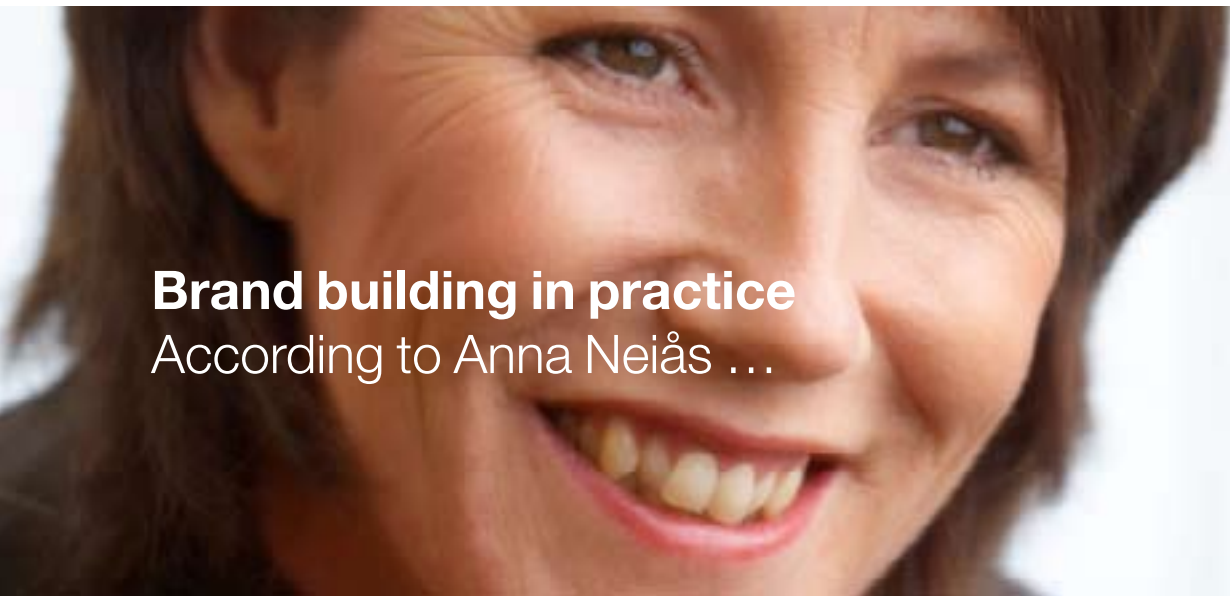
New formats

Well-established snus brands are presented in new formats, such as General Mini White.



Brand extensions

Many of the well-known match brands have capitalized on the brand by developing closely related products, including such extensions as firestarters, firelogs and disposable grills.



Brand building in practice According to Anna Neiås ...

Anna Neiås, Head of Marketing, North Europe Division

New products in 2006

New brands and offerings are being developed to optimize the smokeless product portfolios for consumers. Examples of new brands are Kardus, Nick & Johnny and Onico, a tobacco- and nicotine-free product.



Kardus



Nick & Johnny



Onico

How do you work with strategic brand building?

In the smokeless product portfolio in the Nordic snus market, there are several classic and strong brands such as General, Grovsnus, Ettan, Göteborgs Rapé, Catch and Röda Lacket. They all have strong positions and unique values for their consumers. We care for and develop these to ensure their strength in the future.

Personally, I am driven by several factors: A genuine interest in why consumers choose their products and why they choose to pay more or less for certain brands, and my desire to influence, change, develop and improve. In addition, with the desire to understand our consumers' needs, demands and expectations – by focusing on satisfying them in the future, we ensure a more secure development for our operations.

What is your opinion of consumers' experiences of brands?

I always put consumers' needs first. The consumers' satisfaction and brand loyalty are based on how the offering as a whole meets the requirements of the consumers. This entails everything from the stores in which the products are sold, the layout in the stores, how the products are maintained in the cooler, to the sales price and the look and feel of product packaging. In addition, the consumer is influenced by the appearance of the content, aroma, how it feels in the mouth and what taste and satisfaction the product gives.

All these elements must be combined to correspond to the expectations of our consumers.

When the offering has been developed and launched, we work to ensure that the product remains consistent over time through internal quality controls and by regularly measuring consumer satisfaction. It is extremely important to create confidence and loyalty in our products.

How are you preparing for the future?

Increased interest in the smokeless product portfolio puts new demands on today's and tomorrow's offerings. Developing smokeless products is based on experience and knowledge. This is accomplished by sound monitoring on the social environment, and by continuously researching how consumers' needs, demands and expectations will be influenced in the future. Therefore, we conduct a continuous dialog with consumers through consumer surveys to find, at an early stage, possibilities for improvements and development.

All development work is conducted cross-functionally to utilize the expertise available within the Company. In the marketing department, there are functions responsible for market analysis, the brand itself and for exposure development. Development is supplemented by viewpoints from sales, manufacturing, product development and packaging development.



... and according to Cooper Gardiner

Cooper Gardiner, Vice President Marketing, General Cigar/North America Division

New products in 2006

Partagas Spanish Rosado and Partagas Cifuentes Blend are two new products that have been highly successful, as well as having helped to create considerable interest in the Partagas' brands.



Partagas Spanish Rosado



Partagas Cifuentes Blend

Can you describe the market for premium cigars?

The premium cigar market in the US represents some 3.5 million consumers and 1,500 retailers nationwide. Manufacturing of premium cigars is mainly taking place outside the US, and annual imports of premium cigars are more than 300 million cigars. This small universe includes more than 1,000 brands.

General Cigar, a wholly owned subsidiary of Swedish Match, enjoys a leading position within the premium cigar market in the US, and owns five of the ten best selling brands. In fact, Macanudo continues to relish its standing as the number-one-selling premium cigar brand in the US. Major brands such as Cohiba, Partagas, Punch, La Gloria Cubana and Hoyo de Monterrey are among the best-known and most respected premium cigar brands.

How do you work strategically with brands?

Our main marketing strategy has been the development of brand platforms. We start by clearly defining the different brands and giving each of them its own unique personality. The brand strategy is based on the principle of defining consumers' "passions" and matching them with corresponding brands.

How are new products developed?

As with any industry, trends and consumer preferences dictate the

development of new products and packaging. We have a new, cross-functional product-development team consisting of members from marketing, sales, operations and of course our cigar masters. This team meets to analyze trends and begins development of new cigars that meet tomorrow's demands.

The brands are expanded to meet different flavor trends and exploit their brand capital, as well as to generate more attention for existing brands.

Social trends also influence product development. There are extensive restrictions on smoking in the US, particularly in restaurants and public places. This has led to increased demand for cigars that can be enjoyed in a shorter amount of time.

Consumers may also have various preferences regarding packaging. Currently, consumers favor cigars packed in tubes.

What sets the premium cigar category apart?

Premium cigars can be defined by one word: PASSION. Manufacturers, retailers and consumers all share the same strong passion and devotion for cigars and what is known as "The Cigar Lifestyle." Smoking a really fine cigar is a ritual, a pleasurable experience, a respite, a celebration and a common bond among like-minded people.

Snuff and snus

Growing markets and innovative product development

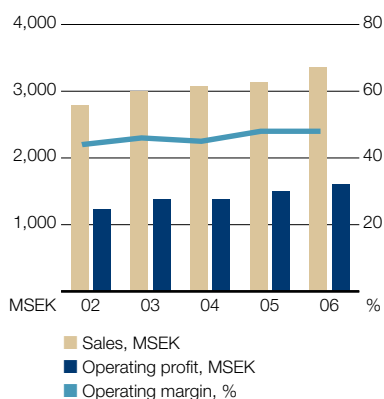
Production units

Sweden, US and South Africa.

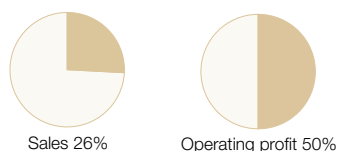
Main brands

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

Sales and operating profit



Share of Group total



Key data, MSEK

	2006	2005	2004
Sales	3,363	3,131	3,081
Operating profit	1,604	1,504	1,376
Operating margin, %	48	48	45
Investments in property, plant and equipment	118	157	242
Average operating capital	1,359	1,166	1,079
Average number of employees	954	916	924

Swedish Match is by far the largest producer of snus in the Nordic markets, and is also well positioned in the US snuff value segment. The Company continually strives to meet consumer demands for freshness, quality and taste.

Both the United States and Scandinavia are experiencing exciting changes in their growing snuff markets, and Swedish Match is well positioned to capitalize on these changes. In the US, the market has experienced accelerated growth, a pouch segment is emerging, the value-priced segment continues to grow, and the potential for Swedish-style snus is being explored. Traditional cigarette companies have recently entered the US snuff market, and are testing new products. In Scandinavia, the market for value-priced snus has been growing at a rapid rate, new product launches have accelerated, and new categories are being developed. Swedish Match has been active in launching a number of new products.

Sales and earnings

Sales during the year increased 7 percent to 3,363 MSEK (3,131). Sales volumes increased by 9 percent in Scandinavia. In Sweden, volumes grew by 8 percent. Volume growth was positively affected by year-end hoarding, due to anticipated excise tax increases in January. Volumes in Norway, as well as tax-free sales, increased. In the US, volumes increased by 13 percent. Volumes of the value-price brand Longhorn grew by 28 percent, while volumes for Timber Wolf grew by 4 percent. Operating profit for the year rose 7 percent to 1,604 MSEK (1,504).

In the Scandinavian market, operating profit increased as a result of higher volumes. In the US, a strong volume growth, especially for the value-price brand Longhorn, drove an increase in sales, and the operating margin declined slightly. The combined operating margin for snuff for the year amounted to 47.7 percent (48.0).

Market

Scandinavia and the US are the world's largest markets for moist snuff. In Sweden and Norway, there are well over a million consumers – both men and women – who regularly use snus. Consumption in Scandinavia totals approximately 250 million cans of snus per year. Consumption in the US is estimated at more than 1 billion cans per year.

As restrictions on cigarette smoking intensifies, and smoking is increasingly perceived as negative in a social context, moist snuff has become a more popular alternative. The transition from cigarette smoking is aided by the fact that research and medical science continue to observe and report on the differences in effects on health between smoking and snus consumption. This "Swedish Experience" supports the transition from cigarettes to snus and snuff in both Scandinavia and the US.

Scandinavia

Sweden is the largest market in the Nordic region, and snus sales amounts to more than 200 million cans, corresponding to a value exceeding SEK 5 billion at the retail level. During the past few years, sales of portion-packed snus have increased sharply and now account for about 60 percent of sales. Of the approximate 1.1 million snus consumers in Sweden,



there are approximately 200,000 women who use snus and the number of women using snus is increasing.

The Swedish snus market is growing, with growth estimated by Swedish Match to be more than 3 percent during 2006. Swedish Match is by far the largest manufacturer, with a volume share of 90 percent* at the end of 2006. Competitors in the Swedish market include Skandinavisk Tobakskompagni (STK), Gallaher and Imperial Tobacco. Of these companies, STK is the largest competitor by volume in Sweden, with a market share of 5.1 percent* at the end of the year.

During 2006 consumption in the other large Scandinavian market, Norway, amounted to approximately 20 million cans of snus, and Swedish Match has a 87.4 percent volume share* in this market. Consumption is increasing rapidly, by more than 10 percent during the year. Competitors in Norway include STK and Imperial Tobacco.

The most important sales channels for snus in Scandinavia are supermarkets, convenience stores, and gasoline stations. Snus is also sold in tobacconists' stores, bars, restaurants, and on ferries. The sales price is set by the retailers, with the result that prices can vary widely. Snus is stored in and sold from coolers to preserve its freshness and quality.

The largest brands are General, Ettan, Grovsnus, Göteborgs Rapé and Catch. General Onyx, a unique premium pouch snus in the General family, was launched during autumn 2005. During 2006, the Company expanded the distribution of General Onyx, as well as the distribution of Kronan pouch, a value priced product. During 2006, a line extension of Kronan in loose form was launched.

Living abroad?
Order Swedish snus on the internet,
www.swedishsnus.com

*Source: ACNielsen

Kronan has grown quickly, and is now the number one value-priced brand. On the Swedish market, Kardus was launched, a loose snus in the super-premium segment, as well as Onico, a tobacco-free and nicotine-free product. Other new launches in Sweden during the year include General Mini White, Tre Ankare Mini White, a new variety of the popular brand Göteborgs Rapé with lingonberry flavour called Göteborgs Rapé No 2, and Ettan White. On the Norwegian market, Nick and Johnny was launched, a line of products designed to address the unique profile of the Norwegian consumer.

Tobacco excise taxes in Sweden, based on weight, are a significant proportion of the retail price of a can of snus, particularly for the heavier loose snus varieties. As of January 1, 2007, the tax on snus was doubled.

North America

The US is the world's largest moist snuff market, with a consumption in 2006 of more than 1 billion cans. During the past few years, the American moist snuff market has grown by about 6 percent annually, and during 2006 the market growth rate has accelerated to 10 percent*. The production processes

for American moist snuff and Swedish snus differ in that moist snuff in the US is fermented while Swedish-style snus is pasteurized. The portion-packed category in the US is rapidly growing, up by more than 15 percent in 2006*, and now accounts for approximately 7 percent* of the cans of moist snuff sold in the US.

The variety of products available to the US consumer continues to grow, further encouraging volume growth in this dynamic category. The growing value-priced segment is also a significant factor in growth of the overall snuff category in the US. Retail prices vary considerably, with premium priced products in many cases double the price of value-priced products. Swedish Match products are primarily positioned in the value price segment. Another factor in the accelerating category growth is the influx of cigarette smokers into the category, as more convenient formats, like pouches, are introduced into the market.

During the year, Swedish Match's market share by volume was 9.9 percent, up from 9.4 percent in 2005*. The increase during 2006 is attributable to the growth of Longhorn, which had approximately 3.1 percent of the market at the end of 2006*. The Timber Wolf brand maintained its market share during the year, with a full year market share of 6.9 percent*. During 2006, Timber Wolf launched the first value priced pouch product on the US market, Timber Wolf Packs, taking advantage of the faster growth of both the pouch and the value priced segments. New flavours under the Longhorn brand were also launched.

The value segment grew by 28.3 percent in terms of the number of cans sold during the year, and at year-end accounted for approximately 41.3 percent of the US market*. The largest competitors in the market are UST (with a market share by volume of 62.7 percent), and Reynolds/Conwood (25.8 percent)*. Moist snuff is sold throughout the US, with particularly strong sales in the Southern US. The main distribution channels are tobacco stores, supermarkets, convenience stores and gasoline stations. Swedish Match produces moist snuff for the US market in Owensboro, Kentucky. Swedish-style snus produced in Sweden is sold in small quantities in selected cities.

Other markets

Sales of snus and moist snuff are limited outside the US and Scandinavia. Swedish Match is continuing to build on its small scale sales of Swedish brands in Moscow and other selected markets. The products are sold via gasoline stations, supermarkets and tobacco stores.

Sales of moist snuff has been banned within the European Union since 1992. Sweden was granted an exemption from the ban for the Swedish market when it became an EU member in 1995.

Nasal snuff

In addition to its moist snuff products, Swedish Match sells nasal snuff in both Europe and South Africa. Swedish Match is number two in the South African market with the locally produced Taxi brand, sold mainly via convenience stores, low price snuff outlets, small stores and kiosks. In selected markets in Europe, Swedish Match markets nasal snuff under the Singleton's, Kensington and Rumney's brands.

Outlook

Snus and snuff producers face challenges and opportunities as a result of the changing dynamics in the marketplace, with continued rapid growth of the snuff category in the US, and a broadening assortment of products in both the US and Scandinavia. Continued growth in the US market is expected due to the relatively low incidence of use, smoking bans, and heightened understanding of the concept of harm reduction. Hoarding in 2006 is expected to negatively affect shipments of snus in Sweden during the first quarter of 2007. The excise tax increase is also expected to result in a general decline in consumption, at least for the first half of 2007. However, with its extensive product range and rapid pace of innovative new product development, Swedish Match is well positioned to meet existing and future demand. At the same time as focusing on existing markets, the Group continues to explore the potential for geographical expansion.

*Source: ACNielsen



Ettan White



Longhorn Fine Cut Wintergreen



Timber Wolf Packs Natural



SNUFF AND SNUS

Cigars

New products drive higher sales

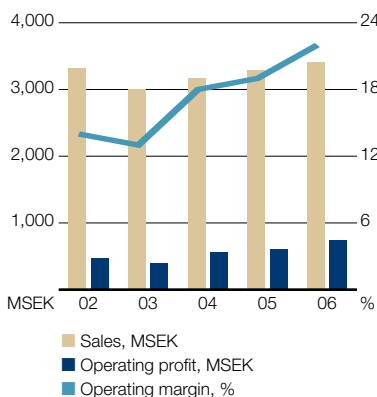
Production units

Belgium, Dominican Republic, Honduras, Indonesia and US.

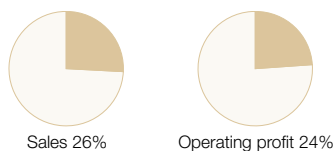
Main brands

La Paz, Willem II, Hajenius, Oud Kampen, Bellman, White Owl, Garcia y Vega, Macanudo, Cohiba (US), and Partagas (US).

Sales and operating profit



Share of Group total



Key data, MSEK

	2006	2005	2004
Sales	3,407	3,283	3,171
Operating profit	747	613	567
Operating margin, %	22	19	18
Investments in property, plant and equipment	90	90	128
Average operating capital	4,734	4,596	4,441
Average number of employees	8,915	8,529	7,781

Swedish Match is the world's second largest cigar manufacturer in terms of sales. The US is the most important cigar market for Swedish Match, accounting for two-thirds of the Company's total cigar sales.

During 2006 Swedish Match reaped the benefits of its efforts to streamline its cigar businesses, while continuing to offer a broad range of new products adapted to local demands. The integration of the General Cigars premium cigar business into the Swedish Match North America structure was completed, and profitability improved significantly. During 2006, cigarillos and little cigars became more popular than in previous years, likely due to market and pricing dynamics, while there was growing interest in aromatic cigars in Europe, and natural leaf cigars in the US mass market segment.

Sales and earnings

Sales for the year increased by 4 percent to 3,407 MSEK (3,283). In local currency, sales increased by 5 percent. Operating profit for the year increased by 22 percent to 747 MSEK (613). The operating margin amounted to 21.9 percent (18.7). Excluding costs of 75 MSEK relating to the integration of General Cigar during 2005, operating profit increased by 9 percent, and the operating margin improved to 21.9 percent (21.0). Strong sales, driven by successful product launches, and lower costs were the main reasons for the increase in underlying operating profit.

Market

Swedish Match estimates the global market at about 15 billion cigars. North America and Western Europe are the two largest markets, accounting



for more than 90 percent of global cigar sales, according to industry estimates. Presently, Asia accounts for less than 10 percent of global cigar sales, while Eastern Europe and Africa/the Middle East account for a limited share of the global market. Handmade cigars account for less than 3 percent of global volume. These premium cigars are produced mainly in Latin America and the Caribbean, and account for more than 25 percent of the global market's total sales value, according to Swedish Match estimates. Two-thirds of premium cigars are sold in the US. Spain, France and the UK are also important markets. Machine made cigars account for most of the world cigar volume.

The market for machine made cigars in the US is estimated at more than 7 billion cigars, while the European market is estimated to be approximately 6 billion cigars. The premium hand made cigar market in the US is estimated by Swedish Match to be more than 300 million cigars.

Some of the Group's best known brands are Macanudo, La Paz, Willem II, Garcia y Vega, and White Owl. The US accounted for 63 percent of Swedish Match's cigar sales in 2006.

Swedish Match produces cigars in Houthalen (Belgium), Pandaan (Indonesia), Santiago (Dominican Republic), Danli and Confradia (Honduras) and Dothan, Alabama (USA).

The Group owns tobacco plantations in the Dominican Republic and in Connecticut, in the US. Swedish Match also owns 40 percent of Arnold André, a German company with production units in Bünde and Königslutter.

North America, premium cigars
The North American market for premium cigars grew modestly during 2006. Swedish Match holds the leading position in the US premium cigar market, with approximately 35 percent market share in volume terms, by Swedish Match estimates. Other major competitors include Altadis, Fuente and Davidoff. Premium cigars accounted for 37 percent of the Group's total cigar sales in 2006. The leading brand in the US is Macanudo, produced in the Dominican Republic by Swedish Match. This brand family includes a broad range of handmade Dominican cigars in different shapes and sizes, and with various characteristics, often sold in fine tobacconist shops. Other major cigar brands from Honduras and the Dominican Republic include Partagas, Punch, Hoyo de Monterrey, Cohiba, La Gloria Cubana, Don Tomas and Helix. A number of new cigar varieties were introduced under these brands during 2006, including Partagas 160, a collectible celebratory cigar.

North America, machine made cigars
The US market for machine made cigars has grown by 1-3 percent annually over the past decade in terms of volume, corresponding largely with demographic trends. During 2006, the machine made cigar market grew by 6.1 percent*. Flavored cigars have shown the strongest growth during recent years, but growth in this segment has recently been replaced by increased demand for little and natural leaf cigars.

Altadis, Swisher and Middleton are the major competitors to Swedish Match on the US market. Swedish Match's market share by volume is close to 7 percent*. In the US, manufacturers typically introduce

*Source: ACNielsen

several new products using well-established brands every year. These products are typically sold in convenience stores, supermarkets, gas stations and tobacco sales outlets.

Swedish Match produces machine made cigars in Dothan, Alabama, in the US, and in the Dominican Republic. White Owl and Garcia y Vega are the largest Swedish Match brands in the US. A new sub-brand under the Garcia y Vega brand, Game, was successfully launched in the second half of 2006, and several new types of White Owl were introduced in the first half of the year.

Europe

The European cigar market was marginally smaller overall in terms of volume during 2006, with modest market growth in Sweden, Italy, Finland, and Portugal largely offsetting market declines in Spain, Benelux, Germany, and France. Market volumes in Spain declined most significantly during the first half of 2006 following a series of regulatory changes. Swedish Match estimates that its market share grew in most European markets during the year, and its volumes grew despite the modest market decline. Swedish Match's sales in the European market are dominated by machine made cigars.

The European market for machine made cigars is fragmented. Swedish Match has its strongest positions in Benelux and the Nordic countries. The Group's largest competitor is Altadis, and other major competitors include Wintermans, Agio and Burger. Swedish Match markets cigars throughout Europe, with its largest volumes in the Benelux region and France. Other key markets are in the Nordic countries and Spain. Cigars are sold in Europe mainly through tobacconists, and also supermarkets, gasoline stations, convenience stores and specialty stores.

Early in 2006 the Company acquired the Hajenius and Oud Kampen high-end cigar brands. These brands have a strong position in the

Benelux markets. The Company also acquired the flagship Hajenius cigar shop in Amsterdam. Some of the best known Swedish Match brands are La Paz, Willem II, Bellman, Hofnar, Justus van Maurik, Hajenius, and Oud Kampen. The Group has also achieved success with small and flavoured cigars, including Primini and Salsa Gold. Sales of machine made European cigars accounted for 36 percent of the Group's total cigar sales during 2006.

Other markets

Swedish Match has a small presence in various markets outside the US and Europe. In Australia however, Swedish Match is the leader in the cigar market with the best-selling cigar brand in Australia, Willem II. Swedish Match has developed new cigars adapted to local tastes and demands in Hong Kong, Malaysia and certain other parts of Asia. Cigar volumes are small in Asia and Eastern Europe but with increasing purchasing power there is a growth potential.

Outlook

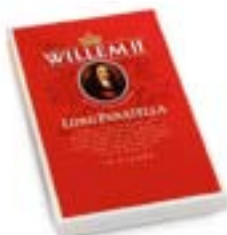
The market for cigars continues to be influenced by frequent new product launches, responding to trends for both premium and machine made cigars. The growing popularity of aromatic and little cigars during recent years provides one example. Swedish Match aims to improve its market position through determined efforts to meet changes in demand supported by focused marketing and product development.



La Paz Miniaturas



Macanudo Ascots



Willem II Long Panatella



CIGARS

Chewing tobacco

Continued strong cash flow

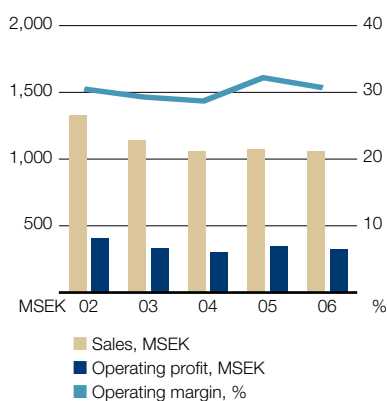
Production units

US

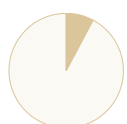
Main brands

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

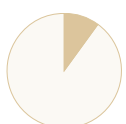
Sales and operating profit



Share of Group total



Sales 8%



Operating profit 10%

Key data, MSEK

	2006	2005	2004
Sales	1,063	1,079	1,058
Operating profit	326	347	304
Operating margin, %	31	32	29
Investments in property, plant and equipment	17	9	18
Average operating capital	200	184	172
Average number of employees	357	340	346

Typically American, chewing tobacco is a lifestyle product often associated with the great outdoors activities, such as fishing and hunting. Chewing tobacco is particularly popular in the southern US, where Red Man is one of the best known and enjoyed brands. The category is large, but declining.

Sales and earnings

Sales for the year declined by 2 percent to 1,063 MSEK (1,079), and operating profit declined by 6 percent to 326 MSEK (347). In local currency terms sales were flat. Higher average prices offset volume declines, while a weaker USD had a negative impact on reported operating profit. The operating margin was 30.7 percent (32.1).

Market

The market for chewing tobacco is estimated by Swedish Match to be 500 MUSD at retail level. Consumption in the US has been declining for many years, and volumes over the past several years have declined by 5-8 percent annually. Roughly 70 percent of sales are in the premium segment.

Swedish Match is the largest producer of chewing tobacco in the US, with a market share of approximately 44 percent*. The Company's best known brands include Red Man and Southern Pride. The Red Man brand family includes several varieties, the latest of which is Red Man Silver Blend, a sugar-free product. Competitors in the market include Conwood (Reynolds American), National and Swisher. With declining consumption, manufacturers continuously strive to reduce their

costs and adjust pricing in order to maintain profitability.

Chewing tobacco is sold in the same stores as other tobacco products, but convenience stores and low-price tobacco outlets account for the bulk of sales. Swedish Match produces chewing tobacco in Owensboro, Kentucky, in the same factory that produces moist snuff and pipe tobacco. Production is based on the same types of tobacco used in making cigars, grown mainly in Wisconsin, Pennsylvania, Latin America and parts of Asia. Swedish Match is able to achieve synergies in production, sales, and distribution, as the Company is present in most tobacco segments.

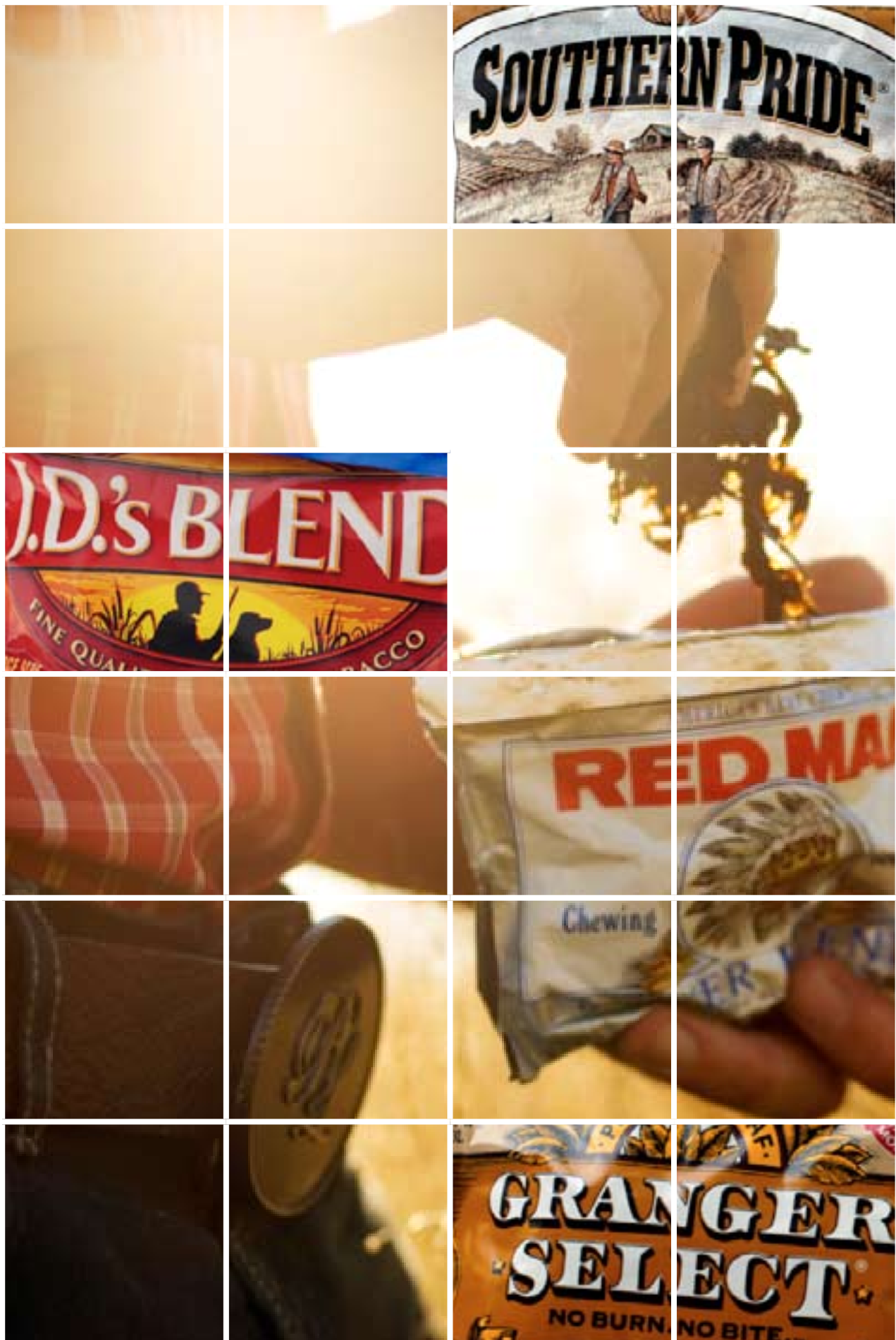
Other markets

Swedish Match has very limited sales of chewing tobacco products outside the US.

Outlook

Consumption is expected to continue declining near the historical level. Swedish Match will continue to focus on high product quality and effective market communication. The product area is expected to generate a continued strong cash flow.

*Source: ACNielsen



Pipe tobacco and Accessories

Improved profitability

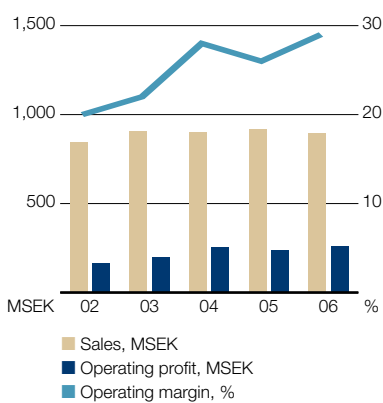
Production units

South Africa and US.

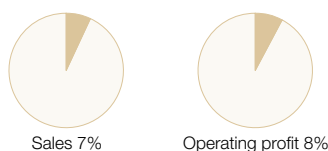
Main brands

Borkum Riff, Half and Half, Best Blend, Boxer, Black & White, Nineteen O'Four and Greve Gilbert Hamiltons Blandning.

Sales and operating profit



Share of Group total



Key data, MSEK

	2006	2005	2004
Sales	899	920	901
Operating profit	261	237	254
Operating margin, %	29	26	28
Investments in property, plant and equipment	23	20	28
Average operating capital	950	1,013	1,043
Average number of employees	457	524	527

Swedish Match is one of the world's largest producers of pipe tobacco, with strong local and international brands in many countries.

While consumption of pipe tobacco is declining in most markets, this trend is most pronounced in Europe and the US. The South African market, a very important market for Swedish Match, is also declining somewhat. In other parts of the world, consumption of pipe tobacco is relatively stable.

Sales and earnings

Sales for the year amounted to 899 MSEK (920). Lower volumes were offset by improved price levels. Operating profit amounted to 261 MSEK (237) and the operating margin was 29.0 percent (25.8).

Market

Global consumption of pipe tobacco is declining, in terms of both volumes and sales. The largest markets for pipe tobacco are North America and Europe, where consumption typically declines at low double digit levels. South Africa, where Swedish Match holds a leading position, is an important market for Swedish Match. In Asia and parts of Eastern Europe, where the use of pipe tobacco is relatively limited, growth in consumer purchasing power and product availability has resulted in steady or increasing volumes.

Nine producers account for about three-fourths of global pipe tobacco production. Many manufacturers also produce other tobacco products for the local or international markets. Competitors include MacBaren, Middleton, Lane (Reynolds American), Imperial and Altadis. Most of Swedish Match's brands are local, including

Boxer, and Best Blend in South Africa, and Half and Half in the US. In Europe and many other markets, Borkum Riff is one of the leading brands.

Europe

Swedish Match markets its pipe tobacco products throughout Europe, with its strongest positions in Sweden, Austria, Spain and Switzerland. Consumption in Europe typically declines by 10 percent or more per year. The Group outsources its production for the European market to MacBaren, a Danish company that also produces other tobacco products. Pipe tobacco is sold mainly through tobacconists' stores, as well as convenience stores and supermarkets. Borkum Riff is one of the Company's best known brands in Europe. In the accessories segment in the UK, Swedish Match has a leading position in cigarette filters.

North America

Consumption of pipe tobacco in North America declined by an estimated 13 percent* during 2006. Swedish Match's market share in terms of volume is stable at about 16 percent. Pipe tobacco for the US market is mainly produced at the Owensboro plant in Kentucky, with some pipe tobacco imported from Europe. Competitors include Lane (Reynolds American), Middleton and Altadis. The largest manufacturers account for a combined market share of about 75 percent*. Half and Half and Borkum Riff are two of the Company's best selling pipe tobacco brands. Pipe tobacco is sold mainly through drugstores, supermarkets, convenience stores, low-price outlets and specialty tobacco stores in the US.

* Source: ACNielsen



South Africa

Swedish Match is the largest player and distributor in South Africa, and brands sold by the Group include Boxer, Best Blend, Nineteen O'Four, Black and White, and Giraffe. Pipe tobacco is available in most outlets that sell tobacco products. Consumption of pipe tobacco in South Africa declined by approximately 4 percent in volume during 2006, following a decline of about 10 percent in 2005.

Other markets

Swedish Match has only a marginal presence in pipe tobacco outside its main markets. Australia and Asia are two of these markets, and Borkum Riff is the leading pipe tobacco brand in Australia.

Outlook

The market for pipe tobacco is expected to continue to decline. However, profitability for the product

area is strong, and cash flow from pipe tobacco operations is expected to remain strong in the years ahead.

Lights

Matches and lighters showing increased profitability

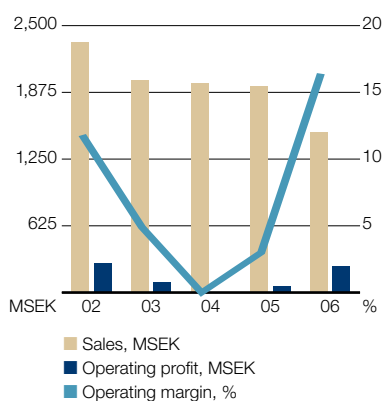
Production units

Brazil, Bulgaria, Philippines, Netherlands and Sweden.

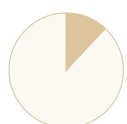
Main brands

Solstickan, Swan, Three Stars, England's Glory, Redheads, Fiat Lux, Cricket and Poppell.

Sales and operating profit



Share of Group total



Sales 12%



Operating profit 8%

Key data, MSEK

	2006	2005	2004
Sales	1,503	1,936	1,960
Operating profit	247	58	1
Operating margin, %	16	3	0
Investments in property, plant and equipment	38	47	53
Average operating capital	1,148	963	1,324
Average number of employees	1,565	3,770	5,206

Swedish Match produces and markets lighters, matches and match related products. The Group has strong local match brands in many markets, while for lighters, Cricket is the primary brand.

Consumption is declining in most developed countries. During 2006, Swedish Match achieved a substantially improved operating result on lower sales after a number of divestitures and restructuring measures in 2005.

Swedish Match has a broad portfolio of leading brands, and manufactures and markets Cricket, one of the world's best-known brands of disposable lighters.

Sales and earnings

Sales for the year declined by 22 percent to 1,503 MSEK (1,936), due to divestments. Excluding divested businesses, sales for the year increased by 1 percent. Operating profit increased to 247 MSEK (58) resulting from cost savings and improved productivity following divestments and restructurings in 2005 and 2006. The operating margin rose to 16.4 percent (3.0).

Market

Consumption of matches in the world market continues to decline in most industrialized countries, particularly in Europe, where Swedish Match has a strong presence. Swedish Match sells matches in many international markets, mainly in Europe and Latin America and parts of Asia. Matches are produced in Sweden and Brazil.

Worldwide, lighter sales are generally stable, although sales are declining in Europe and the US. Major

competitors include Bic and Tokai, and a number of other manufacturers, based mainly in China and other parts of Asia. Swedish Match manufactures its lighters in Assen in the Netherlands, Manila in the Philippines, and Manaus in Brazil. The main markets for Swedish Match are Russia, the EU and parts of Asia.

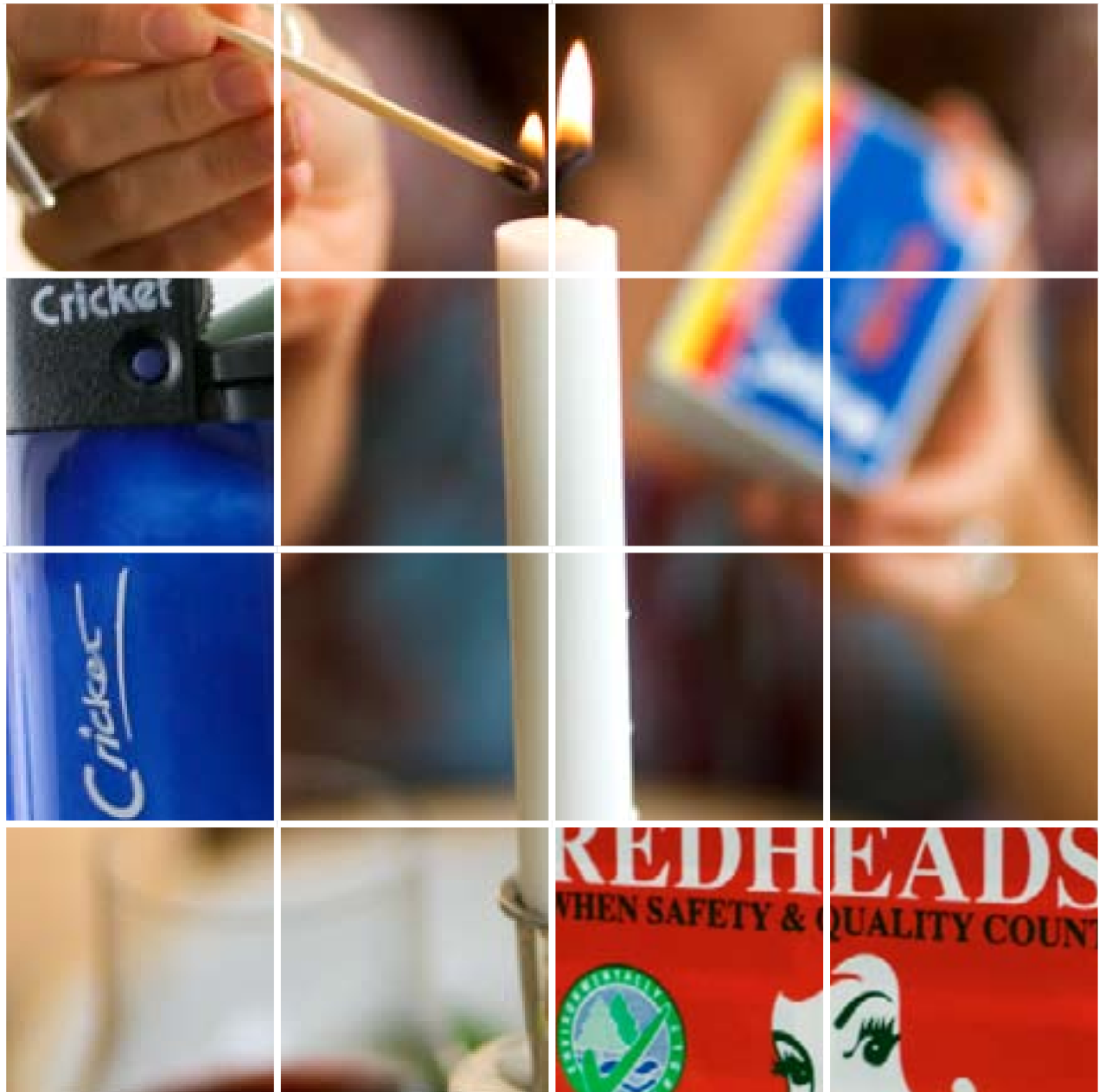
Europe

Swedish Match estimates that consumption of matches continued to decline during 2006, while the market grew for specialty matches. Imported matches from low-cost countries continued to take market shares in some countries. Matches are sold in Europe mainly through supermarkets, tobacconist stores and gasoline stations.

For lighters, Swedish Match maintains a strong market position in Russia, where Cricket is the leading brand. The Group also has solid positions in the Nordic countries, the UK and France. Retail sales of Swedish Match brands in the European market have been relatively stable during 2006. Cricket brand lighters are marketed using the key selling points of quality and design. They are sold mostly in stores that sell tobacco products, and can in some countries also be found in outlets where tobacco is not available, such as grocery stores.

Latin America

Swedish Match has a significant presence in Latin America, and the largest match market in this region for the Company is Brazil, where the Group has a leading position with the Fiat Lux brand. In terms of volume, the Brazilian market is about the same size as the total European market and, as in Europe, consumption is declining.



Other markets

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

Outlook

Swedish Match has consolidated its position in the match industry through a thorough rationalization program over the past two years. With these structural changes implemented, the product area is able to generate a good cash flow and profitability. The Company will strive to defend and strengthen its positions in key markets,

in the coming years. Swedish Match will continue to focus on marketing its Cricket brand disposable lighters and utility lighter products.

Social responsibility and the environment

Active work on social responsibility and environmental issues contributes to the long-term and sustainable development of business operations. Swedish Match recognizes the importance of these issues and has a long tradition of involvement in a variety of projects intended to promote human rights and protect the environment. This is part of Swedish Match's corporate culture.

SOCIAL RESPONSIBILITY

Swedish Match's position regarding social and environmental issues are stated in the Group's Code of Conduct. This Code of Conduct and the accompanying policy documents reflect the Group's values. It comprises the basis of decisions on such issues as human rights, health and safety, child and forced labor, and general business ethics.

Swedish Match's guidelines for social issues apply to all employees and all business units. These guidelines shall conform to national laws and regulations. Individual divisions and business units may certainly exceed these objectives but never act in a manner that conflicts with the principles in the Code of Conduct. The Code is continuously reviewed to ensure a high level of business ethics within the Group.

The Group's "whistleblower function" provides every employee in the Group with the opportunity to report any suspicions of infringement of the Group's regulations. Such suspicions can be submitted anonymously to a company representative or to the independent Chairman of the Audit Committee if the situation is sensitive.

The implementation of the Code of Conduct is ongoing and activities in recent years have been focused on describing and communicating the content of the Code to employees. The Code of Conduct is accessible in its

entirety on the Group's intranet and external website.

The Code of Conduct

The main principles of the Code are:

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

The above requirements are based on international conventions on human rights and terms of employment, such as the UN's Universal Declaration of Human Rights, the UN Convention on the

Rights of the Child, the central ILO conventions and the OECD's Guidelines for Multinational Enterprises.

Follow-up

Swedish Match monitors compliance with the Group's social guidelines through a process that primarily comprises an examination of the Group's own companies. The review process is conducted by an external partner.

The review of social guidelines includes the follow-up of fundamental human rights, health and safety, child and forced labor, supplier contracts and tobacco policies. Developments in these areas are reported to a Group council that is responsible for reviewing the guidelines, as well as following up the compliance with these.

Matters pertaining to business ethics, remuneration and recruitment are followed up through other internal control processes.

Social responsibility in practice

The Group participates in numerous social projects, often in cooperation with professional associations, authorities and participating employees. Swedish Match's fundamental approach is to conduct society-related projects as close to the business operations as possible.

Solstickan – 70 years old

The Solstickan Foundation was founded in 1936 and according to its charter, the purpose is to work toward "the benefit of chronically ill children, the disabled and the needy, primarily the elderly." More than 100 MSEK has been distributed over the years.

The Solstickan Prize was established in 1986 as part of Solstickan's 50th anniversary celebrations. The Prize is awarded to honor a person who, in addition to his

or her ordinary work, has made an especially valuable contribution in one of the areas covered by the foundation's charter. The Prize is awarded annually and the current prize money amounts to 100,000 SEK. Sweden's Children's Ombudsman Lena Nyberg was awarded the Prize in 2006 for her work in "supporting Swedish children in an enterprising and highly effective way".

HIV/AIDS

Swedish Match's employees in South Africa are highly committed to combating HIV/AIDS in a joint project with the International Council of Swedish Industry, the Swedish Metalworkers' Association and the Swedish International Development Cooperation Agency (SIDA).

The project enables training programs through which employees have the opportunity to take an HIV test and are offered individual counseling. Swedish Match also works actively to establish internal guidelines and support processes for a long-term approach to combating HIV/AIDS among employees in South Africa.

Other examples

A variety of local initiatives in the area of social responsibility are under way in the Group. Various training projects are being conducted in South Africa, Brazil and the Dominican Republic. In the US, there is a long tradition of making charitable donations. The Company, often together with employees, has contributed financial support and gifts to various charitable aims, in conjunction with natural disasters for example. In some developing countries, Swedish Match financially supports, among other things, medicines, education and improved housing conditions for its employees.



Read more about our values on
www.swedishmatch.com

ENVIRONMENT

The importance of environmental issues is increasing in pace with more stringent requirements and increased awareness on the part of consumers, customers, suppliers and authorities. Legislation and other standards in the environmental area are constantly being tightened.

Swedish Match continuously strives to make improvements and works with a systematic environment and quality focus in areas with environmental impact.

Approximately 80 percent of the Group's raw materials are renewable and production handles environmentally harmful substances to only a limited extent. In order to increase resource efficiency, the Group is continuously developing its systems for cleaning and reducing emissions. Swedish Match works constantly to achieve improvements in areas that have an environmental impact, such as water and energy consumption and waste management.

Environmental vision and environmental policy

Swedish Match's environmental vision is to work toward a balance whereby it attains its commercial goals while simultaneously meeting external demands. Swedish Match integrates its operations and its products in the natural ecocycle system so that the results of the Group's commercial and environmental efforts are interlinked and strengthen each other.

Swedish Match has adopted an environmental policy encompassing all aspects of its operations, which is based on the principles of the ISO 14001 environmental management system.

Swedish Match's commitments include:

- complying with prevailing legislation, regulations and other requirements wherever its operations are conducted.
- employing effective environmental

management systems designed to prevent pollution and reduce the risk of negative environmental consequences.

- measuring commercial initiatives according to both financial and environmental criteria.
- identifying and implementing changes in products, production processes and services intended to achieve cost-efficient environmental gains.

Responsibility for environmental issues

The Group-wide environment function is responsible for coordination, development and training in environmental issues. The presidents and heads of local units have overall responsibility for ensuring that Swedish Match meets the demands stipulated by environmental legislation imposed on the Company and that improvement activities are actively conducted in their individual business units. An environmental coordinator is appointed in each major business unit.

Environmental work is carried out locally and each plant has specific targets and improvement projects. These targets shall be clear, measurable and follow the principles in the environment policy.

A Group Council responsible for environmental issues and reporting environmental results was established in 2005. The Council meets annually to coordinate Group projects, to exchange knowledge and experience and to follow up the compliance with the Group environmental policy.

Environmental management system

To systematize and enhance the efficiency of environmental activities, Swedish Match works with a Group Environmental Management System, EMS. Certification ensures that environmental considerations are integrated into the Group's manufacturing and business processes.

Approximately 80 percent of the Group's sales are generated by units with ISO 14001 certification. Units that do not have ISO 14001 certification shall adhere to the EMS. The aim is that the EMS must not only apply to manufacturing units but also to other large units in the Group.

General Cigar, with production plants in Dominican Republic and Honduras, plans to become ISO 14001 certified during 2007/2008.

Climate work

The greenhouse effect is considered by many researchers to be one of the most serious global environmental problems. Swedish Match's prioritized aim is to limit the impact of emissions on the climate. The Group applies goal-oriented measures that are monitored by, among other agencies, Swedish insurance company Folksam through its Climate Index. The index includes for example emissions of carbon dioxide from fuel or the Company's own production processes, as well as from purchased electricity, heating, goods transport and travel.

Production

Production represents the largest portion of Swedish Match's carbon-dioxide emissions, amounting to approximately 50,000 tons of carbon-dioxide emissions per year. Some plants in Europe have switched to natural gas and green electricity, and some have introduced energy-savings programs, which combined have reduced emissions by approximately 10 percent in two years. The Company aims to make further advances in this area in the future.



Information from Folksam's Climate Index 2006 ¹⁾

Source	Tons of CO ₂
Production ²⁾	49,868
Properties, total ³⁾	5,710
Transport, goods ⁴⁾	10,152
Business travel, air	3,303 0.27 tons per employee
Total	69,033

¹⁾ Folksam's Climate Index 2006 is based on data on CO₂ emissions during 2005.

²⁾ CO₂ emission reduced by 10 percent in two years.

³⁾ CO₂ emissions from properties reduced by 1,000 tons in 2005.

⁴⁾ Measures the use of fuel for transport in 85 percent of the Group. CO₂ emissions from transport reduced by approximately 20 percent in two years.

Properties

The majority of Swedish Match's business units in Europe and North America have introduced programs to reduce the consumption of electricity for heating/cooling and lighting. Measures that have been taken include the installation of low-energy lighting, insulation, heat-recovery systems and energy-consumption controls. Units in other parts of the world are in the process of introducing programs, which will be monitored by EMS. During the period 2003-2005, carbon-dioxide emissions declined by around 1,000 tons

(of a total of approximately 5,700 tons). The target is to continue to save energy in the Company's properties in future years.

Transport of goods

The transport of goods is the second largest single source of carbon-dioxide emissions caused by Swedish Match, since tobacco requires long-distance transportation, both as a raw material and as finished products. Emissions have been reduced partly due to logistics planning and efficient transport chains and vehicles.

Business travel

There is room for improvement in this area. Many projects aimed at increasing awareness and reducing the environmental impact of travel have been initiated within the Group. A program of environmentally sound company cars has been introduced to reduce the environmental load and videoconferencing as well as teleconferencing are being used to a larger extent.

Human resources



Swedish Match strives to continuously attract, develop and retain motivated personnel for strong and sustainable development of the Group. Our long-term success is based on result-oriented and committed employees, which means that personnel and skills development are prioritized areas.

Result-oriented company culture

Qualified managers and motivated employees play a vital role in Swedish Match's business and change processes. Over a number of years, the Group has purposely worked on ensuring that managers and employees have ongoing and open discussions with regard to targets and plans on both the company and individual levels. Managers within Swedish Match must function as leaders with the ability to set clear targets, conduct follow-ups and delegate assignments and responsibility to their employees. The process used to achieve this is called Performance Management and it is an integrated part of the business operations.

Securing management resources

Swedish Match has a well-established management planning process. Annual surveys of the Company's senior management and key personnel are conducted to ensure efficient and reliable succession planning. Today, the process includes 150 people and its objective is to secure the Company's long-term requirement in terms of leaders. Included in the process are organization analyses, evaluation of performance, potential and leadership qualities and identifying potential future leaders.

Career and skills development

For a long time, internal recruitment has been a natural part of Swedish Match's corporate culture, which increases continuity in business operations and retains professional expertise within the organization. Active efforts are in progress to give employees broader responsibility areas and the opportunity to work in various projects and deepen their knowledge within a specific area or work as specialists.

At Swedish Match, it is common for employees to have several assignments and work in different positions in the organization during their careers. This increases employees' knowledge of the organization and understanding of the business operations as a whole.

In order to increase development opportunities, vacant positions are advertised on the Group's intranet. Of the vacancies that arose within senior management during the year, more than half were filled through internal recruitment, of whom 25 percent were women. There is also a database where internal and external candidates may keep their information for possible future vacancies.

Most of the Company's skills development for managers and employees takes place within the respective divisions and is based on their different needs and resources. During the year, work continued on customized training focused on feedback and coaching, and local manager programs focused on such issues as strategy, company knowledge, business acumen and personal leadership.



Average number of employees

	2006	2005
Swedish Match AB (Parent Company)	44	47
North Europe Division	758	829
North America Division	7,329	6,926
USA	1,212	1,217
The Dominican Republic	4,208	3,908
Honduras	1,909	1,801
International Division	4,334	6,531
Europe	1,212	1,692
South Africa	453	472
Brazil	747	758
Asia & Oceania	1,870	3,556
Other	52	53
Total Group	12,465	14,333

Swedish Match has common principles in terms of recruitment, orientation for new employees, management planning and development of employees as well as compensation and benefit systems.

Employee surveys

In order to measure how Swedish Match is functioning and how it is perceived as an employer, the Company conducts regular employee surveys. The surveys deal with issues such as work content and workload, development opportunities, leadership, cooperation, salary and rewards. Based on these results, each manager in collaboration with the employees, is responsible for identifying possible improvement areas and producing action plans for these.

Cooperation through meeting forums

Management conference
Swedish Match regularly arranges management conferences for leading executives from the entire Company. The conferences focus on strategies and business goals for the Group and the divisions, and sharing of experience.

The last conference was held in 2005 and the next one is scheduled for 2007.

Cross-divisional teams

Within the Group, there is active cooperation within Human Resources, IT, product development, production and environmental issues, among other areas. The various groups meet regularly to plan, coordinate and evaluate Group-wide activities within each area.

European Works Council

The European Works Council (EWC) was established in compliance with an EU directive (Council Directive 94/45/EC) aimed at improving information provided to personnel in companies with more than 1,000 employees and operations in a number of countries. Employee representatives from five countries meet within the Group.

Cooperation with trade unions

Swedish Match has a cooperation agreement with trade union organizations in the Swedish parts of the Group, in accordance with the

Swedish Employment Act (MBL). In accordance with this agreement, representatives of Group management and the employee representatives on the Board meet prior to each Board meeting and at other times when necessary. In addition, a reference group consisting of local representatives of the Swedish Trade Union Confederation (LO) and the Council for Negotiation and Cooperation (PTK) meets prior to each Board meeting.



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Report of the Board of Directors

SWEDISH MATCH AB (PUBL.) CORPORATE REGISTRATION NUMBER 556015-0756

Swedish Match is a global Group of companies with a broad assortment of market-leading brands in smokeless tobacco products, cigars, pipe tobacco and lights products. The Swedish Match share is listed on the Stockholm Stock Exchange.

Net sales

Net sales for the year amounted to 12,911 MSEK (13,311). In local currencies sales increased by 3 percent, excluding divested businesses. Currency translation has affected the sales comparison negatively by 67 MSEK.

Sales of snuff amounted to 3,363 MSEK (3,131). In Scandinavia sales volumes increased by 9 percent measured in number of cans. In Sweden the increase was 8 percent. The volume increase in Sweden was to a great extent a result of the hoarding effect in anticipation of the weight based excise tax increase effective January 1, 2007 for snus in Sweden. In the US sales volumes for 2006 were up by 13 percent versus previous year measured in number of cans. Sales of Longhorn were considerably higher than the year before but also sales of Timber Wolf increased.

Sales of cigars totalled 3,407 MSEK (3,283). Sales were up for US premium cigars, US mass market cigars as well as for European cigars. On March 31, 2006 the Company acquired the Hajenius and Oud Kampen premium cigar brands, related production machinery and the Hajenius cigar shop in Amsterdam from the Burger Group. The two brands, which are primarily sold in the Netherlands, Belgium and Germany, have an annual turnover of approximately 12 MEUR.

Chewing tobacco is sold primarily on the North American market. Sales declined by 2 percent to 1,063 MSEK (1,079). In local currency, sales revenues for the year were flat as higher average prices compensated for volume declines. Also Pipe tobacco and Accessories compensated lower volumes by improved price levels. Sales amounted to 899 MSEK (920). In local currencies sales increased by 2 percent. For the Lights product area sales amounted to 1,503 MSEK (1,936). Excluding divested businesses, sales increased by 1 percent.

Operating profit

Operating profit for the year increased by 15 percent and amounted to 3,235 MSEK (2,825). Previous year's operating profit included a 206 MSEK gain from the sale of General Cigar headquarter building in New York. This year's operating profit was positively affected by a pension plan curtailment gain of 148 MSEK. Operating profit excluding these one time items amounted to 3,087 MSEK (2,618). Operating margin for the Group grew to 23.9 percent (19.7) excluding the pension plan curtailment gain in 2006 and the income from the sale of the real estate in 2005.

Other operations

Other operations include the distribution of tobacco products in the Swedish market and corporate overheads.

Sales in Other operations decreased to 2,677 MSEK compared to 2,962 MSEK previous year mainly as a result of divested businesses. For the year operating profit was a negative 99 MSEK (negative 140).

Research and development

Swedish Match conducts a majority of its research and development in Sweden and the US, mainly related to the characteristics of the tobacco plant and tobacco. Costs of 76 MSEK (95) for research and development are included in the Company's selling expenses, and of 19 MSEK (0) in cost of sales.

Net finance cost

Financial income for the year amounted to 237 MSEK (91). Financial income has been positively affected by a gain on a sale of securities with an amount of 111 MSEK. Financial expense for the year amounted to 305 MSEK (219). The increased financial expense is due to the higher net debt position.

Taxes

Total tax expense for the year amounted to 836 MSEK (919), corresponding to a tax rate of 26 percent (34). The tax rate in 2006 is affected by a reversal of a tax provision for withholding tax on unremitted earnings from US subsidiaries, following the ratification of a new double taxation treaty between Sweden and USA in August. The tax rate in 2005 was unusually high due to the one time gain on the sale of real estate in New York and the non-deductible nature of certain restructuring expenses.

During the fourth quarter 2006, an income tax related contingency accrual related to General Cigar, which was recorded prior to Swedish Match's acquisition of General Cigar in 2000, was reversed. The reversal was recorded against goodwill, which decreased by 484 MSEK.

Earnings per share

Basic earnings per share for the year amounted to 8.12 SEK (5.61). Diluted earnings per share amounted to 8.09 SEK (5.59). This year's earnings per share was positively affected by the one time pension plan curtailment gain in a subsidiary, the unusually low income tax expense, as well as the one time gain on sale of securities. Earnings per share for 2005 was favorably impacted by the gain from the sale of the New York real estate.

Liquid funds

At the close of the fiscal year, cash and cash equivalents, together with other investments, amounted to 3,098 MSEK compared with 3,657 MSEK at the beginning of the year. In addition to cash and cash equivalents and other investments, the Company had a confirmed line of credit totalling 250 MEUR at year end.

Financing

At the close of the period, the Group had a net debt of 5,126 MSEK, compared with 674 MSEK at December 31, 2005 – an increase of 4,452 MSEK. The increase is primarily due to the share repurchase, net, of 3,580 MSEK, acquisition of the Stockholm head office building, payment of dividend of 627 MSEK, unusually high tax payments and the acquisition of the Hajenius and Oud Kampen cigar brands. Cash flow from operations amounted to 1,335 MSEK, compared with 2,718 MSEK in 2005. Cash flow from operations was negatively affected by unusually high tax payments of 1,732 MSEK compared with 606 MSEK during 2005. Income tax payments in 2006 include tax payments during the first quarter after dissolution of a Swedish tax allocation reserve in 2005.

During the period, new bond loans of 5,457 MSEK were raised, including the issuance of a 300 MEUR Eurobond under the Group's Global MTN program.

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 7,570 MSEK on December 31, 2006.

Capital expenditure and depreciation

The Group's direct investments in property, plant and equipment amounted to 304 MSEK (328). Major investment programs include capacity increases for portion-packed snuff and rationalizations in cigar production. During the year the Company also acquired a partnership owning the head-office building in Stockholm, which previously was leased under an operating lease. This transaction added 719 MSEK of property, plant and equipment to the Group. Proceeds from the sale of fixed assets during the year totalled 100 MSEK. Total depreciation and amortization amounted to 435 MSEK (458), of which depreciation of tangible fixed asset amounted to 303 MSEK (337) and amortization of intangible assets amounted to 132 MSEK (121).

Capital structure

At the end of 2006, the Group had interest-bearing loans that exceeded cash and cash equivalents together with other investments by 5,126 MSEK. The net debt at year end divided by EBITA amounted 1.6 (0.2). The interest cover ratio based on EBITA amounted to 19.6 (26.6)

Distribution of surplus funds

Dividend

Swedish Match's dividend policy is that the dividend should essentially follow the trend of the Group's net profit. However, when proposing 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 and 50 percent of net profit for the year, but may deviate from this interval if the net profit includes income or expenses of a one time nature.

The Board of directors has decided to propose to the Annual General Meeting that a dividend of 2.50 SEK per share (2.10) be distributed to the shareholders. This corresponds to a total of 686 MSEK (627), based on the number of shares outstanding at year-end. The proposed dividend amounts to 31 percent (37) of earnings per share for the year. Non-restricted reserves in the Parent Company amounted to 7,863 MSEK at year end.

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 regards to repurchase of shares is positive.

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

Financial targets

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

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

The targets apply over time. Acquisitions, other investments and payment of dividend may result in deviations from these targets.

Share structure

The Annual General Meeting on April 20, 2006 renewed the mandate to repurchase shares up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 24.0 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 28.8 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. At an Extraordinary Meeting of the Shareholders on December 4, 2006 it was decided to cancel a further 20.6 million shares with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by these cancelled shares or 26.7 MSEK. The total number of registered shares of the Company, after the cancellations, is 280 million shares with a ratio value of 1.39 SEK. The Extraordinary Meeting of the Shareholders also renewed the mandate to repurchase shares up to an amount of 1,250 MSEK until the Annual General Meeting in April 2007. Of this amount 298 MSEK was utilized in January 2007.

In June, after Annual General Meeting approval, the Company issued 523,817 call options to senior management and key employees for the stock option program for 2005. These call options can be exercised from March 2, 2009 to February 28, 2011. The exercise price is 127.10 SEK.

During the year 32.9 million shares were repurchased at an average price of 111.57 SEK. As at December 31, 2006 Swedish Match held 5.6 million shares in its treasury, corresponding to 2.0 percent of the total number of shares. Total shares bought back by Swedish Match since the buyback programs started in 2000 have been repurchased at an average price of 69.15 SEK. During the year the Company has also sold 1.4 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 274.4 million. In addition, the Company has call options outstanding at year end corresponding to 4.0 million shares exercisable in gradual stages from 2007–2011.

The Board will propose to the Annual General Meeting in April 2007 a renewed mandate to repurchase shares of the Company up to an amount of 3 billion SEK until the next Annual Meeting in 2008. In addition a proposal will be made to cancel shares held in treasury with a contemporaneous bonus issue without issuing new share of an amount equivalent to the reduction of share capital through the cancellation of shares.

Personnel

The average number of employees in the Group during the year was 12,465 compared with 14,333 for 2005. The decrease in the number of employees is mainly due to divested operations and rationalizations. For further information see chapter on Human Resources on page 32.

Environmental impact

Swedish Match strives to conduct its business in a manner that

does not put the environment at risk and in compliance with relevant environmental legislation, regulations and other local requirements.

To support the environmental efforts Swedish Match has a Group Environmental Policy and has also established a Swedish Match Environmental Management System. The search for items with a possible negative environmental impact originates at the factory level and is coordinated by the divisions. In order to reduce the environmental impact targets are set and remedial actions are taken according to an agreed upon program. The progress of the remedial actions according to the programs is monitored centrally. Swedish Match strives to make improvements in areas with environmental impact, such as water and energy consumption and waste management.

Swedish Match actively works to have its production plants certified according to ISO 14001. At present, plants representing 80 percent of sales are certified.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2006. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

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

The plant in Tidaholm in Sweden produces matches, firestarters and match heads. These operations require a permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels.

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

Risk factors

Developed markets for some tobacco products have been generally declining in the past decades. Increasing health concerns related to tobacco smoking followed by increasingly severe restrictions on smoking in public places and in the workplace is evident in most countries where the Group sells its products. Tobacco products are also subject to substantial taxes in most countries where Swedish Match has significant sales. In many of those countries, the taxes on tobacco are generally increasing but the rate of increase varies between different types of tobacco products. Increased excise taxes or changes in relative tax rates for different tobacco products may impact overall sales volume for the Company's products.

The Company is involved in legal and regulatory proceedings including pending lawsuits related to intellectual property rights and alleged injuries caused by tobacco products. There can be no assurance that the Company's

defences will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Company's results of operations.

Swedish Match has substantial operations in emerging or developing markets such as Brazil, the Dominican Republic, Honduras, Indonesia, the Philippines and South Africa. Swedish Match's results of operations and financial condition are influenced by the economic, regulatory and geopolitical situations in the countries in which it has operations, which can be unpredictable and outside the control of the Group.

For a more detailed description of the Group's financial risk management and holdings of financial instruments, see Note 26, page 63.

Other events

In January, 2006, the Company sold its Arenco subsidiary. Arenco manufacture machines for match manufacturing and packaging in Kalmar and Halmstad, Sweden and Shanghai, China.

On March 31, 2006 the Company divested its advertising lights and accessories business.

On October 9, 2006, Standard & Poor's lowered Swedish Match AB's long term credit rating from A- to BBB+ with a negative outlook. Swedish Match's credit rating with Moody's is Baa1 with stable outlook.

Swedish Match North America and Lorillard Tobacco Company have agreed to jointly develop and market a selected line of smokeless tobacco products in the United States. The parties anticipate that an initial product offering may be launched on some basis of geographic distribution in the not too distant future. Lorillard Tobacco Company is the third largest manufacturer of cigarettes in the United States, with brands such as Newport, the best selling menthol cigarette in the country, Maverick, Old Gold, Kent and True. Lorillard is a wholly owned subsidiary of Loews Corporation, a NYSE company (LTR).

Outlook

Swedish Match's strategic orientation holds firm. The Company will continue working with measures to stimulate organic growth particularly for moist snuff and cigars. The work of strengthening the Company's established brands and launching new brands continues. The search for suitable acquisitions within the cigar product area will be intensified.

In terms of results, 2006 was strong. Specifically for 2007, the results will be impacted by higher spending to drive organic growth and the unwinding of hoarding of snuff in Sweden in 2006 ahead of the excise tax increase. The operating margin for snuff will also be impacted negatively by a general decline of consumption as a consequence of the tax increase, at least for the first half year.

The Board's proposed distribution of earnings is presented on page 78.

Net sales and operating profit by product area

MSEK	Net sales		Operating profit/loss	
	2006	2005	2006	2005
Snuff	3,363	3,131	1,604	1,504
Cigars	3,407	3,283	747	613
Chewing tobacco	1,063	1,079	326	347
Pipe tobacco and Accessories	899	920	261	237
Lights	1,503	1,936	247	58
Other operations	2,677	2,962	-99	-140
Subtotal	12,911	13,311	3,087	2,618
<i>Larger one time items</i>				
Pension curtailment gain			148	-
Gain from sale of office property			-	206
Subtotal			148	206
Total	12,911	13,311	3,235	2,825

Summary of consolidated income statement

MSEK	2006	2005
Net sales	12,911	13,311
Operating profit	3,235	2,825
Net finance cost	-68	-128
Taxes	-836	-919
Profit for the year	2,331	1,777
Attributable to		
Equity holders of the Parent	2,330	1,769
Minority interest	1	9
Earnings per share, SEK	8.12	5.61

Summary of consolidated balance sheet

MSEK	2006	2005
Fixed assets	6,846	7,903
Inventories	2,473	2,770
Other current assets	3,354	2,475
Cash and cash equivalents and other investments	3,098	3,657
Total assets	15,770	16,806
Equity	2,290	5,083
Non-current liabilities and provisions	1,752	3,089
Non-current loans	7,815	2,867
Current liabilities and provisions	3,504	4,303
Current loans	409	1,464
Total equity and liabilities	15,770	16,806

Summary of consolidated cash flow statement

MSEK	2006	2005
Net cash from operating activities	1,335	2,718
Net cash used in investing activities	-255	-140
Net cash used in financing activities	-1,164	-1,441
Net increase/decrease in cash and cash equivalents	-85	1,137
Cash and cash equivalents at the beginning of the year	3,325	2,058
Effect of exchange rate fluctuations on cash and cash equivalents	-198	130
Cash and cash equivalents at end of year	3,042	3,325

Consolidated Income Statement

MSEK	Note	2006	2005
Net sales, including tobacco tax		21,991	22,120
Less tobacco tax		-9,080	-8,809
Net sales	2, 3	12,911	13,311
Cost of sales		-6,674	-7,278
Gross profit		6,237	6,033
Other income	4	1	23
Selling expenses		-2,148	-2,113
Administrative expenses		-851	-1,130
Other expenses	4	-16	-5
Share of profit in equity accounted investees	13	11	18
Operating profit	3, 5, 6, 7	3,235	2,825
Financial income		237	91
Financial expenses		-305	-219
Net finance cost	8	-68	-128
Profit before income tax		3,167	2,696
Income tax expense	9	-836	-919
Profit for the year		2,331	1,777
Attributable to			
Equity holders of the Parent		2,330	1,769
Minority interest		1	9
Profit for the year		2,331	1,777
Earnings per share	20		
basic, SEK		8.12	5.61
diluted, SEK		8.09	5.59

Consolidated Balance Sheet

MSEK	Note	Dec. 31, 2006	Dec. 31, 2005
Assets			
Intangible assets	10	3,469	4,265
Property, plant and equipment	11	2,138	2,393
Biological assets	12	83	95
Investment in associates	13	90	93
Other investments		–	10
Non-current receivables	14	698	595
Deferred tax assets	9	367	452
Total non-current assets		6,846	7,903
Inventories	15	2,473	2,770
Trade receivables	16	1,891	1,845
Prepaid expenses and accrued income		107	141
Income tax receivables		74	195
Other receivables	14	535	295
Other investments	17	56	332
Cash and cash equivalents*	17	3,042	3,325
Assets held for sale	18	747	–
Total current assets		8,924	8,903
TOTAL ASSETS		15,770	16,806
Equity			
Share capital	19	390	390
Reserves		–270	651
Retained earnings		2,167	4,039
Equity attributable to equity holders of the Parent		2,287	5,079
Minority interest		3	3
TOTAL EQUITY		2,290	5,083
Liabilities			
Loans and borrowings	21, 26	7,815	2,867
Other liabilities	24	4	17
Provision for pensions and similar obligations	22	559	813
Other provisions	23	566	1,356
Deferred tax liabilities	9	622	903
Total non-current liabilities		9,567	5,956
Loans and borrowings	21, 26	409	1,464
Accounts payable		724	758
Income tax liabilities	9	119	851
Other liabilities	24	1,825	1,621
Accrued expenses and deferred income	25	774	780
Provisions	23	61	293
Total current liabilities		3,913	5,767
TOTAL LIABILITIES		13,480	11,723
TOTAL EQUITY AND LIABILITIES		15,770	16,806

For information on the Group's pledged assets and contingent liabilities, see Note 27 and Note 28.

* Cash and cash equivalents include current investments with maturity of less than 90 days from acquisition. Prior year has been restated.

Consolidated Statement of Changes in Equity

MSEK	Note	Equity attributable to equity holders of the Parent				Minority interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
	19						
Equity at January 1, 2005		808	-96	3,867	4,579	481	5,060
Changed accounting principle, IAS 39		-	31	-	31	17	48
Translation differences for the year		-	707	-	707	34	741
Net change in fair value of available-for-sale financial instruments		-	9	-	9	-	9
Total income (expense) recognized directly in equity excluding transactions with equity owners		808	651	3,867	5,326	532	5,858
Net profit for the year		-	-	1,769	1,769	9	1,777
Total recognized income and expense for the period excluding transactions with equity owners		808	651	5,636	7,095	541	7,635
Dividends		-	-	-612	-612	-	-612
Acquisition of minority interest in General Cigar		-	-	-	-	-532	-532
Sale of shares in Wimco		-	-	-	-	-6	-6
Cancellation of shares		-29	-	29	-	-	-
Reduction of par value		-389	-	389	-	-	-
Own shares acquired		-	-	-1,434	-1,434	-	-1,434
Stock options exercised		-	-	23	23	-	23
Share-based payments, IFRS 2		-	-	8	8	-	8
Equity at December 31, 2005		390	651	4,039	5,079	3	5,083
Equity at January 1, 2006		390	651	4,039	5,079	3	5,083
Translation differences for the year		-	-881	-	-881	-	-881
Sale of available-for-sale financial instruments		-	-40	-	-40	-	-40
Total income (expense) recognized directly in equity excluding transactions with equity owners		390	-270	4,039	4,158	3	4,162
Net profit for the year		-	-	2,330	2,330	1	2,331
Total recognized income and expense for the period excluding transactions with equity owners		390	-270	6,369	6,489	4	6,493
Dividends		-	-	-627	-627	-1	-627
Cancellation of shares		-56	-	56	-	-	-
Bonus issue		56	-	-56	-	-	-
Own shares acquired		-	-	-3,679	-3,679	-	-3,679
Stock options exercised		-	-	94	94	-	94
Share-based payments, IFRS 2		-	-	10	10	-	10
Equity at December 31, 2006		390	-270	2,167	2,287	3	2,290

Consolidated Cash Flow Statement

MSEK	Note	2006	2005
	30		
Operating activities			
Profit before income tax		3,167	2,696
Adjustments for non-cash items and other		116	323
Income tax paid		-1,732	-606
Cash flow from operating activities before changes in working capital		1,551	2,413
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in inventories		-97	51
Increase (-)/Decrease (+) in operating receivables		-185	-170
Increase (+)/Decrease (-) in operating liabilities		65	423
Net cash from operating activities		1,335	2,718
Investing activities			
Acquisition of property, plant and equipment*		-304	-328
Proceeds from sale of property, plant and equipment		100	628
Acquisition of intangible assets		-270	-
Acquisition of minority shares in General Cigar		-	-1,100
Acquisition of subsidiaries, net of cash acquired		-29	-
Proceeds from sale of subsidiaries, net of cash disposed of		31	184
Investments in equity accounted investees			-92
Change in non-current receivables		-60	-44
Change in other current investments		277	612
Net cash used in investing activities		-255	-140
Financing activities			
Repurchase of own shares		-3,674	-1,434
Sale of treasury shares		94	23
Proceeds from non-current borrowing		5,512	1,685
Repayment of borrowings		-2,383	-942
Dividends paid to equity holders of the Parent		-627	-612
Other		-86	-162
Net cash used in financing activities		-1,164	-1,441
Net increase/decrease in cash and cash equivalents		-85	1,137
Cash and cash equivalents at the beginning of the year		3,325	2,058
Effect of exchange rate fluctuations on cash and cash equivalents		-198	130
Cash and cash equivalents at end of year		3,042	3,325

* Includes investments in assets held for sale and biological assets.

Notes for the Group

1. Accounting principles

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

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 (IFRIC), approved by the European Commission for application within the EU. In addition the Swedish Financial Accounting Standards Council's recommendation RR 30:05, Supplementary Accounting Regulations for Groups, has been applied.

The Parent Company applies RR 32:05 Accounting for legal persons, which means that 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.

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 numbers 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.

Preparing financial reports in accordance with IFRS requires that management make evaluations, estimations and assumptions that affect 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 31.

Reporting by segment

Swedish Match's operations comprise of six operating segments: snuff, chewing tobacco, cigars, pipe tobacco and accessories, lights and other operations. The lights segment comprises the matches and lighters operations.

Geographic areas constitute secondary segments and cover the following market regions: the Nordic region, North America and Rest of the World.

Classification etc.

Fixed assets and non-current liabilities in the Parent Company and the Group essentially consist 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.

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 contingent liabilities. 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.

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 January–December		Exchange rate on December 31	
		2006	2005	2006	2005
USA	USD	7.38	7.48	6.86	7.95
Euro zone	EUR	9.25	9.28	9.04	9.41
Brazil	BRL	3.39	3.10	3.22	3.42
South Africa	ZAR	1.10	1.17	0.98	1.26

1. cont.

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.

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.

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.

Financial instruments reported in the balance sheet include, on the asset side, cash and cash equivalents, other investments, 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.

A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument. A financial asset (or a portion of a financial asset) is derecognized from the balance sheet when risk and the right to receive cash flow from the instrument has ceased or been transferred to another party. A financial liability (or a part of a financial liability) is derecognized from the balance sheet when the obligation is settled or discharged. Financial assets and liabilities are recognized and derecognized applying settlement date accounting.

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 which include financial investments reported as other investments or cash equivalents 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.

Non-current receivables and other current receivables

Non-current 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 non-current 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 amortized costs. 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, if hedge accounting is not applied, are valued at amortized cost in accordance with the effective interest method. Non-current liabilities have an anticipated duration of longer than one year, while current liabilities have a duration of less than one year.

Derivatives and hedge accounting

Derivative instruments such as forward contracts, options and swaps are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in fair 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 profit or under net finance 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 finance cost.

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.

1. cont.

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 financial 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 are classified as operating leases. Lease charges are expensed straight-line over the lease period.

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 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 normally:

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

Tangible assets

Tangible 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.

Biological assets

The Group has forest plantations to secure its raw material needs for match manufacturing. Trees under cultivation 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 the trees is based on estimated market value.

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.

Assets held 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.

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.

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, it is probable that expenditure will be required to regulate the obligation and that a reliable estimate of the amount can be made.

Share capital

Buybacks of own shares are reported directly in equity.

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 remaining 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 the fair value of plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as non-current receivables. 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 percent 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.

1. cont.

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.

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.

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.

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.

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.

Earnings per share

The computation of earnings per share is based on net profit for the year attributable to the shareholders of the Parent Company and on the weighted number of shares outstanding during the year. When computing diluted earnings per share, the number of shares is adjusted for the potential dilution of shares due to options issued to management and certain key employees. Dilution only takes place if the exercise price of the options is lower than the market price of the share. This dilution increases with increased difference between the exercise price and the market price of the share.

Recently issued accounting interpretations by IFRIC

A number of new accounting interpretations are applicable from fiscal year 2007 and have not been applied in this financial report.

IFRIC 7 Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies deals with the application of IAS 29 when an economy is classified as hyperinflationary for the first time and particularly the accounting of deferred tax. IFRIC is applicable for fiscal year 2007 and is not expected to have an impact on the financial reports of the Group.

IFRIC 8 Scope of IFRS 2 Share-based Payment deals with the accounting of share-based payments when the goods or services received

by the company cannot be specifically identified. IFRIC 8 shall be applied retrospectively in the financial reports of the Group from 2007. The impact of the accounting interpretation is not expected to be material.

IFRIC 9 Reassessment of Embedded Derivatives stipulates that a reassessment of whether an embedded derivative should be separated from the host contract can be done only if there is a change in the host contract. IFRIC 9 applies from fiscal year 2007 but is not expected to have a material impact on the financial reports of the Group.

IFRIC 10 Interim Financial Reporting and Impairment stipulates that an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in an equity instrument or a financial asset carried at cost. The interpretation is to be applied prospectively from the date of application of the impairment rules in IAS 36 and the valuation rules in IAS 39, which is from January 1, 2004 for goodwill and January 1, 2005 for financial instruments. As no such reversals have taken place, this interpretation will not have an impact on the financial reports of the Group.

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 32:05 Accounting for Legal Entities. RR 32:05 states 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.

Changed accounting principles

From January 1, 2006 the Company values financial instruments at fair value according to the rules of the Annual Accounts Act chapter 4 paragraph 14 a-e. This is a change of accounting principles. Prior year has been restated.

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 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 contributions and its current tax effect as an investment in participations in Group companies, to the effect that an impairment loss is not required.

2. Revenue

The Group's revenue mainly relate to the sale of goods.

3. Segment information

Primary segments – product areas

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

Other operations include distribution of tobacco products on the Swedish market, sales of advertising products and corporate overheads. The advertising business was divested during the first quarter 2006.

Product area assets consist primarily of property, plant and equipment and intangible assets, inventories and operating receivables.

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

Investments consist of purchases of property, plant and equipment and intangible assets.

No sales are transacted between the different product areas.

Revenue	External sales	
	2006	2005
Snuff	3,363	3,131
Cigars	3,407	3,283
Chewing Tobacco	1,063	1,079
Pipe Tobacco and Accessories	899	920
Lights	1,503	1,936
Other Operations	2,677	2,962
Total	12,911	13,311

Operating profit/loss	Operating profit/loss		Share of profits of associated companies		Total operating profit/loss	
	2006	2005	2006	2005	2006	2005
Snuff	1,603	1,503	1	1	1,604	1,504
Cigars	738	606	9	7	747	613
Chewing Tobacco	326	347	–	–	326	347
Pipe Tobacco and Accessories	261	237	–	–	261	237
Lights	246	48	1	10	247	58
Other Operations	–99	–140	–	–	–99	–140
Subtotal	3,075	2,601	11	18	3,087	2,618
Pension curtailment gain	148	–	–	–	148	–
Income from sale of real estate	–	206	–	–	–	206
Total	3,223	2,807	11	18	3,235	2,825

Unallocated costs and revenue

Financial income					237	91
Financial expenses					–305	–219
Income taxes					–836	–919
Net profit for the year					2,331	1,777
Attributable to						
Equity holders of the Parent					2,330	1,769
Minority interest					1	9
Net profit for the year					2,331	1,777

Assets	Assets		Share of equity in associated companies		Total assets	
	2006	2005	2006	2005	2006	2005
Snuff	2,032	1,739	–	–	2,032	1,739
Cigars	5,196	6,021	82	85	5,278	6,106
Chewing Tobacco	465	499	–	–	465	499
Pipe Tobacco and Accessories	1,053	1,370	–	–	1,053	1,370
Lights	1,165	1,547	8	8	1,173	1,555
Other Operations	1,896	924	–	–	1,896	924
Unallocated assets	3,873	4,613	–	–	3,873	4,613
Total	15,680	16,713	90	93	15,770	16,806

Liabilities	Liabilities and equity	
	2006	2005
Snuff	514	539
Cigars	792	1,124
Chewing Tobacco	273	291
Pipe Tobacco and Accessories	198	325
Lights	395	760
Other Operations	1,841	1,389
Unallocated liabilities*	9,466	7,296
Equity	2,290	5,083
Total	15,770	16,806

* Unallocated liabilities mainly pertain to taxes and interest-bearing liabilities.

3. cont.

Investments	Property, plant and equipment*		Intangible assets		Total investments	
	2006	2005	2006	2005	2006	2005
Snuff	118	157	–	–	118	157
Cigars	90	90	339	5	429	95
Chewing Tobacco	17	9	–	–	17	9
Pipe Tobacco and Accessories	23	20	–	–	23	20
Lights	38	46	–	2	38	48
Other Operations	18	6	–	3	18	9
Total	304	328	339	10	643	338

*Investments in property, plant and equipment include investments in assets held for sale and biological assets.

Depreciation and amortization	Property, plant and equipment		Intangible assets		Total depreciation and amortization	
	2006	2005	2006	2005	2006	2005
Snuff	122	110	15	16	137	126
Cigars	90	100	84	69	174	169
Chewing Tobacco	18	23	0	–	18	23
Pipe Tobacco and Accessories	12	16	23	24	35	40
Lights	52	79	5	8	57	87
Other Operations	9	9	4	5	13	14
Total	303	337	132	121	435	458

During 2006 there were no impairment losses for intangible assets. During 2005, impairment losses affected the Lights product area by 67 MSEK. Impairment losses with respect to property, plant and equipment were charged to product areas as follows: Lights 9 MSEK (38) and Cigars 1 MSEK (15).

Secondary segments – geographical areas

The Group's operations are primarily conducted in three geographical areas.

The sales figures are based on the geographical location of the customers. Assets and investments are also based on geographical location. Unallocated assets mainly consist of financial items and taxes.

Revenue	External sales		Assets	Assets	
	2006	2005		2006	2005
Nordic region	5,412	5,356	Nordic region	4,525	3,590
North America	4,041	3,974	North America	3,892	5,030
Rest of the world	3,458	3,981	Rest of the world	3,479	3,572
Total	12,911	13,311	Unallocated assets	3,873	4,613
			Total	15,770	16,806

Investments	Property, plant and equipment*		Intangible assets	
	2006	2005	2006	2005
Nordic region	129	160	326	5
North America	61	79	13	–
Rest of the world	115	90	0	5
Total	304	328	339	10

*Investments in property, plant and equipment include investments in assets held for sale and biological assets.

4. Other operating income and other operating expenses

Other operating income includes foreign exchange gains of 1 MSEK (23).

Other operating expenses include foreign exchange losses of 16 MSEK (5).

5. Personnel

The average number of employees in the Parent Company during 2006 was 44, and in the Group 12,465. The corresponding averages in 2005 were 47 and 14,333 respectively.

Senior management by gender:

	2006		2005	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	11	73	11	73
CEO and other management	7	100	9	100
Group				
Board members	120	91	108	91
CEO and other management	103	94	115	90

Group employees by country are summarized in the table below:

	2006		2005	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	44	52	47	55
Subsidiaries				
Australia	53	55	48	63
Austria	11	55	14	64
Belgium	355	32	349	32
Brazil	747	71	758	73
Bulgaria	99	42	105	42
China	28	79	258	82
Dominican Republic	4,208	44	3,908	47
France	61	59	65	55
Germany	13	62	40	63
Honduras	1,909	53	1,801	50
Hungary	44	32	149	32
India	–	–	1,496	99
Indonesia	1,638	14	1,617	27
Ireland	–	–	36	72
Netherlands	296	79	333	81
New Zealand	9	78	8	88
Norway	40	70	33	70
Philippines	142	48	129	53
Poland	14	50	16	56
Portugal	20	75	23	78
Slovenia	14	86	13	92
South Africa	453	87	472	89
Spain	50	78	75	77
Sweden	886	56	1,066	58
Turkey	72	85	183	85
United Kingdom	35	71	54	65
United States	1,212	64	1,217	64
Other countries	12	75	20	70
Group total	12,465	49	14,333	58

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

	2006			2005		
	Wages, salaries and other remunerations	Social costs	of which, pension costs*	Wages, salaries and other remunerations	Social costs	of which, pension costs
Parent Company	56	28	8	46	30	15
Subsidiaries	1,522	560	85	1,655	594	107
Group	1,578	588	93	1,701	624	122

*Includes non-compulsory pension costs (excluding legislative costs).

Wages, salaries and other remunerations between members of the Board, etc., and other employees, are summarized below:

	2006			2005		
	Board and CEO	of which, bonuses, etc.	Other employees	Board and CEO	of which, bonuses, etc.	Other employees
Parent Company						
Sweden	13	2	62	13	–	41
Subsidiaries						
Total in subsidiaries	21	4	1,494	31	5	1,624
Group	34	6	1,556	44	5	1,665

During 2006, 8 MSEK (17.4) was paid into a profit-sharing foundation on behalf of Group personnel in Sweden.

5. cont.

Remuneration

Remuneration 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 (AGM) and of the Extraordinary General Meeting (EGM) on December 4, 2006. No Board fee is paid to the President (CEO) and other Board members employed by the Group. In 2006 a study fee in the amount of 44,275 SEK was paid to each of the three employee representatives on the Board, and in the amount of 33,188 SEK to each of the three deputy members. The fees paid to Board members elected by the Annual General Meeting for Board work during 2006 are shown in the table below:

Board fees paid to Board members in 2006

SEK	Board fees	Compensation Committee	Audit Committee	Total fees for Board work
Bernt Magnusson	727,500	91,000	–	818,500
Andrew Cripps	205,000	–	34,100	239,100
Arne Jurbrant	280,000	45,600	–	325,600
Conny Karlsson	205,000	34,100	–	239,100
Jan Blomberg	102,500	16,083	25,833	144,416
Karsten Slotte	280,000	–	45,600	325,600
Kersti Strandqvist	280,000	–	45,600	325,600
Meg Tivéus	280,000	–	81,250	361,250
Tuve Johannesson	245,000	–	–	245,000
Total	2,605,000	186,783	232,383	3,024,166

The 2005 Annual General Meeting decided a fee to the Board Chairman up until the end of the 2006 Annual General Meeting of 750,000 SEK and of 300,000 SEK each to the other Board members elected by the General Meeting, and to give the Board 400,000 SEK as compensation for committee work, to be distributed within the Board at its discretion.

The Annual General Meeting on April 20, 2006 decided a fee to the Board Chairman until the end of the next AGM of 875,000 SEK and 330,000 SEK to each of the other Board members elected by the General Meeting, and to give the Board 500,000 SEK as compensation for committee work, to be distributed within the Board at its discretion.

The Extraordinary General Meeting on December 4, 2006 decided a fee to the Board Chairman from the EGM to the end of next General Meeting of 575,000 SEK and of 230,000 SEK to each of the other Board members elected by the General Meeting, and to give the Board 335,000 SEK as compensation for committee work, of which the Chairman of the Audit Committee and the Chairman of the Compensation Committee shall receive 75,000 SEK each and the other committee members shall receive 37,000 SEK each.

Remuneration and other benefits to Group management during 2006

Principles adopted by the 2006 Annual General Meeting

The Annual General Meeting on April 20, 2006 adopted the following principles for determination of salary and other remuneration payable to the President and other members of the Group management team:

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 Senior 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 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 program under which improvements in relation to the previous year are rewarded. The final figure for the President and the Senior 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 program 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 maximized to a given percentage of the fixed annual salary.

Employee stock options: Group management officials are covered by an ongoing employee stock option program 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 maximized 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 percent 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.

Revised principles adopted by the 2006 Extraordinary General Meeting
The Extraordinary General Meeting on December 4, 2006 adopted revised principles for determination of salary and other remuneration payable to the President and other members of the Group management team. These revised principles, which apply as of January 1, 2007, are the following:

The objective of these principles is to ensure that the Company is able to recruit and retain employees with optimum skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard the shareholders' interests. The principles shall be subject to annual review.

The principles stated below shall apply to remuneration and other terms of employment for the Group management (i.e. the President, Divisional Managers and Senior Vice Presidents in charge of Group functions reporting directly to the President) in all agreements entered into as of January 1, 2007. These principles already apply at present to a considerable extent, although in some cases, agreements with somewhat different contents that were previously entered into still apply.

5. cont.

The remuneration models shall unify the Group, be simple, long-term and quantifiable, and shall correspond to market rates. There shall be “ceilings” on variable remuneration.

The total remuneration paid to Group management officials shall comprise the following components: fixed salary, annual variable salary, a long-term incentive program in the form of 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. This principle for determining the fixed salary component for Group management officials is already being applied.

Annual variable salary: Group management officials shall, over and above their fixed salaries, be entitled to a variable salary determined annually in accordance with the following principles. The maximum result of the annual variable salary shall be 35 percent of the fixed salary. The Divisional President for the North America Division also participates in a local variable salary program, the result of which can yield a maximum of a further 100 percent of the fixed salary every other year. The allocation of the variable salary for the President and the Senior Vice Presidents in charge of Group functions shall be based on the result of two mutually independent criteria:

- firstly, the average annual improvement in the Group’s earnings per share during the period from 2005 to 2007 (i.e. 2005 in comparison with 2004, 2006 in comparison with 2005, and 2007 in comparison with 2006). The maximum allocation in accordance with this criterion shall occur if the average improvement during the three-year period is 20 percent or more. No allocation will be made if the average improvement is less than 5 percent;
- secondly, the result of the average return after tax on operating capital, adjusted for accumulated amortisation of intangible assets, during the years from 2005 to 2007 in comparison with the average return after tax on operating capital, adjusted for accumulated amortisation of intangible assets, during the years from 2004 to 2006. 75 percent of the maximum allocation in accordance with this criterion shall occur if the return has remained unchanged and maximum allocation in accordance with this criterion shall occur if the latest three-year average has increased by two percentage points or more in relation to the preceding three-year average. No allocation will be made in accordance with this criterion if the latest three-year average for the return is two percentage points lower than for the preceding period.

When calculating earnings per share and average return on operating capital after tax, these numbers may be adjusted to take into account certain larger one time items affecting comparability in accordance with resolutions by the Board of Directors.

Half of the total variable salary payable to the Divisional Managers shall be based on the same criteria and target values as for the President and the Senior Vice Presidents in charge of Group functions, whilst the other half shall be based on the result in relation to the goals set by the Compensation Committee for each Division, e.g. the Division’s operating result in relation to a set goal. The Divisional President for the North America Division also participates in a local program with a variable salary component, as specified above and where the result is based on target values for the individual Division.

Employee stock options: Group management officials are covered by an ongoing employee stock option program 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 value of the options allocated shall be maximized to 65 percent of the fixed salary and the allocation calculated on the basis of two equally weighted criteria: one is a measurement based on the Group’s earnings per share and one is a measurement based on the return on adjusted operating capital.

Summary of variable salary and employee stock options: The combined value of the annual variable salary and the value of employee stock options allocated in accordance with the programmes described above shall not exceed the fixed annual salary, other than for the Divisional President of the North America Division, for whom the combined value of the variable salary and the value of employee stock options allocated shall correspond to a maximum of 175 percent of the fixed annual salary every other year and to a maximum of 75 percent in other years (an average of 125 percent over a two-year period).

Pension: 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 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 percent 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.

The Board’s right to deviate from the principles: The Board of Directors shall be entitled to deviate from the principles approved by the General Meeting if special reasons for so doing exist in any individual case.

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, variable salaries and other employment terms for the President and shall approve salaries, variable salaries and other employment terms proposed by the President for senior officials in an immediately subordinate position.

Summary: These principles differ from the principles governing remuneration to Group management officials which, for 2005, were established by the Board of Directors and subsequently adopted by the Annual General Meeting in April 2006, with regard to the criteria governing variable salary and for the allocation of employee stock options, and with regard to the ceiling for both of these remuneration components.

5. cont.

Remuneration and other benefits to Group management during 2006

TSEK		Fixed Salary	Variable Salary	Options	Other Benefits	Pension costs	Total
President	2006	5,900	0	616	121	2,126	8,763
	2005	5,665	1,628	700	121	1,991	10,104
Other members of the Group management	2006	14 762	2,864	1,848	1,222	5,177	25,873
	2005	18,677	4,678	2,450	1,482	5,809	33,096
Total	2006	20,662	2,864	2,464	1,343	7,303	34,635
	2005	24,342	6,305	3,150	1,603	7,800	43,200

Comments to the table

- During 2005, the other members of Group management consisted of eight persons. During 2006, the other members of Group management consisted of six persons
- Variable salary pertains to incentive payments made during the year. These payments were charged to the consolidated income statement in 2005. In 2006 the President accrued 2,065 TSEK based on the achieved results in 2006 this variable salary is paid in 2007 and charged the consolidated income statement 2006. In 2006 Other members of the Company management accrued 5,503 TSEK based on the achieved results in 2006 this variable salary is paid in 2007 and charged the consolidated income statement 2006
- Options relate to the gross amount before tax available for the grant

of options. The costs have been charged to the consolidated income statement 2005. In 2006, the President accrued options to the value of 1,540 TSEK to be granted in 2007, subject to approval of the Annual General Meeting in 2007, the costs have been charged the consolidated income statement 2006. In 2006, other members of the Company management accrued options to the value of 4,620 TSEK to be granted in 2007, subject to approval of the Annual General Meeting in 2007, the costs have been charged the consolidated income statement 2006

- Other benefits pertain to company cars and other benefits
- Reported pension costs are charges to income for defined contribution pension plans and the service costs component under IAS for defined benefit pension plans

Variable salary

In 2006, Group management participated in an incentive program (variable salary) described under the presentation of the principles for salary and other remuneration above.

In addition to the program noted above, one member of Group management based outside Sweden also participated in 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 of this plan corresponds to a fixed annual salary every second year.

Options

The Group has an options program that can result in a grant of call options on shares in Swedish Match AB. The options are granted to participants subject to the fulfilment of certain established targets. In 2006 options were granted to 52 senior executives, including the President and other members of Group management, based on the results in 2005.

523,817 options were granted in 2006. These can be exercised between March 2, 2009 and February 28, 2011. Each option entitles the holder to purchase one share in Swedish Match AB at a price of SEK 127.10 per share. The options are valued by an external institution in accordance with the Black & Scholes model. The computed value at the time of grant was SEK

13.20 per option, corresponding to a total of SEK 6,914,384. The valuation was based on the following conditions: the share price at the time of grant is SEK 105.88, expected volatility is 22 percent and the risk-free interest rate is 3.12 percent. The expected volatility is mainly based on historic volatility of the Swedish Match share. An assumption about dividend growth is also made to compute the value of the options.

During 2006, the consolidated income statement was charged with 20 MSEK pertaining to options vested during the year. All options are granted at no cost and the options vest immediately. For program participants in Sweden, the granting of options constitutes a taxable income.

Number and weighted average of exercise prices for shares under options

	2006		2005	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at beginning of period	77.93	4,896,514	69.87	4,848,549
Granted during period	127.10	523,817	99.75	661,871
Exercised during period	67.50	1,393,004	37.78	613,902
Expired during period	–	–	34.70	4
Outstanding at period-end	87.93	4,027,327	77.93	4,896,514
Exercisable at period-end	74.97	1,976,380	70.32	1,940,894

The average share price for share options exercised in 2006 was SEK 106.21 (84.40).

The options outstanding at December 31, 2006 are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2005-03-15—2007-03-15	77.50	1,518,770	970,880	547,890
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
2009-03-02—2011-02-28	127.10	523,817	–	523,817
		4,998,207	970,880	4,027,327

5. cont.

Pensions

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 above under the principles for remuneration. For the other two Swedish 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 (one income base amount is in 2006 SEK 44,500) 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 if a major organizational change should 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 for the financial year 2006, 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 for the Group's options program and profit-sharing scheme. The Group's options program was subsequently approved by shareholders at the Annual General Meeting.

6. Selling and administrative expenses

Administrative expenses include expenses for auditor's fees as set out in the table below:

	2006	2005
KPMG		
Audit*	26	14
Other services	2	2
Total	28	16

*Included in the expenses for auditor's fees in 2006 are fees related to compliance with the Sarbanes-Oxley Act of 2002 and review of the second quarter interim report.

7. Operating expenses classified by nature

	2006	2005
Personnel expenses	-2,166	-2,424
Depreciation/amortization	-435	-458
Impairment losses	-10	-120
Share of profit in equity accounted investees	11	18
Pension curtailment gain	148	-
Income from sale of real estate	-	206
Other operating expenses	-7,223	-7,707
Total	-9,676	-10,485

8. Net finance cost

	2006	2005
Interest income	124	91
Net foreign exchange gains	1	-
Other financial income	111	-
Financial income	237	91

	2006	2005
Interest expense	-288	-197
Net foreign exchange losses	-	-5
Other financial expenses	-17	-17
Financial expenses	-305	-219
Net finance cost	-68	-128

Interest expense of financial liabilities which are not reported at fair value via the income statement amounts to 86 MSEK (36).

9. Income tax expense

Income taxes in 2006 and 2005 were distributed as follows:

	2006	2005
Current income taxes	-878	-1,375
Deferred income taxes	-83	504
Deferred withholding tax on unremitted earnings of subsidiaries	125	-48
Total	-836	-919

9. cont.

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

	Current		Non-current		Total	
	2006	2005	2006	2005	2006	2005
Pension and medical benefits	–	1	111	90	111	91
Accelerated depreciation	4	1	466	465	470	466
Inventory reserves	40	48	12	26	51	73
Deferred withholding tax on unremitted earnings of subsidiaries	–	–	36	163	36	163
Other	7	7	79	213	86	221
Netting of assets and liabilities	–	–	–	–	–132	–111
Net deferred income tax liabilities					622	903

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

	Current		Non-current		Total	
	2006	2005	2006	2005	2006	2005
Tax-loss carryforwards	21	26	–	1	21	27
Provisions for bad debts	10	8	0	1	10	9
Restructuring provisions	2	9	0	1	2	10
Pension and medical benefits	2	0	303	354	304	354
Accelerated depreciation	1	0	4	2	5	2
Inventory reserves	8	18	1	2	9	20
Other	64	55	84	86	148	141
Netting of assets and liabilities	–	–	–	–	–132	–111
Net deferred income tax assets					367	452

During the year, the net of deferred tax liabilities and assets decreased by 197 MSEK, whereof a decrease of 147 MSEK was reported against goodwill, an increase of 3 MSEK was due to divestments and a decrease of 27 MSEK was reported against equity. The amount reported against goodwill relates to deferred tax liabilities reported in General Cigar prior to Swedish Match's acquisition of General Cigar in 2000.

At December 31, 2006, the Group had deductible tax-loss carryforwards of 278 MSEK for which no deferred tax asset was recognized. These carryforwards expire as follows:

Year	Amount
2007	12
2008	17
2009	11
2010	23
2011	37
Thereafter	178
Total deductible tax-loss carryforwards for which no tax assets were recognized	278

In 2006 and 2005, the Group's effective tax rates were 26.4 percent and 34.1 percent, respectively. The difference between the Group's tax expense and tax expense based on the statutory tax rate in Sweden of 28.0 percent is attributable to the items shown in the following table:

	2006 %	2006 MSEK	2005 %	2005 MSEK
Income before tax		3,167		2,696
Swedish tax rate	28.0	887	28.0	755
Effect of tax rates in foreign jurisdictions	3.3	104	4.7	127
Effect of unrecognized tax losses	0.1	4	0.2	6
Tax exempt items	–2.6	–82	–3.0	–80
Non-deductible amortization of intangible assets	0.2	7	0.3	8
Adjustments of taxes for prior years	–0.5	–15	–0.4	–11
Non-deductible expenses	0.7	23	2.3	62
Other items	–2.9	–91	1.9	51
Reported effective tax	26.4	836	34.1	919

In 2006, other items mainly consist of the effect from the reversal of deferred tax liability reported on unremitted earnings from the US. The reversal followed the ratification of a new double taxation treaty between Sweden and the US. In 2005, other items mainly consist of the effect of capital gain from sale of office building in New York.

10. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Cost at beginning of year	2,933	2,009	2,138	2,031	134	149	5,205	4,190
Purchases/investments	–	0	339	0	0	10	339	10
Companies acquired	14	599	–	–	–	–	14	599
Divestments	–18	–	–	–	–15	–24	–32	–24
Sales/disposals	–	–	–	–	–	–7	–	–7
Reclassifications	–	–4	–	4	–	–	–	0
Adjustments	–484	–	–	–	–	–	–484	–
Translation differences, etc.	–407	328	–182	103	–3	6	–592	438
Cost at end of year	2,039	2,933	2,295	2,138	116	134	4,450	5,205
Accumulated amortization and impairment losses at beginning of year	–68	–10	–774	–627	–98	–101	–940	–739
Amortization for the year	–	0	–120	–108	–11	–14	–132	–121
Impairment losses during the year	–	–57	–	–	–	–10	–	–67
Divestments	18	–	–	–	14	7	31	7
Sales/disposals	–	–	–	–	–	25	–	25
Reclassifications	–	3	–	–3	–	–	–	0
Translation differences, etc.	1	–3	55	–36	3	–5	59	–44
Accumulated amortization and impairment losses at end of year	–49	–68	–840	–774	–93	–98	–981	–940
Net book value at end of year	1,991	2,865	1,455	1,364	23	36	3,469	4,265

The Group does not have any internally generated intangible assets recorded on the balance sheet.

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

In 2006 amortization of intangible assets were charged to the administrative expenses by 130 MSEK and to the costs of sales by 2 MSEK. In 2005 amortizations and impairment losses of intangible assets were charged to the administrative expenses. During 2006 there were no impairment losses for intangible assets. During 2005, impairment losses affected the Lights product area by 67 MSEK.

The Group's goodwill is tested for impairment annually and when there is an impairment indication. 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 is the basis for identifying the groups of cash generating units. The cash flows used are projected considering market conditions and historical experience, and are based on what management consider reasonable assumptions. These assumptions may be subject to change if circumstances arise or facts become available that affect the assumptions. Calculations of value in use are also sensitive to changes in market interest rates, as these form the basis for discount rates. When goodwill was tested for impairment in 2006, the value in use exceeded the carrying values. When performing sensitivity analyses it was concluded that no negative change, of a size which at this moment is considered probable by management, would result in an intangible assets impairment loss for any of the cash generating units. Though, it should be noted that the sensitivity performed on the lighters product group came close to an impairment. If the competitive environment

worsen, more than what is considered probable by management at this moment, part of the carrying value of goodwill relating to the lighters product group of 48 MSEK may be impaired.

Group goodwill largely relates to the US cigar operations, particularly arising from the acquisition of General Cigar, and to the pipe operations. During 2006, an income tax related contingency accrual related to General Cigar, which was recorded prior to Swedish Match's acquisition of General Cigar in 2000, was reversed. The reversal was booked to reduce the amount of goodwill attributable to the acquisition. The goodwill attributable to General Cigar thereby decreased by 484 MSEK and thereafter amounted to 805 MSEK (1,494) at December 31, 2006. Goodwill attributable to the pipe operations amounted to 421 MSEK (535) at December 31, 2006. Goodwill amounts attributable to other units are not individually considered significant and total 765 MSEK (836).

The cash flows underlying the value in use calculation of General Cigar and the pipe operations in the 2006 testing were based on the budget for 2007. Sales growth and cost structure assumptions are in line with historic development. For General Cigar consideration was 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 for General Cigar to calculate the value of subsequent cash flows. After the coming five years, a decrease of 2 percent has been applied for the pipe operations. The pre-tax discount rate used was 9.2 percent and 16.5 percent for General Cigar and the pipe operations respectively.

Costs of 76 MSEK (95) for research and development are included in the Company's selling expenses and of 19 MSEK (0) in cost of sales.

11. Property, plant and equipment

Property, plant and equipment at December 31, comprised the following:

	Buildings and land*		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cost at beginning of year	1,255	1,834	3,502	3,244	584	538	221	204	5,562	5,820
Purchases/investments	10	-1	98	147	68	92	99	79	275	317
Divestments	-21	-294	-47	-88	-4	-27	-2	-4	-73	-414
Sales/disposals	-38	-499	-258	-230	-30	-40	-2	14	-326	-756
Reclassifications**	2	16	149	71	0	10	-164	-96	-13	1
Translation differences, etc.	-89	199	-286	359	-12	11	-8	24	-394	593
Cost at end of year	1,120	1,255	3,160	3,502	607	584	144	221	5,030	5,562
Accumulated depreciation and impairment losses at beginning of year	-490	-785	-2,376	-2,163	-303	-282	0	23	-3,170	-3,207
Depreciation for the year	-36	-47	-192	-221	-73	-69	-	-	-302	-337
Impairment losses during year	-4	-13	-6	-27	-	-13	-	-	-10	-53
Divestments	21	253	44	88	6	23	-	-	71	364
Sales/disposals	30	205	193	194	28	45	-	-14	251	430
Translation differences, etc.	48	-103	209	-248	9	-7	-1	-9	266	-367
Accumulated depreciation and impairment losses at end of year	-431	-490	-2,127	-2,376	-334	-303	-1	0	-2,893	-3,170
Net book value at end of year	689	765	1,032	1,126	273	280	143	221	2,138	2,393

* Buildings and land include land at a book value of 143 MSEK (185).

** Reclassifications include property, plant and equipment of 13 MSEK reclassified to assets held for sale during 2006.

Construction in progress primarily relates to investments in production facilities.

Depreciation for the year totaling 302 MSEK (337) was charged to cost of sales in the income statement in an amount of 240 MSEK (219), to administrative expenses in an amount of 9 MSEK (66), and to selling expenses in an amount of 52 MSEK (52). Impairment losses were charged to cost of sales in an amount of 10 MSEK. Impairment losses during 2005 were charged to cost of sales in an amount of 38 MSEK and to administrative expenses in an amount of 15 MSEK. The total impairment losses of 10 MSEK (53), affected the Lights result by 9 MSEK (38) and the Cigars result by 1 MSEK (15).

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

	2006	2005
Buildings	638	274
Land	236	20
Total tax assessment values	874	294

12. Biological assets

Biological assets at December 31 comprised the following:

	Biological assets	
	2006	2005
Balance at beginning of year	95	98
Purchases/investments/new planting	16	10
Sales/disposals during the year	-1	-
Divestments	-	-25
Change in fair value	-9	-5
Transfer to inventories	-13	-14
Translation differences, etc.	-6	31
Balance at end of year	83	95

The Group's biological assets comprise poplar and pine forests with a total area of 6,300 hectares at December 31, 2006. The age of the trees varies from newly planted seedlings up to 35 years. The forests are held to ensure the supply of wood for parts of the Lights operations.

Timber felled during the year had an estimated value of 13 MSEK at the time of felling, and made up 103,100 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale 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 2006 had a positive effect of 2 MSEK on fair value, while lower market prices for timber had a negative effect of 10 MSEK on fair value.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2006, 180 hectares (279) of pine forest were replanted. At present, there is no corresponding requirement for poplar.

Forest plantations may be damaged by noxious insects, diseases and fire. To reduce these risks, a program for damage and fire prevention is in place.

13. Investments in associates

Group	2006	2005
Carrying value at beginning of year	93	125
Net profit of associated companies	10	16
Dividends from associated companies	-9	-2
Sale of shares in associated companies	0	-52
Translation differences	-4	6
Carrying value at end of year	90	93

The tables below specify the investments in shares of associated companies. The numbers in the table represent the ownership share.

2006	Country	Revenue	Earnings	Assets	Liabilities	Equity interest	Ownership%	Book value
Arnold André GmbH & Co. KG	Germany	184	9	150	66	84	40	82
Malaysian Match Co. SDN. BHD.	Malaysia	14	1	12	6	6	32	8
Total shares in associated companies		198	10	162	72	90	-	90

2005	Country	Revenue	Earnings	Assets	Liabilities	Equity interest	Ownership%	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.

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 24 MSEK (27). Total sales to associated companies amounted to 108 MSEK (142). Payables to these companies totaled 5 MSEK (8). Total purchases from associated companies amounted to 20 MSEK (31).

14. Non-current receivables and other receivables

Non-current receivables at December 31 comprised the following items:

	2006	2005
Non-current financial receivables	114	178
Net assets in pension plans	331	190
Other non-current receivables	254	227
Total	698	595

Other current receivables at December 31 comprised the following items:

	2006	2005
Current financial receivables	342	131
VAT receivables	64	54
Other current receivables	129	110
Total	535	295

15. Inventories

Inventories at December 31, net of allowances for obsolescence, with separate disclosure of amounts expected to be recovered within twelve months and after more than twelve months, comprised the following items:

	2006			2005		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	790	1	791	808	0	809
Work in progress	94	0	94	141	1	142
Leaf tobacco	974	416	1,391	888	674	1,562
Other input materials and consumables	196	1	197	248	8	257
Total	2,054	419	2,473	2,086	684	2,770

Felled timber constitutes an immaterial part of other input materials.

16. Allowance for bad debts

The allowance for bad debts at December 31 had changed as follows:

	2006	2005
Balance at beginning of year	-96	-99
Provision	-17	-30
Recovery	15	18
Write-off	24	19
Companies divested	14	9
Translation differences, other deductions or additions, etc.,	6	-13
Balance at end of year	-54	-96

17. Cash and cash equivalents, and other investments

Other investments have been classified as cash and cash equivalents when:

- There is an insignificant risk of change in fair value.
- They can easily be converted into cash.
- Maturity is less than three months from time of acquisition.

Other investments	2006	2005
Treasury bills	-	79
Bank certificates	-	99
Government bonds	-	108
Mortgage bonds	50	41
Other financial investments	5	5
	56	332
Cash and cash equivalents		
Cash and bank	1,759	1,418
Bank certificates	598	1,098
Mortgage certificates	200	498
Balance in cash pool accounts	486	311
	3,042	3,325
Total on balance sheet	3,098	3,657

18. Assets held for sale

At December 31, 2006 the Group had assets held for sale at a book value of 747 MSEK. 736 MSEK refers to the Stockholm head office building. The remaining part refers to other property, plant and equipment. There are no corresponding liabilities to these assets.

19. Equity

Details of equity reserves

Translation reserve*	2006	2005
Translation reserve, January 1	611	-96
Translation difference for the year	-878	708
Less translation differences attributable to divested companies	-3	-1
Translation reserve, December 31	-270	611
Reserve for fair value of available-for-sale financial instruments**	2006	2005
Reserve for fair value of available-for-sale financial instruments, January 1	40	-
Change in accounting principle, IAS 39	-	31
Changes in fair value reported directly in equity	-	9
Sold available-for-sales financial instruments, January 1	-40	-
Reserve for fair value of available-for-sale financial instruments, December 31	0	40
Total reserves	2006	2005
Reserves, January 1	651	-96
Changes in reserves for the year		
Translation reserve	-881	707
Reserve for fair value of available-for-sale financial instruments	-40	40
Reserves, December 31	-270	651

* Translation reserve include all exchange rate differences that arise in translation of the financial reports of foreign operations that 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).

** The reserve for fair value of available-for-sale financial instruments include changes in fair value, net after tax, of financial instruments designated as assets available for sale in accordance with IAS 39. These changes in fair value are reported directly in 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

	2006	2005
Buy-back own shares (treasury shares), January 1	-5,918	-4,925
Acquisitions during the year	-3,679	-1,434
Sales during the year	94	23
Allocated to retained earnings by cancellation of shares	56	29
Bonus issue	-56	-
Reduction of par value	-	389
Buy-back own shares (treasury shares), December 31	-9,503	-5,918

The Annual General Meeting on April 20, 2006 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 24.0 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 29 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. At an Extraordinary Meeting of the Shareholders on December 4, 2006 it was decided to cancel a further 20.6 million shares with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by these cancelled shares or 27 MSEK. The total number of registered shares of the Company, after the cancellations, is 280 million shares with a ratio value of 1.39 SEK.

In June, after Annual General Meeting approval, the Company issued 523,817 call options to senior management and key employees for the stock option program for 2005. These call options can be exercised from March 2, 2009 to February 28, 2011. The exercise price is 127.10 SEK.

19. cont.

During the year 32.9 million shares were repurchased at an average price of 111.57 SEK. As at December 31, 2006 Swedish Match held 5.6 million shares in its treasury, corresponding to 2.0 percent of the total number of shares. During the year the Company has also sold 1.4 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 274.4 million. In addition, the Company has call options outstanding at year end corresponding to 4.0 million shares exercisable in gradual stages from 2007-2011.

20. Earnings per share

	2006	2005
Profit for the year attributable to equity holders of the Parent	2,330	1,769

Weighted average number of shares outstanding, basic

Number of shares	2006	2005
Weighted average number of shares outstanding, basic	287,062,345	315,128,554

Weighted average number of shares outstanding, diluted

Number of shares	2006	2005
Weighted average number of shares outstanding, basic	287,062,345	315,128,554
Effect of issued options	1,098,902	1,097,838

Weighted average number of shares outstanding, diluted	288,161,247	316,226,392
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Earnings per share, SEK	2006	2005
Basic	8.12	5.61
Diluted	8.09	5.59

21. Interest-bearing liabilities

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

Year	2006	2005
2007	0	396
2008	1,255	825
2009	653	179
2010	1,592	947
2011	1,056	520
2012 and later	3,259	0
Total	7,815	2,867

Current interest-bearing liabilities:

	2006	2005
Current portion of non-current loans	366	1,432
Bank overdraft facilities utilized	14	8
Other current loans	29	24
Total current interest-bearing liabilities	409	1,464

See further information on interest-bearing liabilities in Note 26.

22. Employee benefits

Post-employment employee benefits

The Group has defined-benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years. The most significant plans are in the US, the UK, the Netherlands, Belgium and Sweden.

Plans are also in place to provide post-employment medical benefits to employees in the US.

Obligations related to post-employment employee benefits as of December 31, 2006 reported in the balance sheet consist of the following:

Net liabilities	2006	2005
Defined benefit plans	120	343
Post-employment medical benefits	392	416
Other long-term benefits	48	54
Provisions for pensions and similar obligations	559	813

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

	Defined-benefit pension plans		Post-employment medical benefits	
	2006	2005	2006	2005
Present value of funded obligations	3,423	3,718	-	-
Fair value of plan assets	-3,461	-3,313	-	-
Deficit(+)/Surplus(-), net	-38	405	-	-
Present value of unfunded obligations	62	68	453	488
Unrecognized actuarial losses, net	-239	-320	-65	-77
Unrecognized past service costs	0	0	3	5
Net asset(-)/liability(+) in the balance sheet	-215	153	392	416
Amounts in the balance sheet:				
Liabilities	120	343	392	416
Assets*	-335	-190	-	-
Net asset(-)/liability(+) in the balance sheet	-215	153	392	416

*The assets are included in non-current receivables in the balance sheet.

The amounts reported in the income statement consist of the following:

	2006	2005	2006	2005
Current service costs	82	79	23	19
Interest on obligation	161	175	26	23
Expected return on plan assets	-209	-202	-	-
Recognized actuarial losses	2	1	4	1
Recognized past service costs	0	13	-1	-1
Gains on curtailments and settlements	-149	-82	0	-
Net income(-)/expense(+) reported in the income statement	-113	-15	52	43

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

	2006	2005	2006	2005
Cost of sales	20	18	11	9
Administrative expenses	-152	-50	33	24
Selling expenses	19	17	9	10
Net income(-)/expense(+) reported in the income statement	-113	-15	52	43

22. cont.

The movements in the defined benefit obligation over the year, were as follows:

	Defined-benefit pension plans		Post-employment medical benefits	
	2006	2005	2006	2005
Defined benefit obligation, January 1	3,785	3,167	499	348
Current service cost	82	79	23	20
Interest cost	161	175	26	23
Contributions by plan participants	7	5	3	-
Actuarial losses/(gains)	20	289	-8	54
Benefits paid	-212	-191	-20	-21
Change in plan provision	-1	13	-	-1
Liabilities acquired/disposed in a business combination	-	-16	-	-
Curtailments	-149	-27	-	1
Translation differences	-209	289	-70	75
Defined benefit obligation, December 31	3,484	3,785	453	499

The movements in the fair value of plan assets of the year, were as follows:

Fair value of plan assets, January 1	3,313	2,854	-	-
Expected return on plan assets	209	202	-	-
Actuarial (losses)/gains	85	100	-	-
Employer contributions	238	85	17	-
Employee contributions	7	13	3	-
Benefits paid	-208	-187	-20	-
Translation differences	-183	245	-	-
Fair value of plan assets, December 31	3,461	3,313	0	0
Experience adjustments on plan liabilities (losses)/gains	25	99	1	-
Experience adjustments on plan assets (losses)/gains	85	100	-	-

For the post-employment medical plans, a 1 percent increase in the medical cost trend rate would increase the aggregate of the current service and interest costs by 8 MSEK and the defined benefit obligation by 62 MSEK. A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 7 MSEK and the defined benefit obligation by 53 MSEK.

Historical information	2006	2005	2004
Present value of defined benefit obligation	3,423	3,718	3,158
Fair value of plan assets	-3,461	-3,313	-2,944
Deficit/(surplus)	-38	405	214

Plan assets are comprised as follows:

	2006	2005
Equity securities	-1,521	-1,529
Debt instruments	-1,572	-1,408
Real Estate	-81	-86
Other	-287	-290
Total	-3,461	-3,313

Significant actuarial assumptions at the balance sheet date (expressed as weighted averages):

	Defined-benefit pension plans		Post-employment medical benefits	
	2006	2005	2006	2005
Discount rate, %	4.8	4.7	5.5	5.5
Expected return on plan assets, %	6.3	6.4	-	-
Future salary increases, %	3.9	3.9	-	-
Future pension increases, %	2.3	2.3	-	-
Medical cost trend rate, %	-	-	9.7	9.6

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each country.

Expected contributions to post-employment benefit plans for the year ending December 31, 2007 are 89 MSEK.

The actual return on plan assets in 2006 was 293 MSEK (297). The assumptions for expected return on plan assets are based on the asset groups as defined in each investment policy.

The assumptions for expected rate of return are estimated in each country respectively based on the portfolio as a whole considering historical performance and outlook given the long term perspective.

Gains and losses resulting from changes in actuarial assumptions, as well as other than expected return on plan assets are computed and distributed over the employee's remaining service period when the total gain or loss lies outside a corridor corresponding to 10 percent of the higher of either the pension obligations or the fair value of plan assets.

Obligations for retirement pension and family pension for salaried personnel and workers in Sweden are funded by insurance policies with two superannuation funds, PSF and PSA. These funds are also fund pensions of other employers outside the group. The pension plans funded with PSA are reported as defined contribution plans. At December 31, this plan reported a small surplus.

Defined contribution plans

The obligation under a defined contribution plan is determined by the amounts to be contributed for that period.

	2006	2005
Costs for defined contribution plans	43	45

23. Provisions

Non-current provisions at December 31 comprised the following:

Non-current provisions	2006	2005
Income tax	297	1,068
Restructurings	9	11
Tobacco tax	-	68
Other operating provisions	158	72
Deferred compensation	103	137
Total	566	1,356

Current provisions at December 31 comprised the following:

Current provisions	2006	2005
Restructurings	33	115
Tobacco tax	-	70
Other operating provisions	12	108
Deferred compensation	17	0
Total	61	293
Total provisions	628	1,649

23. cont.

Movements in provisions during the year were as follows:

	Total	Income tax provisions	Restructuring provisions	Tobacco tax provisions	Other operating provisions	Deferred compensation
Balance at January 1, 2006	1,649	1,068	126	138	180	137
Provisions made during the year	108	23	19	–	45	22
Provisions used during the year	–537	–330	–72	–53	–41	–42
Provisions reversed during the year and changes in estimates	–475	–371	–18	–17	–69	–
Divested companies	–4	–	–	–	–4	–
Reclassifications	–3	–22	–6	–69	75	18
Translation differences, etc.	–110	–71	–8	–	–16	–16
Balance at December 31, 2006	628	297	41	0	171	120

Restructuring provisions

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are usually expected to be settled in one year but may be settled up to five years.

Income tax provisions

Income tax provisions pertain to tax disputes and other tax contingencies. None of the income tax provisions are at this stage expected to be realized within one year.

Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as other operating provisions. A large part of the other operating provisions is related to provisions for outstanding redemptions of current coupons and future product returns. Whilst coupons and returns are expected to be realized within the year, these are replaced within the year, and as such the provisions are classified as non-current. Another large part of the other operating provisions are provisions for disputed sales tax. The timing of settlement is hard to predict and may be beyond five years.

Deferred compensation

The deferred compensation provision represents obligations for earned remuneration (salaries and/or bonuses awarded), of certain employees who can elect to defer a portion of their normal salary and/or bonus awards until a later date. These employees may defer their compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years.

24. Other liabilities

Other non-current liabilities at December 31 comprised the following:

	2006	2005
Non-interest bearing non-current liabilities	4	17

Other current liabilities at December 31 comprised the following:

	2006	2005
Tobacco taxes	1,153	1,043
VAT liabilities	378	330
Other	293	247
Total	1,825	1,621

25. Accrued expenses and deferred income

Accrued expenses and deferred income at December 31 comprised the following:

	2006	2005
Accrued wage/salary-related expenses	128	120
Accrued vacation pay	64	69
Accrued social security charges	141	92
Other	441	499
Total	774	780

26. 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 in place 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. The central treasury function is responsible for the Group's borrowing, currency and interest rate management and serves as an internal bank for the Group's financial transactions. In addition to ensuring that the Swedish Match Group has secure financing, financial transactions are conducted with the aim of limiting the Group's financial risks. The Group's financial risk management are centralized to capitalize on economy of scale and synergy effects and to minimize operational 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. A table showing all the derivatives at fair value that affected the Group's balance sheet and income statement in 2006 is provided below.

Outstanding derivatives

	2006			2005		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	719	1	0	1,762	0	6
Interest-rate derivatives*	5,283	82	6	4,704	34	6
Total	6,002	83	6	6,466	34	12
Of which hedge accounting						
* Interest rate risk in financing	3,787	82	6	2,370	34	5

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 includes net exchange rate losses of 16.4 MSEK (17.4) in operating profit and net gains of 1.0 MSEK (–5.3) in net finance 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. The main 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 net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 500 MSEK on an annual basis. Swedish Match's policy for managing the Group's transaction exposure is to hedge within certain limits. The hedging transactions are mainly initiated via currency forward contracts with durations of up to 12 months, and relate to forecasted currency flows. At December 31, 2006, no transaction exposure for 2007 had been hedged. A general rise of 1 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by approximately 5.2 MSEK (4.8) for the year ending December 31, 2006. Changes in the fair 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 at 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 recognized directly in equity. The Group does not, as a general rule, hedge the net investments 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 53 MSEK, based on the exposure at December 31, 2006.

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 interest maturity should not exceed five years. Part of the Group's borrowing was originally obtained on a fixed interest rate basis but was subsequently converted to a floating rate basis by means of interest rate swaps. The time it takes for a permanent change of interest rate to impact net interest expense depends on the interest maturity periods of the loans. At December 31, 2006, the average interest maturity period for Group loans was 2.3 months, then taking into account interest rate swaps. At December 31, 2006, a general rise of 1 percent in interest rates was estimated to reduce consolidated earnings before tax by approximately 36.6 MSEK (2.6) on an annual basis. The assumption is based on the present level of net debt and average interest maturity period. Changes in the fair 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 applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. However, subsidiary borrowing can take place in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and a certain length on its gross borrowing, and not to be dependent on individual sources of financing. Swedish Match has a syndicated bank credit facility of 250 MEUR, which matures in 2010. This was unutilized at year-end and contained no borrowing restrictions. At year-end 2006, available cash funds and committed credit facilities amounted to 5,358 MSEK. Of this amount, confirmed credit lines amounted to 2,260 MSEK and cash and cash equivalents including other investments making up the remaining 3,098 MSEK. 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

26. cont.

could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2006, a total of 2,651 MSEK of the Swedish program and 4,918 MSEK of the global program were outstanding. The average maturity of the Group's borrowing at December 31, 2006 was 4.2 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

Year	Swedish MTN	Global MTN	Other loans	Total
2007	298	0	111	409
2008	633	554	68	1,255
2009	400	185	68	653
2010	500	684	408	1,592
2011	820	236	0	1,056
2012–	0	3,259	0	3,259
Total	2,651	4,918	655	8,224

Under the Swedish bond program, Swedish Match has issued bonds in SEK, and under the global program, in EUR. Borrowing in EUR is hedged by currency swaps and currency interest rate swaps. The average interest rates for outstanding borrowings (including derivative instruments) on December 31, 2006 were as follows:

	2006	2005
Swedish MTN	3.5%	2.6%
Global MTN	3.7%	5.3%
Other loans*	6.7%	5.6%

*Relates mainly to loans in 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 cash pool 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 measured at fair value and recognized in the balance sheet. Trade receivables are recognized at nominal value. Financial liabilities are mainly measured at the amortized cost. In cases where financial liabilities are included in a hedging relation, they are measured at fair value. Swedish Match applies hedge accounting for borrowing, converting fixed interest rates to floating interest rates by means of interest rate swaps under the accounting rules for 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 having 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, 2006, the average interest maturity for the Group's current investments was approximately 0.3 months.

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 BBB+ from Standard & Poor's or Moody's. To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2006, the total credit exposure in derivative instruments amounted to 161 MSEK and current investments amounted to 854 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, there were no significant concentration of credit risk in the Group's accounts receivable.

Credit ratings

At December 31, 2006, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long-term rating:	BBB+	Baa1
Outlook:	Negative	Stable

Carrying value and fair value

The table below shows carrying value (including accrued interest) and fair value for each type of interest-bearing financial instruments at December 31, 2006. 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 at the balance sheet date. During 2006, 2 MSEK was expensed due to changes in fair value. Loans have been marked to market based on current interest for the remaining time to maturity, credit spread and estimated present value of future cash flow. The values presented are indicative and may not necessarily be realized.

	2006		2005	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Other investments				
Treasury bills	–	–	79	79
Bank certificates	–	–	100	100
Mortgage bonds	52	52	42	42
Government bonds	–	–	112	112
Other financial investments	5	5	5	5
Total	57	57	338	338
Non-current loans				
Fixed interest	–3,646	–3,646	–731	–731
Floating interest	–4,172	–4,177	–2,152	–2,154
Total	–7,818	–7,823	–2,883	–2,885
Current loans				
Fixed interest	–312	–312	–1,716	–1,716
Floating interest	–111	–111	–33	–33
Total	–423	–423	–1,749	–1,749
Derivative instruments				
Currency forwards	0	0	0	0
Currency swaps	6	6	–17	–17
Interest rate swaps	66	66	289	289
Total	72	72	272	272

27. Pledged assets

	2006	2005
For the Group's own non-current liabilities		
Property mortgages	–	1
Total	–	1
Other pledged assets		
Cash and cash equivalents	2	2
Total	2	2

28. Commitments and contingent liabilities

Operating lease agreements

Future annual minimum lease payments under the terms of non-cancellable operating lease agreements with initial or remaining terms of one year or more fall due as follows:

	2006
Within one year	55
Between 1–5 years	85
Later than 5 years	42
Total minimum lease payments	182

The Group's leasing expenses for operating lease agreements amounted to 70 MSEK (116).

Future non-cancellable minimum lease income for properties sublet falls due as follows:

	2006
Within one year	39
Between 1–5 years	2
Later than 5 years	0
Total minimum lease income	41

Contingent liabilities

	2006	2005
Guarantees to subsidiaries	256	159
Guarantees to external companies	26	2
Other guarantees and contingent liabilities	85	72
Total	367	234

Guarantees to subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other contingent liabilities pertain in part to guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Leaf tobacco purchases

Some subsidiaries have made contractual commitments with tobacco growers for future purchases of leaf tobacco.

Legal disputes

The Company is involved in a number of legal proceedings of a routine character. Among other cases, Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US. The US Court of Appeals of the Second Circuit concluded that General Cigar was the rightful owner of the Cohiba trademark in the US. The matter was appealed to the US Supreme Court, and in June 2006, the Supreme Court denied review of the case. General Cigar is now seeking a final order of dismissal from the district court. The district court has held a hearing on the request for a final order of dismissal in September 2006. Further, Cubatabaco has asked the Office of Foreign Assets Control for a license to register the Cohiba trademark in the US and thereby cancel General Cigar's registration of the trademark. General Cigar is opposing the granting of such a license. Although the outcomes of these proceedings cannot be predicted with any certainty, and accordingly, no guarantees can be made, management is convinced that the Company has good defenses in these disputes.

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 brought before state courts in West Virginia. However, the cases against Pinkerton have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these 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 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 2005 to an individual claim. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

29. Group companies

Subsidiary holdings*	Subsidiary's domicile, country	Ownership share, %	
		2006	2005
SM Australia PTY Ltd	Australia	100	100
SM Austria GsmBH	Austria	100	100
NV SM Belgium SA	Belgium	100	100
SM Cigars NV	Belgium	100	100
SM Commerce Import/Export Ltd	Brazil	100	100
SM da Amazonia SA	Brazil	100	100
SM do Brazil SA	Brazil	99.4	99.4
Plam Bulgarski Kibrit Jisco	Bulgaria	99.9	99.9
SM d.o.o. Zagreb	Croatia	100	100
SM France SARL	France	100	100
SM Deutschland GmbH	Germany	100	100
SM Hungaria KFT	Hungary	100	100
P.T. SM Cigars Indonesia	Indonesia	100	100
Maga T.E.A.M. SRL	Italy	100	100
Brasant Tobacco PTY Ltd	Namibia	100	100
EMOC BV	Netherlands	100	100
P.G.C Hajenius BV	Netherlands	100	100
SM Benelux Sales BV	Netherlands	100	100
SM Cigars BV	Netherlands	100	100
SM Dominicana BV	Netherlands	100	100
SM Group BV	Netherlands	100	100
SM Holding Dominicana BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Sales Com BV	Netherlands	100	100
Tobacco Service Holland BV	Netherlands	100	100
SM New Zealand PTY Ltd	New Zealand	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc	Philippines	100	100
SM Polska Sp. z o.o.	Poland	100	100
SM Fosforos Portugal SA	Portugal	97	97
CYAN d.o.o. Slovenia	Slovenia	100	100
Best Blend Tobacco PTY Ltd	South Africa	100	100
Brasant Enterprises PTY Ltd	South Africa	100	100
Leonard Dingler PTY Ltd	South Africa	100	100
SM South Africa PTY Ltd	South Africa	100	100
SM Iberia SA	Spain	100	100
SM Tabaco Espana SL	Spain	100	100
SM Fireproducts Espana SL	Spain	100	100
Intermatch Sweden AB	Sweden	100	100
SM Distribution AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
SM United Brands AB	Sweden	100	100
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Fsg AB	Sweden	100	100
Tobak Fastighets AB	Sweden	100	100
Tobaksmonopolet 1 KB	Sweden	100	-
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri AS	Turkey	100	100
SM UK Ltd	UK	100	100
General Cigar Co. Inc.	US	100	100
General Cigar Holdings Inc.	US	100	100
SM Cigars Inc.	US	100	100
SM North America Inc.	US	100	100
The Pinkerton Tobacco Co.	US	100	100

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

30. Supplementary information to cash flow statement

Interest paid and dividends received

	2006	2005
Dividends received from associated companies	-	2
Interest received	24	98
Interest paid	-237	-202
Total	-212	-102

Adjustments for items that do not require the use of cash

	2006	2005
Depreciation and amortization	435	458
Impairment losses	10	130
Share in profits of associated companies	-12	-39
Capital gain/loss from sale of non-current assets	-	-289
Pension curtailment gain	-148	-
Change in fair value of biological assets	9	8
Expense for share-based payments	18	8
Provisions without cash flow effect	-243	43
Gain on sale of securities	-111	-
Change in accrued interest	1	-6
Realized exchange rate differences, transferred to financing activities	81	164
Unrealized exchange rate differences	78	-168
Adjustment for taxes paid	-	22
Other	-2	-8
Total	116	323

Acquisitions of subsidiaries and other business units

	2006
Acquired assets and liabilities	
Property, plant and equipment	-724
Intangible assets	-14
Inventories	-4
Trade receivables	0
Other receivables	-2
Accounts payable	1
Other liabilities	12
Loans in acquired operations	703
Purchase consideration paid	-29
Less cash and cash equivalents acquired	-
Effect on cash and cash equivalents	-29

The acquisitions of subsidiaries pertain to the acquisition of a limited partnership which owns the headoffice building and to the acquisition of a minor business combination. The acquisition of the limited partnership is classified as an asset purchase. This acquisition had a significant impact on the capital and asset structure of the Group but the cash flow effect was limited to 10 MSEK reported as cash flow from acquisition of subsidiaries. The limited cash flow effect is due to liabilities of an amount similar to the assets being assumed in the acquisition.

30. cont.

Divestments of subsidiaries and other business units

	2006	2005
Divested assets and liabilities		
Property, plant and equipment	–	68
Intangible assets	–	1
Inventories	62	81
Trade receivables	85	122
Other receivables	13	–
Change in liabilities to minority	–	–6
Accounts payable	–53	–65
Other liabilities	–76	–
Purchase consideration received	31	201
Less cash and cash equivalents in divested operations	–	–17
Effect on cash and cash equivalents	31	184

31. Critical estimates and judgements

According to IFRS intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks have been deemed to have definite useful lives and are amortized over a period of 10 – 20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of the intangible asset is impaired. The impairment tests include significant judgements made by management. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Company's intangible assets in December 31, 2006 amounted to 3,469 MSEK and amortization amounted to 132 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 1,991 MSEK.

Deferred tax assets are recognized for temporary differences which arise between the tax and book value of assets and liabilities as well as for unutilized tax losses carry-forwards to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized. Deferred tax assets amounted to 367 MSEK in 2006 including deferred tax assets for unutilized tax losses of 21 MSEK. Uncertainty in the future outlook for the economy or other failure to estimate future profit accurately could result in lower taxable income in the Group companies where deferred tax assets have been recognized. As a consequence the actual utilization of deferred tax assets may differ from expected utilization and therefore may affect future earnings.

As explained in Note 28 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 unfavourable outcome cannot be ruled out, and this could have a significant effect on the Company's earning capacity.

Calculation of pension liability relating to defined-benefit plans requires management to make assumptions on the discount rate, expected return on plan assets and rate of compensation increase etc. Actual result could differ from the assumptions made. The benefit obligations of the Company's defined-benefit-pension plans and post employment medical benefit plans as of December 31, 2006 were estimated to exceed the fair value of plan assets by 525 MSEK before taxes and unrecognized actuarial losses of 304 MSEK.

32. 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 2006 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies.

Parent Company Income Statement

MSEK	Note	2006	2005
Net sales	1	13	16
Cost of sales		-8	-9
Gross profit		5	7
Selling expenses		-13	-12
Administrative expenses	2	-399	-234
Other income	3	39	33
Operating loss	4	-368	-206
Income from participation in Group companies		7,366	4,070
Income from other investments and receivables carried as fixed assets		-224	673
Other interest income and comparable items		566	99
Interest expense and comparable items		-447	-770
Profit after financial items	5	6,893	3,866
Appropriations	6	11	1,439
Profit before income tax		6,904	5,305
Income tax expense	7	-285	-743
Profit for the year		6,619	4,562

Parent Company Balance Sheet

MSEK	Note	Dec. 31 2006	Dec. 31 2005
Assets			
Intangible assets	8	28	40
Property, plant and equipment	9	1	3
Financial fixed assets			
Participation in Group companies	22	15,641	10,974
Receivables from Group companies	10	76	2,812
Other non-current investments	11	–	10
Deferred tax assets	7	2	5
Total financial fixed assets		15,719	13,801
Total fixed assets		15,748	13,844
Current receivables			
Receivables from Group companies		5,416	2,435
Receivables from associated companies		2	2
Income tax receivables		45	–
Other receivables	12	9	2
Prepaid expenses and accrued income	13	185	89
Total current receivables		5,657	2,528
Current investments		848	1,923
Cash and bank		886	311
Total current assets		7,391	4,762
TOTAL ASSETS		23,139	18,606
Equity			
14			
Restricted equity			
Share capital, 280,000,000 shares at 1.39 and 324,596,181 at 1.20 respectively		390	390
Statutory reserve		–	80
Unrestricted equity			
Retained earnings		1,244	832
Profit for the year		6,619	4,562
TOTAL EQUITY		8,253	5,864
Untaxed reserves	15	24	35
Provisions		–	12
Non-current liabilities			
Bond loans	16	7,271	2,077
Liabilities to Group companies	17	–	11
Other non-current liabilities	18	–	4
Total non-current liabilities		7,271	2,092
Current liabilities			
Liabilities to credit institutions	16	298	1,432
Accounts payable		11	15
Liabilities to Group companies	17	7,085	8,515
Current tax liabilities		–	516
Other liabilities	18	124	106
Accrued expenses and prepaid income	19	73	19
Total current liabilities		7,591	10,603
TOTAL EQUITY AND LIABILITIES		23,139	18,606
Pledged assets	20	2	2
Contingent liabilities	20	925	1,101

Summary of Changes in Parent Company Equity

MSEK	Note	Restricted equity		Unrestricted equity		Total equity
		Share Capital	Reserve Fund	Repurchase of own shares	Retained earnings	
	14					
Equity at January 1, 2005		808	194	-4,925	7,305	3,381
Changed accounting principle, IAS 39		-	-	-	-8	-8
Reduction of statutory reserve		-	-114	-	114	-
Group contributions paid		-	-	-	-82	-82
Tax effect of Group contribution		-	-	-	23	23
Total income (expense) recognized directly in equity, excluding transactions with equity owners		808	80	-4,925	7,352	3,314
Profit for the year					4,570	4,570
Total recognized income and expense for the period, excluding transactions with equity owners		808	80	-4,925	11,922	7,884
Dividends		-	-	-	-612	-612
Cancellation of shares		-29	-	29	-	-
Reduction of par value		-389	-	389	-	-
Own shares acquired		-	-	-1,434	-	-1,434
Stock options exercised		-	-	23	-	23
Share-based payments, IFRS 2		-	-	-	2	2
Equity at December 31, 2005		390	80	-5,918	11,312	5,864
Equity at January 1, 2006		390	80	-5,918	11,312	5,864
Reduction of statutory reserve		-	-80	-	80	-
Group contributions paid		-	-	-	-26	-26
Tax effect of Group contribution		-	-	-	7	7
Total income (expense) recognized directly in equity, excluding transactions with equity owners		390	0	-5,918	11,373	5,845
Profit for the year					6,619	6,619
Total recognized income and expense for the period, excluding transactions with equity owners		390	0	-5,918	17,992	12,464
Dividends		-	-	-	-627	-627
Cancellation of shares		-56	-	56	-	-
Bonus issue		56	-	-56	-	-
Own shares acquired		-	-	-3,679	-	-3,679
Stock options exercised		-	-	94	-	94
Share-based payments, IFRS 2		-	-	-	1	1
Equity at December 31, 2006		390	0	-9,503	17,366	8,253

Cash Flow Statement for the Parent Company

MSEK	Note	2006	2005
	23		
Operating activities			
Profit after financial items		6,893	3,866
Adjustments for non-cash items		3	-2,500
Income tax paid		-836	-252
Cash flow from operations before changes in working capital		6,060	1,114
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		1	8
Increase (+)/Decrease (-) in operating liabilities		21	-10
Cash flow from operating activities		6,082	1,112
Investing activities			
Acquisition of property, plant and equipment		-	-2
Acquisition of intangible assets		-	-3
Acquisition of subsidiaries, net of cash acquired		-11	-1,573
Proceeds from sale of subsidiaries, net of cash disposed of		-	8
Shareholder contribution paid		-4,646	-14
Change in other investments		274	605
Cash flow used in investing activities		-4,383	-979
Financing activities			
Repurchase of own shares		-3,674	-1,434
Sale of treasury shares		94	23
Proceeds from non-current borrowing		5,457	920
Repayment of borrowings		-1,549	-891
Dividends paid to Parent Company's shareholders		-627	-612
Group contributions paid		-26	-82
Changes in corporate transactions		-1,672	2,615
Other		75	-163
Net cash used in/from financing activities		-1,922	376
Net increase/decrease in cash and cash equivalents		-223	509
Cash and cash equivalents at the beginning of the year		1,907	1,398
Cash and cash equivalents at end of year		1,684	1,907

Notes for the Parent Company Financial Statements

All amounts referred in the notes to the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise.

For remuneration and other benefits to Parent Company President and other members of Group management, see Note 5, page 50.

1. Revenue

The Parent Company's revenue consist exclusively of sales of nasal snuff in Europe, 13 MSEK (16).

2. Fees and compensation for incurred costs to auditors

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

	2006	2005
KPMG		
Audit assignments	7	5
Other assignments	1	2
Total	8	7

Audit assignments refer to the examination of the annual report and bookkeepings, the Board of Director's 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.

3. Other income

Other income mainly pertains to the portion of joint administration costs charged to Group companies 34 MSEK (31).

4. Sick leave within the Parent Company

(percent)	2006	2005
Total sick leave	0.84	2.74
of which long-term sick leave	-	50.32
Sick leave for men	0.37	5.51
Sick leave for women	1.36	2.16
Sick leave for employees under 29	*	*
Sick leave for employees age 30-49	0.83	3.42
Sick leave for employees age 50+	0.94	1.09

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

Long-term sick leave relate to absence due to illness of 60 continuous days and is calculated in relation to the total sick leave in hours. Other sick leave is calculated in relation to regular working time.

5. Net finance cost/income

	Income from participations in Group companies	
	2006	2005
Dividends	6,042	3,234
Loss from sale of shares	-4	-
Impairment losses	-1	-489
Group contribution	1,329	1,328
Other	-	-3
Total	7,366	4,070

	Income from other investments and receivables carried as fixed assets		Interest income and similar profit items	
	2006	2005	2006	2005
Interest income, Group companies	171	189	113	57
Interest income, other	0	0	53	42
Net foreign exchange gains/losses	-395	484	400	-
Total	-224	673	566	99

	Interest expense and similar profit items	
	2006	2005
Interest expense, Group companies	-227	-113
Interest expense, other	-211	-158
Fees, banks and credit institutions	-3	-9
Income from sale of current investments	-6	-3
Net foreign exchange gains/losses	-	-487
Total	-447	-770

6. Appropriations

	2006	2005
Difference between reported depreciation and depreciation according to plan:		
Trademarks	11	-11
Tax allocation reserve, reversal	-	1,450
Total	11	1,439

7. Taxes

Reported in Income Statement	2006	2005
Tax expense for the period	-281	-741
Adjustment of taxes attributable to prior years	-	-3
Deferred tax due to temporary differences	-4	1
Total reported tax expense within Parent Company	-285	-743

7. cont.

Reconciliation of effective tax rate	2006		2005	
	2006 (%)		2005 (%)	
Income before tax		6,904		5,305
Swedish tax rate	28	-1,933	28	-1,485
Non-deductible expenses	0.7	-50	2.7	-143
Non-taxable revenue	-24.6	1,696	-17.2	911
Tax attributable to prior years	-	-	0.1	-3
Standard revenue	-	-	0.2	-11
Other	-0.0	2	0.2	-12
Reported effective tax	4.1	-285	14	-743

Tax items reported directly against equity	2006	2005
Current tax in paid Group contributions	7	23

Tax receivable amounts to 45 MSEK whereof 53 MSEK represents amount to be recovered on income for the year. At the end of 2005 the tax liability amounted to 516 MSEK whereof 508 MSEK represented amount to be paid on income for the year.

The deferred tax asset reported in the balance sheet of 2 MSEK (5) is attributable to a restructuring reserve recognized in other liabilities. The change from the previous year is reported as a deferred tax expense.

8. Intangible assets

	Trademarks	Licenses & Software
Acquisition value		
Opening balance, January 1, 2005	114	2
Investments	-	3
Closing balance, December 31, 2005	114	5
Opening balance, January 1, 2006	114	5
Investments	-	-
Closing balance, December 31, 2006	114	6
Amortization		
Opening balance, January 1, 2005	-66	-1
Amortization for the year	-11	-1
Closing balance, December 31, 2005	-77	-2
Opening balance, January 1, 2006	-77	-2
Amortization for the year	-11	-1
Closing balance, December 31, 2006	-88	-3
Reported values		
At January 1, 2005	48	1
At December 31, 2005	37	3
At January 1, 2006	37	3
At December 31, 2006	25	3

Amortization is included in the following lines of the Income Statement

	2006	2005
Administrative expenses	-1	-1
Selling expenses	-11	-11
Total	-12	-12

All intangible assets are acquired.

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.

9. Property, plant and equipment

Equipment, tools and fixtures

Acquisition value	
Opening balance, January 1, 2005	9
Investments	2
Sales/disposals	-4
Closing balance, December 31, 2005	7
Opening balance, January 1, 2006	7
Investments	1
Sales/disposals	-2
Closing balance, December 31, 2006	6

Depreciation

Opening balance January 1, 2005	-6
Depreciation for the year	-1
Sales and disposals	3
Closing balance December 31, 2005	-4
Opening balance January 1, 2006	-4
Depreciation for the year	-2
Sales and disposals	1
Closing balance December 31, 2006	-5

Reported values

At January 1, 2005	3
At December 31, 2005	3
At January 1, 2006	3
At December 31, 2006	1

Depreciation of property, plant and equipment is included in administrative expenses in the income statement in the amount of 2 MSEK (1). The acquisition value of assets does not include any loan expenses.

10. Receivables from Group companies

	2006	2005
Acquisition value		
Opening balance, January 1	2,812	2,418
Amortization	-2,341	-90
Foreign exchange gain/loss	-395	484
Closing balance, December 31	76	2,812

11. Other non-current investments

In 2005, other non-current investments were measured at a cost of 10 MSEK and represent a holding in a limited partnership. In 2006, these were reported as participation in Group Companies as the remaining shares were acquired.

12. Other receivables

	2006	2005
Current financial receivables	3	-
VAT receivables	4	1
Other current receivables	2	1
Closing balance December 31	9	2

13. Prepaid expenses and accrued income

	2006	2005
Accrued interest income, external	168	66
Currency forwards and currency swaps	8	8
Other prepaid expenses	9	15
Closing balance December 31	185	89

14. Equity

For information regarding the change in Parent Company equity see Summary of changes in Parent Company equity on page 70.

Number of registered shares in the Parent Company

	2006	2005
Issued, as of January 1	324,596,181	336,596,181
Cancellation	-44,596,181	-12,000,000
Issued, as of December 31 – paid	280,000,000	324,596,181

Buy-back of shares

Buy-back of shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2006, the Parent Company's holding of treasury shares amounted to 5,632,019 (18,694,900).

Dividend

After the Balance-sheet date, the Board proposed that the dividend for the year amount to 2.50 SEK (2.10) per share. The dividend then amounts to 686 MSEK based on the number of shares outstanding at the end of 2006. Prior year total dividend amounted to 627 MSEK.

15. Untaxed reserves

	2006	2005
Excess amortization		
Intangible assets		
Opening balance January 1	35	24
Excess amortization for the year	-11	11
Closing balance December 31	24	35

21. Related parties

Summary of transactions with related parties

Nature of relations	Year	Sale of goods	Sale of services	Purchase of services	Net interest income	Dividends and group contributions	Receivables	Liabilities	Contingent liabilities
Subsidiary	2006	1	40	24	57	7,345	5,492	7,085	900
Subsidiary	2005	2	48	45	133	4,480	5,247	8,526	1,101
Associated company	2006	11					2		
Associated company	2005	14					2		

Transactions with related parties are determined on an arm's length basis. For remunerations to leading executives, see Note 5 for the Group.

16. Liabilities to credit institutions/bond loans

Liabilities due for payment later than five years after the balance-sheet date amount to 3,259 MSEK (520). Liabilities to credit institutions consist of the current portion of bond loans 298 MSEK (1,432).

17. Liabilities to Group companies

Liabilities due for payment later than five years after the balance-sheet date amount to 0 MSEK (0).

18. Other liabilities

Liabilities due for payment later than five years after the balance-sheet date amount to 0 MSEK (0).

19. Accrued expenses and prepaid income

	2006	2005
Personnel expense	53	9
Accrued bonus incl. social security charges	9	0
Other accrued expenses	11	10
Closing balance December 31	73	19

20. Pledged assets and contingent liabilities

Pledged assets	2006	2005
Cash and bank	2	2
Closing balance December 31	2	2

Contingent liabilities	2006	2005
Guarantees for Group companies	900	1,101
Guarantees for external companies	25	-
Closing balance December 31	925	1,101

22. Group companies

Acquisition values	2006	2005
Opening balance, January 1	11,157	6,581
Acquisitions	11	1,573
Transferred from "Other non-current investments"	10	–
Acquisitions through distribution	–	3,006
Divestments	–45	–17
Shareholder's contribution	4,646	14
Closing balance, December 31	15,779	11,157

Revaluations	2006	2005
Opening balance, January 1	3,045	3,045
Closing balance, December 31	3,045	3,045

Impairments	2006	2005
Opening balance, January 1	–3,228	–2,828
Impairments	–	–409
Divestments	45	9
Closing balance, December 31	–3,183	–3,228

Impairments for the year are reported in the income from participations in Group Companies in the income statement.

Shares in subsidiaries, directly owned

Subsidiary/Corp. Reg.no./Reg. Office	Number of shares	Ownership, %	Dec. 31, 2006 Reported Value	Dec. 31, 2005 Reported Value
Svenska Tändsticksbolaget försäljningsaktiebolag, 556012-2730, Stockholm	34,403,000	100	3,006	3,006
Intermatch Sweden AB, 556018-0423, Stockholm	710,000	100	167	85
Swedish Match Industries AB, 556005-0253, Tidaholm	30,853	100	95	95
Swedish Match United Brands AB, 556345-7737, Stockholm	200,000	100	32	32
Tobaksmonopolet 1 KB, 969646-5187, Stockholm ¹⁾	97	97	20	–
Svenskt Snus AB, 556367-1261, Stockholm	1,000	100	1	1
Svenska Tobaks AB, 556337-4833, Stockholm	8,000	100	1	1
Tobak Fastighets AB, 556367-1253, Stockholm	2,000	100	0	0
Svenska Tändsticks AB, 556105-2506, Stockholm	1,000	100	0	0
Res Tabakum 1 AB, 556716-8397, Stockholm	100	100	0	–
Res Tabakum 2 AB, 556716-8637, Stockholm	100	100	0	–
Res Tabakum 3 AB, 556716-8652, Stockholm	100	100	0	–
Swedish Match Group BV	20,900,000	100	5,331	5,331
Swedish Match Sales.com B.V.	100	100	4,566	–
General Cigar Holdings, Inc. ¹⁾	11,204,918	63.52	1,573	1,573
Swedish Match North America Inc	100	100	849	849
Nitedals Taendstiker A/S	500	100	1	1
SA Allumettiére Causemille ²⁾	10,000	100	0	0
The Burma Match Co Ltd ³⁾	300,000	100	0	0
Vulcan Trading Co. Ltd ⁴⁾	4,000	100	0	0
Swedish Match S.A. In liquidation		100	0	0
Closing balance December 31			15,641	10,974

¹⁾ Remaining shares owned by subsidiary.

²⁾ Nationalized in 1963.

³⁾ Nationalized in 1968.

⁴⁾ Nationalized in 1969.

In addition, shares are owned in:

– Union Allumettiére Marocaine S.A.

Ownership is purely formal. Group companies hold all rights and obligations.

Other shares at December 31, 2006

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

Name	Currency	Par Value	Reported Value	Ownership, %
Yaka Feodor K.K.	JPY	100,000	0	15.4

23. Cash Flow Statement

Cash and cash equivalents

Other investments have been classified as cash and cash equivalents when:

- There is an insignificant risk of change in fair value.
- They can easily be converted into cash.
- Maturity is less than three months from time of acquisition.

The following sub-components are included in cash and cash equivalents:

	Dec. 31 2006	Dec. 31 2005
Cash and bank	884	309
Deposits	2	2
Total according to balance sheet	886	311
Other investments equivalent to cash	798	1,596
Total according to cash flow statement	1,684	1,907

Interest paid and received and dividend received

	2006	2005
Dividend received*	6,042	3,234
Interest received	60	47
Interest paid	-215	-168
Total	5,887	3,113

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

Adjustments for items that do not require the use of cash

	2006	2005
Depreciation and amortizations	14	14
Impairment losses	-	409
Unrealized currency exchange rate differences	95	-167
Changes in the value of financial instruments	-19	-1
Impairments of financial receivables	1	80
Share based payment, IFRS 2	4	2
Dividend	-	-3,006
Change in accrued interest	1	-6
Change in market value	2	8
Realized exchange rate differences, transferred to financing activities	-80	164
Other	-15	3
Total	3	-2,500

24. Carrying value and fair value of interest-bearing financial instruments

The table below shows carrying value (incl. accrued interest) and fair value for each type of interest-bearing financial instrument as of December 31, 2006. Trade receivables and accounts payable have a short duration and are recorded at nominal value without discounting and have been excluded from the table. The estimated fair value is based on market prices at the balance sheet date. During 2006, 2 MSEK was expensed due to changes in fair value. Loans have been marked to market based on interest for the remaining time to maturity, credit spread and estimated present value of future cash flow. The values provided are indicative and may not necessarily be realizable.

	2006		2005	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Current investments				
Treasury bills	-	-	79	79
Bank certificates	599	599	1,199	1,199
Mortgage certificates	199	199	499	499
Mortgage bonds	52	52	42	42
Government bonds	-	-	112	112
Total	850	850	1,931	1,931
Non-current loans				
Fixed interest	-3,646	-3,646	-731	-731
Floating interest	-3,629	-3,633	-1,362	-1,363
Total	-7,275	-7,279	-2,093	-2,095
Current loans				
Fixed interest	-312	-312	-1,716	-1,716
Floating interest	0	0	0	0
Total	-312	-312	-1,716	-1,716
Derivative instruments				
Currency forwards	0	0	0	0
Currency swaps	6	6	-12	-17
Interest swaps	66	66	261	289
Total	72	72	249	272

For further information on financial instruments, see note 26 for the Group, page 63.

25. Employee benefits

Post-employment employee benefits

Certain pensions to employees outside Sweden and previously agreed pension commitments to management are covered by a Swedish pension trust. The table below specifies the net liability for defined benefit pension obligation.

	Defined-benefit pension plan	
	2006	2005
Present value of funded obligations	75	76
Fair value of plan assets	-94	-91
Surplus, net	-19	-15
Unrecognized actuarial losses, net	-1	-1
Unrecognized past service costs	0	0
Surplus in separately held assets	20	16
Net liability in the balance sheet	0	0

The amounts reported in the income statement consist of the following:

	2006	2005
Current service costs	1	1
Interest on obligation	3	3
Expected return on plan assets	-5	-5
Net expense reported in the income statement	0	0

The movements in the defined benefit obligation over the year, were as follows:

	2006	2005
Defined benefit obligation, January 1	76	67
Current service cost	1	1
Interest cost	3	3
Actuarial losses/(gains)	-1	8
Benefits paid	-4	-4
Defined benefit obligation, December 31	75	76

The movements in the fair value of plan assets of the year, were as follows:

	2006	2005
Fair value of plan assets, January 1	91	81
Expected return on plan assets	5	5
Actuarial (losses)/gains	-2	5
Fair value of plan assets, December 31	94	91

The plan assets of the trust consist entirely of debt instruments.

Historical information	2006	2005
Present value of defined benefit obligation	75	76
Fair value of plan assets	-94	-91
Deficit/(surplus)	-19	-15

Experience adjustment on plan liabilities for 2006 amounted to -1 MSEK (-2). Experience adjustment on plan assets for 2006 amounted to -2 MSEK (5).

Significant actuarial assumptions at the balance sheet date

	2006	2005
Discount rate, %	4.0	3.8
Expected return on plan assets, %	5.0	5.0
Future salary increases, %	3.0	3.0
Future pension increases, %	2.0	2.0

The actuarial calculation is made in accordance with IAS 19.

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience.

No contributions are expected to post-employment benefit plans for the year ending December 31, 2007.

The actual return on plan assets in 2006 was 3 MSEK (10). Gains and losses resulting from changes in actuarial assumptions, as well as other than expected return on plan assets are computed and distributed over the employee's remaining service period when the total gain or loss lies outside a corridor corresponding to 10 percent of the higher of either the pension obligations or the fair value of plan assets.

Costs for defined contribution plans amounted to 2 MSEK (4).

Proposed distribution of earnings

According to the Parent Company's Balance Sheet, the funds available for distribution by the Annual General Meeting amounts to 7,863 MSEK, of which 6,619 is net profit for the year.

The Board of Directors and the President propose that the 7,863 MSEK at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 2.50 SEK per share, amounting to a total of 686 MSEK, based on the number of shares outstanding at year-end, and that the remaining earnings be carried forward.

The income statements and the balance sheets will be presented to the Annual General Meeting on April 23 for adoption. The Board of Directors also proposes April 26, 2007 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

The results of operations of the Parent Company, Swedish Match AB, and of the Group during 2006, and their respective positions at the close of 2006, 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 by the Annual Report.

Stockholm, February 13, 2007

Bernt Magnusson
Chairman of the Board

Andrew Cripps

Kenneth Ek

Arne Jurbrant

Conny Karlsson

Eva Larsson

Joakim Lindström

Karsten Slotte

Kersti Strandqvist

Meg Tivéus

Sven Hindrikes
President

Our Auditors' report was submitted on March 9, 2007

KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

Auditors' report

To the Annual General Meeting of the shareholders of Swedish Match AB (publ)
Corporate identity number 556015-0756

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Swedish Match AB (publ) for the year 2006. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 36–78. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, 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 our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The Board of Directors' report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent company and the Group be adopted, 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 financial year.

Stockholm, March 9, 2007
KPMG Bohllins AB

Thomas Thiel
Authorized Public Accountant

Corporate governance report

Swedish Match AB is a public Swedish limited liability company. The objective of the Company's operations, in accordance with the Company's Articles of Association, 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 these businesses.

The Company and the Group is governed on the basis of the Company's Articles of Association, the Swedish Companies Act, the listing agreement pertaining to listing of the Company's shares on the Stockholm Stock Exchange, the Swedish Code of Corporate Governance and other applicable Swedish and foreign laws and regulations.

Because of a prior listing on the American NASDAQ stock exchange, Swedish Match is subject to the regulations of the Sarbanes Oxley Act for corporate governance and internal control regarding financial reporting. These regulations also entail an obligation to report to the U.S. Securities and Exchange Commission (SEC).

The reporting in question is extensive, costly and takes up significant resources. However, the SEC has issued a proposal for new rules on termination of registration with the SEC. The new rules would, if enacted, allow the Company to terminate its registration with the SEC.

The Swedish Code of Corporate Governance, which is incorporated as a section of the listing agreement with the Stockholm Stock Exchange, was applied by Swedish Match in 2006. The Company is not reporting any deviations from the Code for 2006, except with regard to the Board of Directors' annual evaluation of its own work (see the section entitled "Evaluation of the work of the Board of Directors", page 83). This Corporate

governance report has been examined by the Company's auditors, with the exception of the report on internal control.

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

General Meetings of Shareholders

A General Meeting constitutes the highest governing body in a limited liability company and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders have been informed via the Company's website at www.swedishmatch.com of their legal right to have issues dealt with at General Meetings. Each share entitles the holder to one vote at a General Meeting. Resolutions adopted by General Meetings are generally decided by a simple majority, although according to the Swedish Companies Act, certain matters are to be decided by a qualified majority.

The Annual General Meeting must be held within six months of the close of the fiscal year. At the Annual General Meeting, resolutions are adopted concerning such matters as dividends, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election of members of the Board of Directors and, as applicable, auditors, compensation to the Board of Directors and auditors, principles to be followed for determining compensation to senior executives and other matters of importance to the Company.

The Annual General Meeting for 2006 was held on April 20 and an Extraordinary General Meeting was held on December 4. The minutes of these meetings are available on the Company's website www.swedishmatch.com.

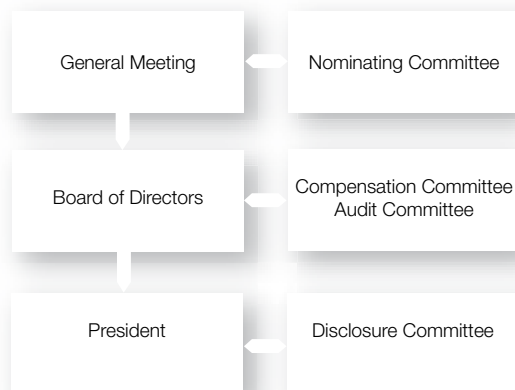
Nominating Committee

Up to the 2006 Annual General

Meeting, the Nominating Committee consisted of the members appointed to the Committee at the 2005 Annual General Meeting. These were: Bernt Magnusson (convener), Marianne Nilsson (Robur), Pernilla Klein (Third AP Fund) and Joachim Spetz (Handelsbanken Funds), with Carl Rosen (Second AP Fund) as deputy. The Nominating Committee internally appointed Joachim Spetz to be its chairman. William N. Booth (Wellington Management Company) as well as Mads Eg Gensmann and Edoardo Mercadante (Parvus Asset Management) were co-opted to participate in some of the Nominating Committee's meetings during this period.

Pursuant to a resolution adopted at the 2006 Annual General Meeting, the Nominating Committee must consist of five members. The Annual General Meeting resolved to empower the Chairman of the Board to contact the largest known shareholders in the Company in order of size and, until four representatives had been appointed, ask each of them to appoint a representative who, together with the Chairman of the Board, would constitute the Nominating Committee until the time of the appointment of a new Nominating Committee pursuant to the mandate of the following year's Annual General Meeting. After the Chairman of the Board had contacted the Company's largest shareholders, the Nominating Committee was constituted on June 8, 2006 with William N. Booth (Wellington Management Company), Mads Eg Gensmann (Parvus Asset Management), Michael Allison (Morgan Stanley), and Andy Brown (Cedar Rock Capital) as members, in addition to Chairman of the Board Bernt Magnusson. Of the members of the Nominating Committee, only Bernt Magnusson was also a Member of the Board. Mads Eg Gensmann served as chairman of the Nominating Committee. The Company's general

Governance of the Swedish Match Group



counsel, Bo Aulin, served as secretary to the Nominating Committee.

Pursuant to instructions established by the General Meeting, the Nominating Committee's duties are to prepare and submit proposals to the General Meeting concerning the election of the chairman of the Annual General Meeting, the election of the Chairman and other Members of the Board, directors' fees, divided among the fees to be paid to the Chairman of the Board and other Board members, and any fees for committee work, as well as, if applicable, the election of and fees to be paid to the auditors.

Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, Bo Aulin. As part of the process for nominating Board members prior to the 2006 Annual General Meeting, the Board ensured that its work during 2005 was evaluated and the Nominating Committee was informed of the results of the evaluation. The Nominating Committee appointed following the 2006 Annual General Meeting has also, through private interviews with each Board member, performed an evaluation of the Board. Since the appointment of the Company's auditors covers the period up to and including the 2008 Annual General Meeting, the Nominating Committee has not had to address the question of choosing auditors this year. The Nominating Committee has, at

both the 2006 Annual General Meeting and the 2006 Extraordinary General Meeting, proposed altered compensation for the Board (see the section entitled "Compensation to the Board of Directors" on page 83).

The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. During 2006, the Nominating Committee held four meetings prior to the Annual General Meeting and two meetings thereafter.

The 2006 Annual General Meeting decided that no fees be paid to the members of the Nominating Committee but that expenses of the Nominating Committee should be borne by the Company.

Board of Directors

Composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who pursuant to law may be appointed according to other arrangements. At the end of 2006, Swedish Match's Board of Directors consisted of eight members elected by the General Meeting plus three employee representatives and their two deputies.

In 2006, the Board of Directors consisted of the following directors elected by the General Meeting: Bernt Magnusson, Jan Blomberg (who served

up until the 2006 Annual General Meeting), Sven Hindrikes, Tuve Johannesson (resigned as director on October 24, 2006), Arne Jurbrant, Karsten Slotte, Kersti Strandqvist, Meg Tivéus, Andrew Cripps and Conny Karlsson (the last two having been elected by the 2006 Annual General Meeting). The employee representatives on the Board for the year were Kenneth Ek, Eva Larsson and Joakim Lindström with Håkan Johansson, Eeva Kazemi Vala and Stig Karlsson (who resigned in January 2006) as deputies.

Meetings

The Board of Directors is called to one statutory and five ordinary meetings per year. Three of the ordinary meetings are coordinated with the dates of the financial information for the first and third quarters and of the year-end report. In addition, the Board meets in August/September and in December to discuss the strategic plan and the operational budget. The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. In addition to the ordinary Board meetings, the Board is called to additional meetings convened at the discretion of any director or of the President.

Responsibilities of the Board of Directors

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

The Board of Directors appoints, and issues instructions for, the President and monitors his work. The Board also determines the President's salary and other compensation within the framework of the principles

established at General Meetings.

The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose, and conducts ongoing evaluations of the Company's procedures and of the guidelines for the management and investment of Company funds. The Board also safeguards the Company's financial accounting and internal control and the quality of its financial reporting through the system for internal control that is described in detail in the section entitled "Report on internal control" on page 85.

Working procedures for the Board of Directors

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

Activities of the Board of Directors during 2006

The number of Board meetings during 2006 was seven, of which six were scheduled meetings and one an extraordinary meeting held by means of correspondence. Of the ordinary meetings, six were in Stockholm and one in Richmond, Virginia, USA.

The Board of Directors sitting at the end of 2006 held its 2006 statutory meeting on the same day as the Annual General Meeting, whereby decisions were made concerning the working procedures for the Board and instructions for the Compensation and Audit Committees. In addition, customary decisions were made concerning the election of the secretary (general counsel Bo Aulin) and authorized signatories. Members of the Compensation Committee and Audit Committee were also appointed.

In addition to reviewing the business in relation to the budget and strategic plan and strengthening the

Company's internal control systems, the Board devoted considerable time to considering the Company's strategic orientation, structural issues, external issues, follow-up of acquisitions, distribution of surplus funds and structures for incentives and benefits.

In conjunction with the Board's meeting in August, visits were made to the Group's production facilities in Owensboro (Kentucky, USA) and Santiago (Dominican Republic).

All of the meetings held during the year followed an approved agenda. Prior to each meeting, an agenda plan and documents relevant to every point on the agenda were sent to the Board. Bo Aulin, the Company's general counsel and also Board secretary, and Chief Financial Officer Lars Dahlgren attended all of the Board meetings held during the year. The Company's auditor attended the Board meeting in February to present the audit report and observations from the audit.

Chairman of the Board

The Chairman of the Board is responsible, in all essential respects, for organizing and directing the Board's work and for ensuring that the Board fulfills its obligations. Through regular contact with the President, the Chairman of the Board monitors the Company's operations and development and ascertains that the Board of Directors continuously receives the information required for upholding the quality of the Board's work and that this work is performed in compliance with the Swedish Companies Act. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

The Chairman of the Board during 2006 was Bernt Magnusson, who has announced that he will not stand for re-election at the 2007 Annual General Meeting.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. Members during 2006 were Jan Blomberg (member and also chairman until April 20), Meg Tivéus (chairman as of April 20), Andrew Cripps (as of April 20), Karsten Slotte and Kersti

Strandqvist.

Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors may in special cases delegate decision-making authority to the Committee.

The Committee is responsible for overseeing procedures for accounting and financial reporting as well as for overseeing the auditing of the Group's accounting records. Its reviews focus on the quality and correctness of the Group's financial accounting and the associated reporting, work on internal financial controls within the Group, the auditors' work, their qualifications and independence, the Group's compliance with the stipulations of applicable statutes and other rules and regulations and, as required, transactions between the Group and related parties. The Audit Committee is also responsible for approving any consultancy services performed by the auditors in addition to their audits. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

In addition to supervising the Company's accounting records, financial reporting and auditing, the Committee devoted special attention during 2006 to the Company's internal control over financial reporting.

The chairman of the Committee kept the Board of Directors informed on an ongoing basis of the work and decisions of the Committee throughout the year.

The Committee must meet at least six times a year. The number of meetings during 2006 was six. The Company's auditors participated in all of the meetings of the Audit Committee during 2006 and, in connection with two of these meetings, also met with the Committee without the presence of Company representatives.

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members during 2006 were Bernt Magnusson (chairman), Jan Blomberg (until April 20), Conny Karlsson (as of April 20) and Arne Jurbrant.

Although the Committee's work is primarily of a preparatory and

advisory nature, the Board of Directors has granted it decision-making authority concerning certain matters in limited areas (such as matters involving compensation to the Group management, apart from the President) and may also delegate decision-making authority to the Committee in other special cases.

The Committee's duties are primarily the following. The Committee must prepare and submit proposals to the Board regarding matters of principle involving the President's salary, pension benefits, bonus, other compensation and terms of employment and make decisions regarding corresponding terms for other members of Group management. The Committee must also address other matters involving salaries and terms of employment that are of a principled character or that are otherwise of greater weight or can affect a wider circle within the Company – for example, regarding bonus programs, options programs and profit-sharing systems. In addition, the Committee must prepare the Board of Directors' proposals regarding the principles for compensation and other terms of employment for Group management, which must then be submitted to the General Meeting for approval.

The Committee's chairman kept the Board of Directors informed on an ongoing basis about the Committee's work and decisions during the year.

The Committee shall meet as often

as necessary but at least twice annually. The number of meetings during 2006 was eight, of which three were by telephone.

During 2006, the Committee devoted special attention to the establishment of variable compensation for 2005 to be paid in 2006, establishing the structure and target parameters for variable compensation to the President and other members of the Group management for 2006, as well as principles for future variable compensation, proposals to the Board concerning adjustments to the President's salary for 2007 and determination of salaries for other members of the Group management for 2007. In addition, the Committee submitted a proposal to the Board, prior to the 2006 Annual General Meeting, to have the Company issue call options in respect of the 2005 options program and a proposal regarding options program for senior executives and key personnel of the Company for 2006. Before the Extraordinary General Meeting in December 2006, the Committee provided the Board with proposals to be submitted to the Meeting regarding options programs for senior executives and key personnel of the Company for 2007 and regarding new principles for compensation and other terms of employment for members of the Group management.

The Committee's work regarding levels and structures for compensation

to Group management was performed with the support of external expertise.

Evaluation of the work of the Board of Directors

The Board of Directors must ensure that its work is evaluated annually. During late 2005, the Board undertook an evaluation by means of answers to a questionnaire filled out by each director, which formed the basis of the Nominating Committee's work and evaluation of the Board leading up to the 2006 Annual General Meeting. The questionnaire included judgments about the individual directors and the quality of the Board's work in general.

The Nominating Committee appointed following the 2006 Annual General Meeting also performed an evaluation of the Board. The evaluation was performed by means of individual interviews with each and every Board member. In view of the evaluation performed by the Nominating Committee, the Board of Directors did not consider it necessary to undertake an evaluation of its own in 2006.

Independence of Board members

All of the Board members are independent in relation to the Company's major shareholders. The President, Sven Hindrikes, in his capacity as a Company employee, is not independent in relation to the Company. Nor is the Chairman of the Board, Bernt Magnusson, independent in relation to the Company according to the Swedish Code of Corporate Governance, since he has been a member of the Board for more than 12 years. All other members are considered independent in relation to the Company.

Compensation to the Board of Directors
The Nominating Committee submits proposals to the General Meeting regarding compensation to the Board of Directors and the Meeting then votes on the matter.

Directors' fees were paid during 2006 pursuant to the resolutions of the 2005 and 2006 Annual General Meetings and the Extraordinary General Meeting of December 4, 2006. No compensation for Directorship work was paid to Directors employed by Swedish Match.

Composition of the Board of Directors and committees and number of meetings and attendance during 2006

	Audit Committee	Compensation Committee	Board of Directors
Total no. of meetings*	6	8	6*
Bernt Magnusson		8	6
Sven Hindrikes			6
Jan Blomberg (declined re-election in April 2006)	1	3	1
Andrew Cripps (newly elected in April 2006)	5		5
Tuve Johannesson (resigned in October 2006)			3
Arne Jurbrant		8	6
Conny Karlsson (newly elected in April 2006)		5	5
Karsten Slotte	6		5
Kersti Strandqvist	6		6
Meg Tivéus	6		6
Kenneth Ek			6
Eva Larsson			6
Joakim Lindström			6
Håkan Johansson			6
Eeva Kazemi Vala			6
Stig Karlsson (resigned in January 2006)			

* Excl. one held by means of correspondence.

Pursuant to a resolution adopted by the 2005 Annual General Meeting, compensation to the Board for the period from the 2005 Annual General Meeting up to and including the 2006 Annual General Meeting amounted to 750,000 SEK to the Chairman of the Board and 300,000 SEK to each of the regular Directors. In addition, a total of 400,000 SEK was granted for committee work. Pursuant to a resolution of the 2006 Annual General Meeting, compensation to the Board for the period from the 2006 Annual General Meeting up to and including the 2007 Annual General Meeting would amount to 875,000 SEK to the Chairman of the Board and 330,000 SEK to each of the regular Directors. In addition, a total of 500,000 SEK was to be paid for committee work. In accordance with this resolution, compensation of 540,000 SEK was paid to the Chairman and 205,000 SEK to each of the other Directors elected by General Meetings for the period from the Annual General Meeting in 2006 up to and including the Extraordinary General Meeting on December 4, 2006. In addition to these fees, fees for committee work amounted to a total of 310,000 SEK for the same period.

In view of the increased complexity of the Board's work, and with the aim of increasing the Board members' ownership of the Company and of facilitating the recruitment of international talent to the Board, the Nominating Committee has declared that the directors' fees calculated on a yearly basis should be raised to 1.5 MSEK for the Chairman and 0.6 MSEK for the other directors elected by General Meetings (excluding directors who are employees of Swedish Match) and that these directors should be required to acquire Swedish Match shares for the entire net amount of the fees they receive. Additionally, the Board of Directors should be allotted 875,000 SEK as compensation for committee work. In application of these principles, the Extraordinary General Meeting of December 2006 resolved that directors' fees for the period from the time of said resolution up to and including the next

Annual General Meeting should be paid in a total amount of 575,000 SEK to the Chairman and 230,000 SEK to each of the other directors elected by General Meetings. Compensation for committee work totaling 335,000 SEK should also be paid for the period, of which the chairmen of the Compensation and Audit Committees should each receive 75,000 SEK and the other members serving in these committees 37,000 SEK each. Board directors employed by Swedish Match would not receive any directors' fees.

In agreement with the Nominating Committee's statement of principles, the Board of Directors established, in December 2006, principles governing Board directors' ownership of shares in the Company, from which it follows that all directors who receive directors' fees following the Extraordinary General Meeting of December 2006 must acquire shares in the Company for an amount corresponding to the fees received following the Extraordinary General Meeting less income tax. Directors must furthermore refrain from divesting these shares for a period of 12 months following their acquisition and, during the period of 13 to 24 months following their acquisition, no more than half of the shares so acquired may be divested.

For more information about Directors' fees for 2006, see Note 5, page 51.

Group management

President

The President is appointed by the Board of Directors and manages the Company's operations within the framework established by the Board. The President's duties include responsibility for ensuring that the Board of Directors receives an information base that is as objective, comprehensive and relevant as possible prior to Board meetings and otherwise, enabling the Board to reach well-founded decisions. The President also reports to the Board and submits reasoned proposals for decisions by the Board. In addition, the President provides Board members, on a monthly basis, with the information required to

monitor the position, liquidity and development of the Company and the Group while also providing the Chairman with ongoing information regarding the operations of the Company and the Group.

During 2006, Sven Hindrikes served as President and CEO.

Group Management Team

The Group Management Team of Swedish Match for 2006 consisted of Sven Hindrikes, President and CEO, Bo Aulin, Senior Vice President, Secretary and General Counsel, Corporate Affairs, Lars Dahlgren, Chief Financial Officer and Senior Vice President, Group Finance and IS/IT, Lennart Freeman, Executive Vice President and President of the North America Division, Lars-Olof Löfman, President of the North Europe Division, Göran Streiffert, Senior Vice President, Group Human Resources, and Jarl Uggla, President of the International Division.

Remuneration to Group management Up until the 2006 Annual General Meeting, the Company lacked general principles or guidelines established by a General Meeting regarding compensation and other terms of employment for Group management. Such principles were established prior to this date by the Board of Directors. The 2006 Annual General Meeting established certain principles regarding compensation and other terms of employment for Group management. These principles were in all essential respects a codification of what had been applied during 2005. For information on the principles established by the Annual General Meeting, see Note 5, page 51.

At the Extraordinary General Meeting of December 4, 2006, new principles were established for determining salary and other compensation to the President and other members of Group management. The principles are to apply to the compensation and other terms of employment of Group management (that is to say, the President, Divisional Presidents and Senior Vice Presidents in charge of Group functions reporting directly to the President) stipulated in

agreements entered into as of January 1, 2007. For information on these principles, see Note 5, page 51.

For information concerning the remuneration and other benefits to the President and the Group Management, and the Company's options program, see Note 5, page 53.

Audit and auditors

The auditors are elected by the General Meeting. According to the Articles of Association, the number of authorized public auditors must be one or two together with a maximum of the same number of deputy auditors or one or two auditing firms. Additionally, the Board of Directors has the right to appoint, in special situations, one or more special auditors or one auditing firm to review the presentations or plans as drawn up by the Board of Directors pursuant to the Swedish Companies Act in such situations.

The accounting firm KPMG Bohlins AB, with Thomas Thiel as auditor in charge, was elected by the General Meeting as the Company's external auditors for the period from 2004 up to and including the Annual General Meeting in 2008.

In addition to the auditing, KPMG provided consultancy services to the Group, primarily with regard to taxes, during 2006, as they did, to some extent, during the years 2004 and 2005.

For information concerning compensation to Swedish Match's auditors during 2006, see Note 6, page 54.

Financial reporting

The quality of the Company's financial reporting is ensured by having the Audit Committee review the financial reports issued by the Company. In connection with the review, the Committee's members discuss the various accounting issues that may be of relevance to the particular report. In addition, the members of the Audit Committee continuously receive reports concerning the internal control work conducted within the Group.

The tasks of the external auditors include examination of the management of the Board of Directors and President, as well as the Company's

annual report and accounts. The external auditors report continuously to the Audit Committee of the Board of Directors and, in connection with the annual report, the external auditors report their observations from the audit to the Board of Directors.

Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports and press releases whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing routines. Members of the Committee during 2006 were the heads of Investor Relations, Internal Control, Corporate Communications and Group Corporate Affairs, with the last mentioned (Bo Aulin) as chairman.

During 2006, seven meetings were held.

Report on internal control

The Board of Directors is responsible pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance for internal control. This report has been prepared in accordance with the Swedish Code of Corporate Governance, sections 3.7.2 and 3.7.3, and is thereby limited to internal control regarding financial reporting. The report does not constitute a part of the formal annual report documents.

The basis for internal control with regard to financial reporting comprises a control environment with organization, decision-making channels, powers and responsibilities that have been documented and communicated in governing documents such as internal policies, guidelines, manuals and codes (for example the division of duties between the Board of Directors on the one hand and the President and the other entities that the Board establishes, on the other), instructions with regard to attestation rights and auditing and reporting instructions.

The Company applies a risk-evaluation and risk-management method in order to ensure that the risks

to which the Company is exposed are managed within the frameworks that have been established. Risks that have been identified in connection with financial reporting are managed via the Company's control structure as documented in the process and internal control specifications.

The Company monitors compliance with governing documents in the form of internal policies, guidelines, manuals and codes, as well as the effectiveness of the control structures. Since the Company is registered with the U.S. Securities and Exchange Commission (SEC) because of a prior listing on the American NASDAQ stock exchange, it has applied the principles relative to internal control over financial reporting pursuant to the American Sarbanes Oxley Act.

Monitoring of the Company's information and communication channels is also performed with the aim of ensuring that these are appropriate with regard to financial reporting. The Disclosure Committee follows up the sufficiency of the financial reports with regard to disclosure requirements. The results of the Company's risk-management process are addressed by the Board of Directors.

The Board receives monthly reports and at every ordinary Board meeting, the financial status of the Company and the Group is discussed. In addition, the Board's various committees fulfill important functions as part of the Board's follow-up activities.

The Company has evaluated the need for a special internal auditing function based on the Group's operations. As a result of the existence of a department for internal control within the Company, the task of which is to ensure the internal control, the Board of Directors is satisfied that there does not presently exist any need for an internal auditing function within the Company.

Stockholm, February 13, 2007

**The Board of Directors of
Swedish Match AB**

Board of Directors



Bernt Magnusson and Sven Hindrikes



Andrew Cripps, Arne Jurbrant and Conny Karlsson



Karsten Slotte

Bernt Magnusson Born 1941, MSc, MA (Econ & Pol. Science). Chairman since 1995. Board member since 1993. Chairman of the Compensation Committee and member of the Nominating Committee. *Other Board assignments:* Board Chairman of Fareoffice AB and Kwintet AB. Board member of Volvo Car Corp., Höganäs AB, Pharmadule AB, Net Insight AB and Coor Service Management AB. *Previous assignments in the Company:* Bernt Magnusson has been a member of the Swedish Match Board of Directors for 13 years and is not considered independent in relation to the Company according to the Swedish Code of Corporate Governance. *Previous positions:* Controller, SCA; Consultant, R.N.Herbert, US; Financial and Administrative Manager, Alfa-Laval, Agri-gruppen; Vice President, Alfa-Laval, South Africa; Vice President Alfa-Laval Agrar, Germany; Division Manager of Uddeholm's Forest-products Industry Division; Executive Vice President, Swedish Match AB and President of the Match Division, Switzerland; President and CEO, Nordstjernen AB; Board Chairman and CEO, NCC AB, Board Chairman, Nobel Industrier AB, Assi Domän AB and Skandia AB. *Own and related parties' shares:* 18,058. *Independent in relation to the Company/management group:* No. *Independent in relation to the Company's largest shareholders:* Yes.

Sven Hindrikes Born 1950, MBA. Board member since 2005. President and Chief Executive Officer of Swedish Match AB since 2004. Joined Swedish Match in 1998. Member of Group management since 1998. Sven Hindrikes is employed by the Company and is thus not considered an independent Board

member. *Previous positions:* formerly employed by ABB in Mexico and Executive Vice President of ABB Canada; Executive Vice President of Linjebuss AB. *Own and related parties' shares:* 20,000. *Call options:* 61,872. *Independent in relation to the Company/management group:* No. *Independent in relation to the Company's largest shareholders:* Yes.

Andrew Cripps Born 1957, BA, University of Cambridge. Board member since 2006. Member of the Audit Committee. *Other Board assignments:* Non-executive director and Chairman of the Remuneration Committee and member of the Audit and Nominating Committees of Trifast Plc. Chairman of The Board of Trustees of Oxford House in Bethnal Green Inc. *Previous positions:* Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA; Director, Carreras Group Ltd; Director of Corporate Finance, Rothmans International. Various senior positions with British American Tobacco. Chartered Accountant and member of the Institute of Chartered Accountants of England and Wales. *Own and related parties' shares:* 2,200. *Independent in relation to the Company/management group:* Yes. *Independent in relation to the Company's largest shareholders:* Yes.

Arne Jurbrant Born 1942, MBA. Board member since 2002. Member of the Compensation Committee. *Other Board assignments:* Member of the IFL/MTC Foundation. *Previous positions:* President's assistant, Pripps Bryggerier; Product Manager, Pripps Bryggerier; Marketing Manager, General Foods; Sales Manager, General Foods;

President, General Foods Denmark; President, General Foods Sweden/Denmark; CEO, Kraft Foods Nordic Region. *Own and related parties' shares:* 3,000. *Independent in relation to the Company/management group:* Yes. *Independent in relation to the Company's largest shareholders:* Yes.

Conny Karlsson Born 1955, Master of economics and business administration. Board member since 2006. Member of the Compensation Committee. *Other Board assignments:* Board Chairman of Lindex AB and Zodiak television AB, Board member of Carl Lamm AB and Telia Sonera AB. *Previous positions:* Marketing Director, Procter & Gamble E&SO; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble UK; President, Duni AB. *Own and related parties' shares:* 1,000. *Independent in relation to the Company/management group:* Yes. *Independent in relation to the Company's largest shareholders:* Yes.

Karsten Slotte Born 1953, MBA. Board member since 2004. Member of the Audit Committee. Executive Vice President of Oy Karl Fazer Ab. *Other Board assignments:* Board member of Oy Onninen, Finnish Association of Convenience Goods Suppliers, Finnish-Swedish Chamber of Commerce in Stockholm. *Previous positions:* Commercial attaché, Finnish Consulate-General in Hamburg; Export advisor, Finnish Foreign Trade Agents' Federation; Export Manager, Cultor Vasamills; President, Leipurien Tukku, IT-Tukku; President, Cultor Vasamills; President, Fazer Konfektyr; President and CEO, Cloetta Fazer. *Own and related*



Kersti Strandqvist and Meg Tiveus



Kenneth Ek, Eva Larsson and Joakim Lindström



Håkan Johansson and Eeva Kazemi-Vala

parties' shares: 4,600. Independent in relation to the Company/management group: Yes. Independent in relation to the Company's largest shareholders: Yes.

Kersti Strandqvist Born 1963, B.Sc., MBA. Board member since 2005. Member of the Audit Committee. Business Area Manager for Feminine Care within SCA Personal Care. *Previous positions:* Neste Chemicals (Sweden, Finland, Belgium), Elf Atochem (France); Director of R&D for Incontinence Care, SCA Hygiene Products; Business Area Manager for Baby Care within SCA Personal Care. *Own and related parties' shares: 1,310. Independent in relation to the Company/management group: Yes. Independent in relation to the Company's largest shareholders: Yes.*

Meg Tiveus Born 1943, MBA. Board member since 1999. Chairman of the Audit Committee. *Other Board assignments:* Chairman of Boss Media. Board member of Cloetta Fazer AB, Billerud AB, Danderyds Sjukhus AB, Nordea Fonder AB and Synerco AB. Prior Board assignments for Statens Provningsanstalt AB, Operan AB, Postgirot AB, Kommentus AB, SNS, SJ and Framfab. *Previous positions:* Project Manager at McCann Ericsson Advertising; Product Manager at Modo AB; Division Manager at Åhléns AB; Division Manager at Holmen AB; Vice President of Posten AB; President of Svenska Spel AB. *Own and related parties' shares: 2,100. Independent in relation to the Company/management group: Yes. Independent in relation to the Company's largest shareholders: Yes.*

Employee representatives

Kenneth Ek Born 1953. Board member since 1999. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus plant in Gothenburg, Sweden. *Previous positions:* Electrician, Electrical Manager, Technical Manager, strategic/ industrial projects at Swedish Match's plant in Gothenburg. *Own and related parties' shares: 0*

Eva Larsson Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the trade union association at the match plant in Tidaholm, Sweden. *Previous positions:* Line Operator, Insurance Manager for insurance policies of persons employed under collective agreements at Swedish Match's match plant in Tidaholm. *Own and related parties' shares: 0*

Joakim Lindström Born 1965. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman and member of the nomination body of the Swedish Food Workers' (Livs) trade union association in Solna, Stockholm, Sweden. *Previous positions:* Module technician at Swedish Match's distribution facility in Solna. *Own and related parties' shares: 0*

Employee representatives (deputies)

Håkan Johansson Born 1963. Deputy member since 2004. Appointed by the Swedish

Trade Union Confederation (LO) within Swedish Match. *Previous positions:* Line Operator at Swedish Match's distribution facilities in Malmö and Gothenburg. *Own and related parties' shares: 0*

Eeva Kazemi-Vala Born 1949. Deputy member since 2004. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. *Previous positions:* Stockholm University, Casco AB and Karolinska Institute. Bioanalyst, Research Chemist, Marketing Assistant, Market Research Manager, Market Coordinator, Market Analysis, Swedish Match North Europe. *Own and related parties' shares: 500*



**Auditors
KPMG Bohlins AB**

Senior Auditor: Thomas Thiel. Born 1947. Authorized Public Accountant. Swedish Match Auditor since 2004. Thomas Thiel's other auditing assignments include Atlas Copco, Ericsson, Holmen, Kungsleden, PEAB, Ratos, SKF and Svenska Handelsbanken.

Holdings of own and related parties shares as of March 1, 2007.

Group management



Sven Hindrikes and Mats Adamson



Bo Aulin and Lars Dahlgren

Sven Hindrikes

President and CEO of Swedish Match AB since 2004. Employed and member of Group management since 1998. Born 1950, MBA.

Own and related parties' shares: 20,000

Call options: 61,872

Mats Adamson

Senior Vice President, Human Resources since 2007. Joined Swedish Match in 1994. Member of Group management since 2007. Born 1959, educated at the Swedish Armed Forces Academies, rank of Major within the Swedish Armed Forces.

Own and related parties' shares: 0

Call options: 19,230

Bo Aulin

Head of Corporate Communications, Senior Executive Advisor and Senior Vice President, Corporate Communications since 2007. Chairman of the Disclosure Committee. Joined Swedish Match in 1990. Member of Group management since 1996. Born 1948, Bachelor of Laws (LLB).

Own and related parties' shares: 4,400

Call options: 43,461

Lars Dahlgren

Chief Financial Officer and Senior Vice President, Group Finance and IS/IT since 2004. Joined Swedish Match in 1996. Member of Group management since 2004. Born 1970, MBA.

Own and related parties' shares: 1,000

Call options: 27,114



Lennart Freeman and Lars-Olof Löfman

Fredrik Peyron and Jarl Ugglå

Lennart Freeman

Executive Vice President of Swedish Match AB since 2005. President of North America Division since 1999. Joined Swedish Match in 1975. Member of Group management since 1999. Born 1951, MBA.
Own and related parties' shares: 300
Call options: 90,740

Lars-Olof Löfman

President of North Europe Division since 2004. Joined Swedish Match in 1987. Member of Group Management since 2004. Born 1956, MSc Eng, Controller DIHM.
Own and related parties' shares: 1,400
Call options: 35,565

Fredrik Peyron

General Counsel. Senior Vice President, Legal Affairs since 2007. Secretary to the Board. Joined Swedish Match in 2000. Member of Group management since 2007. Born 1967, Bachelor of Laws (LLB).
Own and related parties' shares: 1,500
Call options: 19,230

Jarl Ugglå

President of International Division since 2005. Joined Swedish Match in 2002. Member of Group management since 2004. Born 1955, Mechanical Engineer.
Own and related parties' shares: 3,000
Call options: 92,036

Holdings of own and related parties shares as of March 1, 2007.

Five-year summary

Condensed consolidated income statements, MSEK*

	2006	2005	2004	2003	2002
Net sales	12,911	13,311	13,007	13,036	13,643
Gross profit	6,237	6,033	5,761	5,933	6,124
Settlement income, UST	–	–	1,521	–	–
Operating profit	3,235	2,825	3,593	2,224	2,371
Net finance cost	–68	–128	–164	–50	–245
Profit before income tax	3,167	2,696	3,429	2,174	2,126
Profit for the year	2,331	1,777	2,084	1,558	1,429
EBITDA excluding larger one time items	3,533	3,206	2,916	2,889	3,022

Condensed consolidated balance sheets, MSEK*

	2006	2005	2004	2003	2002
Assets					
Intangible assets	3,469	4,265	3,452	3,648	4,145
Property, plant and equipment	2,221	2,488	2,712	2,862	2,938
Non-current financial assets	1,156	1,150	848	616	606
Inventories	2,473	2,770	2,476	2,676	3,154
Current receivables	3,354	2,475	2,408	2,634	2,588
Cash and cash equivalents including other investments	3,098	3,657	3,002	2,666	2,016
Total assets	15,770	16,806	14,898	15,102	15,447
Equity and liabilities					
Equity, including minority interest	2,290	5,083	5,060	4,010	4,007
of which, minority interest	3	3	481	597	686
Non-current provisions	1,748	3,072	2,512	2,119	2,293
Non-current liabilities	7,819	2,884	2,580	4,601	4,603
Current provisions	61	293	647	–	–
Current liabilities	3,852	5,474	4,099	3,775	3,858
Total equity and liabilities	15,770	16,806	14,898	15,102	15,447

Cash flow, MSEK*

	2006	2005	2004	2003	2002
Net cash from operating activities	1,335	2,718	3,626	2,638	2,585
Net cash used in investing activities	–255	–140	–658	–701	–155
Net cash used in financing activities	–1,164	–1,441	–2,779	–1,469	–1,633
Net increase/decrease in cash and cash equivalents	–85	1,137	189	468	797
Cash and cash equivalents at beginning of the year	3,325	2,058	1,909	1,477	772
Effect of exchange rate fluctuations on cash and cash equivalents	–198	130	–40	–36	–92
Cash and cash equivalents at end of year	3,042	3,325	2,058	1,909	1,477

* Data as of 2004 are based on reporting in accordance with IFRS. Data for the years prior to 2004 are based on the then applicable Swedish GAAP.

Key figures¹⁾

	2006	2005	2004	2003	2002
Operating capital at year-end, MSEK ²⁾	7,883	7,765	7,314	8,377	9,477
Net debt, MSEK	5,126	674	527	2,715	3,492
Investments in property, plant and equipment, MSEK	304	328	486	551	751
Operating margin, % ³⁾	23.9	19.7	17.8	17.1	17.4
Return on operating capital, % ³⁾	39.5	34.7	29.4	24.9	23.7
Return on equity, %	63.3	36.6	48.2	38.9	35.2
EBITA interest cover	19.6	26.6	15.4	46.8	11.8
Net debt/EBITA	1.6	0.2	0.2	1.1	1.3
Equity/assets ratio, %	14.5	30.2	34.0	30.5	30.4
Share capital, MSEK	390	390	808	844	868
Dividends per share, SEK	2.50 ⁴⁾	2.10	1.90	1.70	1.60
Earnings per share basic, SEK	8.12	5.61	6.18	4.68	4.10

¹⁾ Data as of 2004 are based on reporting in accordance with IFRS. Data for the years prior to 2004 are based on the then applicable Swedish GAAP.

²⁾ Due to changes in accounting principles governing pensions, the company decided to amend the internal definition of operating capital. As of 2004, pension liabilities and pension receivables are included in operating capital. The comparative figures have been restated in line with the same principle.

³⁾ Excluding the pension curtailment gain during 2006, income from sale of real estate during 2005, the settlement income from UST, and impairment and reserves in match operations during 2004.

⁴⁾ Board proposal.

Net sales by product area, MSEK*

	2006	2005	2004	2003	2002
Snuff	3,363	3,131	3,081	2,995	2,788
Cigars	3,407	3,283	3,171	3,008	3,318
Chewing tobacco	1,063	1,079	1,058	1,146	1,333
Pipe tobacco and Accessories	899	920	901	909	843
Lights	1,503	1,936	1,960	1,994	2,348
Other operations	2,677	2,962	2,836	2,984	3,013
Subtotal	12,911	13,311	13,007	13,036	13,643

Operating profit/loss by product area, MSEK*

	2006	2005	2004	2003	2002
Snuff	1,604	1,504	1,376	1,386	1,233
Cigars	747	613	567	393	472
Chewing tobacco	326	347	304	336	406
Pipe tobacco and Accessories	261	237	254	201	164
Lights	247	58	1	97	277
Other operations	-99	-140	-190	-189	-181
Subtotal	3,087	2,618	2,312	2,224	2,371
Pension curtailment gain	148	-	-	-	-
Gain from sale of office property	-	206	-	-	-
Settlement income, UST	-	-	1,521	-	-
Impairment and reserves in match operations	-	-	-150	-	-
Costs for acquisition of shares in Wimco Ltd	-	-	-90	-	-
Total	3,235	2,825	3,593	2,224	2,371

Operating margin by product area, %*

	2006	2005	2004	2003	2002
Snuff	47.7	48.0	44.7	46.3	44.2
Cigars	21.9	18.7	17.9	13.1	14.2
Chewing tobacco	30.7	32.1	28.7	29.3	30.5
Pipe tobacco and Accessories	29.0	25.8	28.2	22.1	19.5
Lights	16.4	3.0	0.0	4.9	11.8
Group**	23.9	19.7	17.8	17.1	17.4

* Data as of 2004 are based on reporting in accordance with IFRS. Data for the years prior to 2004 are based on the then applicable Swedish GAAP.

** Excluding the pension curtailment gain during 2006, income from sale of real estate during 2005, the settlement income from UST, and impairment and reserves in match operations during 2004.

Quarterly data

Condensed consolidated income statement

MSEK	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	2,967	3,384	3,461	3,500	2,951	3,242	3,261	3,457
Gross profit	1,338	1,542	1,612	1,540	1,495	1,584	1,586	1,581
Pension curtailment gain	-	-	-	-	-	148	-	-
Income from sale of real estate	-	-	206	-	-	-	-	-
Operating profit	538	647	962	678	721	920	796	799
Net finance cost	-20	-33	-40	-36	-25	-40	-57	54
Profit before income tax	518	614	922	642	696	880	739	853
Profit for the year attributable to equity holders of the Parent	347	405	569	456	487	616	626	602
EBITDA excluding larger one time items	651	763	873	791	831	883	910	910

Key figures

	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating margin, % ¹⁾	18.1	19.1	21.9	19.4	24.4	23.8	24.4	23.1
Net debt/equity ratio, %	5.9	57.3	24.2	13.3	52.8	183.5	264.7	223.8
Equity/assets ratio, %	36.2	28.2	31.4	30.2	28.4	14.4	11.9	14.5
Investments in property, plant and equipment, MSEK	103	100	68	57	60	64	65	115
Earnings per share, basic, SEK	1.06	1.27	1.81	1.47	1.62	2.09	2.22	2.18

¹⁾ Excluding larger one time items

Net sales by product area

MSEK	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	703	800	809	819	785	831	785	963
Cigars	734	841	874	834	759	888	903	857
Chewing tobacco	242	267	290	280	273	277	273	240
Pipe tobacco and Accessories	216	218	241	245	238	218	217	226
Lights	437	524	454	521	387	368	360	388
Other operations	635	734	792	800	510	659	723	784
Total	2,967	3,384	3,461	3,500	2,951	3,242	3,261	3,457

Operating profit by product area

MSEK	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	324	388	401	392	380	381	383	460
Cigars	136	112	188	176	158	202	225	163
Chewing tobacco	69	83	94	100	83	78	92	73
Pipe tobacco and Accessories	60	56	62	60	75	57	67	62
Lights	-4	45	47	-31	62	71	63	50
Other operations	-47	-37	-37	-20	-38	-17	-35	-9
Subtotal	538	647	756	678	721	772	796	799
Pension curtailment gain	-	-	-	-	-	148	-	-
Income from sale of real estate	-	-	206	-	-	-	-	-
Total	538	647	962	678	721	920	796	799

Operating margin by product area

Percent	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	46.0	48.5	49.5	47.8	48.5	45.9	48.8	47.8
Cigars	18.6	13.3	21.5	21.1	20.8	22.7	24.9	19.0
Chewing tobacco	28.6	31.2	32.5	35.6	30.5	28.3	33.6	30.5
Pipe tobacco and Accessories	27.6	25.6	25.7	24.4	31.3	26.0	31.0	27.5
Lights	-1.0	8.7	10.5	-5.9	16.1	19.4	17.5	13.0
Group*	18.1	19.1	21.9	19.4	24.4	23.8	24.4	23.1

* Excluding larger one time items.

Definitions

Return on shareholders' equity (%)	100 x	$\frac{\text{Profit for the year attributable to equity holders of the Parent}}{\text{Average equity attributable to equity holders of the Parent}}$
Return on operating capital (%)	100 x	$\frac{\text{Operating profit}}{\text{Average operating capital}}$
Direct return (%)	100 x	$\frac{\text{Dividend}}{\text{Share price at year-end}}$
EBITA		Earnings excluding larger one time items, net finance cost, tax, amortization and impairments of intangible assets
EBIT multiple		$\frac{\text{Market value at year-end} + \text{net debt} + \text{minority interest}}{\text{Operating profit}}$
EBITA interest coverage ratio		$\frac{\text{EBITA}}{\text{Net interest expense}}$
EBITDA		Earnings excluding larger one time items, net finance cost, tax, depreciation, amortization and impairments of tangible and intangible assets
Equity per share		$\frac{\text{Equity attributable to equity holders of the Parent}}{\text{Number of shares outstanding at year-end } ^1)}$
Average shareholders' equity		$\frac{\text{Opening} + \text{closing equity attributable to the equity holders of the Parent}}{2}$
Average operating capital		$\frac{\text{Opening} + \text{closing operating capital}}{2}$
Net debt		Interest-bearing liabilities ²⁾ less cash and cash equivalents including other current investments
Debt/equity ratio	100 x	$\frac{\text{Net debt}}{\text{Total equity}}$
Operating capital		Current operating assets + intangible assets, property, plant and equipment + other non-current operating assets less current and non-current operating liabilities
P/E ratio after tax		$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$
Operating margin (%)	100 x	$\frac{\text{Operating profit}}{\text{Net sales}}$
Equity/assets ratio (%)	100 x	$\frac{\text{Total equity}}{\text{Total assets}}$
Total return (%)	100 x	$\frac{(\text{Share price at year-end} - \text{share price at preceding year-end}) + (\text{dividend paid} + \text{return on reinvested dividend})}{\text{Share price at preceding year-end}}$
Earnings per share		$\frac{\text{Profit for the year attributable to equity holders of the Parent}}{\text{Average number of shares outstanding } ^1)}$

¹⁾ Number of shares outstanding relates to shares outstanding excluding treasury shares.

²⁾ Pension liabilities are not included in interest-bearing liabilities.

The share

The Swedish Match share is listed on the Stockholm Stock Exchange. Total share capital at the end of the year amounted to 390 MSEK, distributed among 280 million shares with a ratio value of 1.39 SEK each. Each share carries one vote. A round lot was 200 shares during 2006.

Turnover

Total turnover in 2006 amounted to approximately 532 million Swedish Match shares on the Stockholm Stock Exchange, with a daily average turnover of approximately 2.1 million shares. The turnover rate, or the liquidity of the share on the Stockholm Stock Exchange, was 168 percent during the year, compared with the average of 147 percent for the Stockholm Stock Exchange.

Price trend

The Company's market capitalization at year-end 2006 amounted to 35.1 billion SEK. The share price increased by 36.9 percent during the year, while the OMXS 30 Index increased by 19.5 percent. The lowest price paid during the year was 92.75 SEK on January 2, and the highest price paid was 129.25 SEK on December 18.

Ownership structure

At year-end, foreign ownership interests corresponded to 80.8 percent of total share capital¹⁾, an increase of 0.3 percentage points compared with 2005. Swedish ownership interests, totalling 19.1 percent, were distributed among institutions, with 4.7 percent of the share capital, mutual funds, with 5.3 percent, and private individuals, with 9.1 percent. The 10 largest shareholders accounted for 21.1 percent of the share capital¹⁾²⁾.

Dividend

Swedish Match's dividend policy is that the dividend should essentially follow the trend of the group's net income. However, when proposing a dividend, the size of planned repurchases of shares is also taken into account. It is estimated that the dividend amount will be between 30–50 percent of net income for the year, but may deviate from this interval if the net income includes income or expenses of a one time character.

The Board of Directors intends to propose to the Annual General Meeting a dividend for 2006 of 2.50 SEK (2.10) per share, for a total of 686 MSEK (627), based on the number of shares

outstanding at year-end. The dividend corresponds to 29.4 percent (35.4) of net profit for the year.

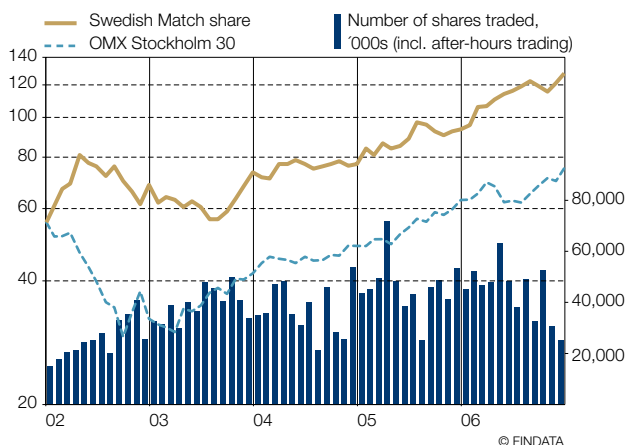
Repurchase of shares

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

¹⁾ Excluding shares held in treasury by Swedish Match, which corresponds to 2 percent of the total number of shares.

²⁾ Source: SIS Ågarservice, according to VPC.

Share price 2002–2006



Transfer of capital to Swedish Match shareholders

MSEK	2002	2003	2004	2005	2006	Total
Dividends	535	558	612	627	686*	3,018
Buybacks and sale of own shares, net	552	904	576	1,411	3,580	7,023
Total	1,087	1,462	1,188	2,038	4,266	10,041

* Dividend proposed for fiscal year 2006.

Share distribution at December 31, 2006

Size of holding	No. of owners	%	No. of shares	Share of capital, %
1 – 1,000	52,677	90.4	11,725,664	4.3
1,001 – 5,000	4,556	7.8	9,076,358	3.3
5,001 – 20,000	594	1.0	5,632,155	2.1
20,001 – 50,000	141	0.2	4,520,615	1.6
50,001 – 100,000	94	0.2	6,642,837	2.4
100,001 – 1,000,000	176	0.3	57,713,069	21.0
1,000,001 –	49	< 0.1	179,057,283	65.3
Total*	58,287	100.0	274,367,981	100.0

* Excluding shares held by Swedish Match.
Source: SIS Ågarservice AB, based on VPC.

Share data¹⁾

	2002	2003	2004	2005	2006
Earnings per share, basic, SEK	4.10	4.68	6.18	5.61	8.12
Earnings per share, diluted, SEK	4.07	4.66	6.15	5.59	8.09
Dividend, SEK	1.60	1.70	1.90	2.10	2.50 ²⁾
Market price at year-end, SEK	68.50	73.50	77.00	93.50	128.00
Shareholders' equity per share, SEK	11.72	12.21	14.24	16.60	8.34
P/E ratio after tax	16.7	15.7	12.5	16.7	15.8
EBIT multiple	11.3	12.3	11.1	11.2	13.0
Price/equity	5.8	6.0	5.4	5.6	15.4
Direct return, %	2.3	2.3	2.5	2.2	2.0
Total return, %	25.5	10.1	7.0	24.2	39.5
Average number of shares, basic	348,295,163	332,679,210	325,708,645	315,128,554	287,062,345
Average number of shares, diluted	350,894,438	334,162,492	327,013,542	316,226,392	288,161,247
Number of shareholders	100,260	98,425	94,860	87,840	58,287

Where appropriate, figures have been adjusted for bonus issue element at redemption.

¹⁾ Data as of 2004 are based on reporting in accordance with IFRS. Data for the years prior to 2004 are based on the then applicable Swedish GAAP.

²⁾ Board proposal.

Largest shareholders at December 31, 2006^{1) 2)}

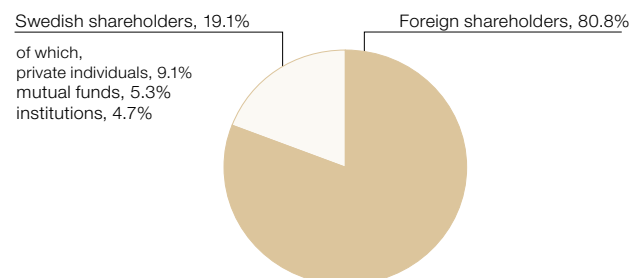
Source: SIS Ågarservice, according to VPC.

Owner	No. of shares	Percent
Wellington Management Co LLP	30,768,094	11.2
Swedbank Robur Funds	4,039,166	1.5
SEB Funds	3,992,735	1.5
SHB/SPP Funds	3,615,797	1.3
DWS-Scudder Funds	3,147,565	1.1
First AP Fund	3,021,037	1.1
Third AP Fund	2,679,898	1.0
Pensioenfonds PGGM	2,454,212	0.9
Second AP Fund	2,158,188	0.8
Azimut Gestione Funds	2,120,000	0.8
Total of 10 largest shareholders	57,996,692	21.1
Others	216,371,289	78.9
Total	274,367,981	100.0

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

²⁾ Registered direct ownership and ownership through trustees. In addition, the Company owns 5,632,019 shares acquired through buybacks.

Shareholder split as of December 31, 2006



A list of analysts who follow Swedish Match is available at www.swedishmatch.com

Annual General Meeting

The Annual General Meeting of Swedish Match AB (publ) will be held at 4:30 p.m. on Monday, April 23, 2007 in Hall K1, Stockholm International Fairs (Stockholmsmässan), Älvsjö in Stockholm. Registration for the Meeting will open at 3:00 p.m. Shareholders who are listed in a printout of the shareholders' register produced on April 17, 2007, and have notified Swedish Match of their intention to attend, are entitled to participate in the Annual General Meeting.

Listing in shareholders' register

The Swedish Match shareholders' register is maintained by VPC AB (the Swedish Securities Register Center). Listings are restricted to shares

registered in the owner's name in the shareholders' register. Shareholders whose shares are held in trust must ensure that their shares are re-registered in their own names well in advance so that the shares are owner-registered in the printout of the shareholders' register produced on April 17, 2007.

Notification of intention to attend Annual General Meeting

Notification of intention to participate in the Annual General Meeting will be accepted from March 19 until April 17, 2007.

Notifications must include: name, personal identification number (corporate registration number), address and telephone number (daytime).

Notifications may be submitted via:

Internet:

www.swedishmatch.se/stamman

Telephone:

+46 (0) 20-61 00 10
(1:30 p.m. to 4:30 p.m. CET)

Fax:

+46 8-720 76 56.

Mail:

Swedish Match AB,
Legal Affairs,
SE-118 85 Stockholm, Sweden.

Dividend

The Board of Directors has proposed that a dividend of 2.50 SEK per share be distributed to shareholders. April 26, 2007 is proposed as the record date for dividend entitlement. Provided the Annual General Meeting approves the proposal, dividends are expected to be paid by VPC on May 2, 2007.



Financial information

Interim report for Jan–Mar, 2007	April 27, 2007
Interim report for Jan–Jun, 2007	July 20, 2007
Interim report for Jan–Sep, 2007	October 25, 2007
Report on operations full year 2007	February 2008
Annual report for 2007	March 2008

Our policy states that we contact all new holders of Swedish Match shares to determine how they wish to receive information originating from Swedish Match. A shareholder may choose to receive information in English or Swedish, by post and/or in electronic format via e-mail.

All Swedish Match stakeholders are provided access to annual reports, interim reports, press releases, the Swedish Match Inside magazine and other information on the website, www.swedishmatch.com as soon as they are public.

In addition, it is also possible to subscribe for information about the Company through the subscription service on the website, www.swedishmatch.com/subscribe. The subscribers may choose in which language they want to receive information and whether they wish to receive the requested information by post, e-mail or directly to their mobile phone. The subscription service allows the subscriber to tailor the information flow in accordance with their personal request.

Changes regarding receipt of information from the Company can be made directly on the website or by contacting Investor Relations.

Emmett Harrison
Vice President
Investor Relations

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E-mail: investorrelations@swedishmatch.com

More information on
www.swedishmatch.com





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