



Annual Report

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SWEDISH MATCH

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Financial information and reports

Interim Report for first quarter of 1997	May 6, 1997
Interim Report for first half of 1997	August 12, 1997
Interim Report for first nine months of 1997 ..	November 3, 1997
Report on 1997 Operations	February 1998
Annual Report 1997	March 1998
Form 20-F 1996	June 1997
Form 20-F 1997	June 1998

All financial reports may be ordered from:

Swedish Match AB
Investor Relations
118 85 Stockholm
Telephone 08-658 01 71
Telefax 08-668 62 32

Annual General Meeting

The Annual General Meeting will be held in the Globe Arena Annex (accessible through entry gates 1 and 2) in Stockholm at 4:30 p.m. on Tuesday, May 6, 1997.

To be entitled to participate in the Annual General Meeting of Swedish Match, shareholders must be listed in the Shareholders' Register compiled on April 25, 1997 and notify Swedish Match of their intention to participate in the Meeting.

Listing in Shareholders' Register

The Swedish Match Shareholders' Register is maintained by Värdepapperscentralen VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in owners names. Shareholders whose shares are held in trust must temporarily re-register the shares in their own names so the shares are owner-registered not later than April 25, 1997.

Notification to attend Meeting

Notification of intent to participate in the Annual General

Meeting will be accepted starting on April 8, 1997 and may be submitted as follows:

- *via Swedish Match telephone exchange +46 8-658 02 00 or*
- *via telefax: +46 8-658 63 64*
- *by mail to:*
Swedish Match AB
Legal Affairs
SE-118 85 Stockholm

When notifying the Company, please state your

- *name*
- *personal identification number (registration number)*
- *address and telephone number (daytime)*

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4:00 p.m. Friday, May 2, 1997, the expiration date for such notifications.

The Board of Directors has proposed May 12, 1997 as the record date for dividend entitlement. If approved, dividends are expected to be distributed by VPC AB on May 20, 1997.

Swedish Match

Group sales in 1996 totaled SEK 7,416 million, virtually unchanged compared with 1995.

Operating income before nonrecurring items increased 15 percent to SEK 1,723 million (1995: 1,494).

Earnings per share after full tax, but before nonrecurring items, rose to SEK 2.59 (1995: 1.89). The corresponding figure after nonrecurring items was SEK 2.39 (1995: 2.37).

Higher sales of moist snuff were achieved in Sweden and the U.S. Swedish Match doubled its share of the American market for moist snuff in 1996 to 2.3 percent.

Significant increases in sales volumes were achieved by Match Europe (12%) and Cricket Lighters (17%).

The licence agreement for sales of Prince cigarettes in Sweden was renegotiated successfully to satisfy the competition requirements established by the EU.

To enhance the Group's growth potential, a new organizational structure was introduced on January 1, 1997.

The Board of Directors has proposed a dividend of SEK 1.10 per share.

Key Data	1996	1995
Sales, SEK M	7,416	7,435
Operating income before nonrecurring items, SEK M	1,723	1,494
Income after net financial items, SEK M	1,530	1,576
Net income, SEK M	1,109	1,097
Operating margin before nonrecurring items, %	23.2	20.1
Return on operating capital before nonrecurring items, %	49.9	41.3
Return on shareholders' equity, %	57.3	66.1
Equity/assets ratio, %	34.4	25.0
Capital expenditure, SEK M	217	302
Operating cash flow before nonrecurring items, SEK M	1,968	1,527
Average number of employees	6,580	7,306
Income per share after full tax, before nonrecurring items, SEK	2.59	1.89
Income per share after full tax, after nonrecurring items, SEK	2.39	2.37
Shareholders' equity per share, SEK	4.99	3.36
Number of shares outstanding	463,558,252	463,558,252

President's statement



The hallmark of the 1996 fiscal year was the improvement in Swedish Match's operating income before nonrecurring items, from SEK 1,494 million to SEK 1,723 million, despite virtually unchanged sales revenues, SEK 7,416 million. I would like to briefly describe a number of the factors which characterized the 1996 fiscal year.

One factor was the volume trend for a number of the Group's principal product groups. Even disregarding hoarding effects at the end of the year, the downward trend in cigarette sales in Sweden was halted. It remains to be seen whether this slope downward will continue to flatten, since it is difficult to fore-

see the long-term effects on consumption of the sharp increase in Swedish cigarette tax that became effective at the beginning of 1997.

Cigarette sales have a major impact on consolidated earnings. However, their relative importance is declining as sales volumes and earnings for moist snuff increase. In Sweden, sales of moist snuff rose for the eighth consecutive year. One contributing factor is the current trend whereby many cigarette smokers are switching to moist snuff, as a result of such factors as the increasing number of smoking bans. Such a switch has a neutral impact on Swedish Match's earnings. Following many attempts, Swedish Match has now succeeded in establishing a position in the large American snuff market. Although sales volumes remain small, we noted a continuous increase during the year. This also applies to our market share. Without Swedish Match's sustainable financial strength, this breakthrough would not have been possible. Continued growth in the U.S. market will be of major significance to consolidated earnings in the next few years.

Other types of products that experienced a favorable volume trend during the year included matches and disposable lighters. In Europe and in export markets outside Europe, Group sales of matches increased in a diminishing total market. Volumes of sold disposable lighters reached an all-time-high, with strong sales noted in East Europe and Asia.

Other factors that contributed to the earnings upswing during the year was the rationalization of production, and other cost reductions. In many cases, this involved the measures initiated a few years ago gaining their full impact during the year. Decisions regarding additional rationalization measures were made during 1996, the effects of which will start to be felt in the current fiscal year.

The combination of volume growth and cost reductions will continue to yield favorable results and a stable and strong cash flow, which forms a platform for a generous dividend policy and expansion. As a result, Swedish Match has the ability to satisfy its shareholders' expectations of a high return and value

appreciation. There are two ways of achieving this goal, organic growth and acquisitions, and we intend to pursue both paths.

Based on the current product portfolio, we will increase volumes in our existing markets and expand into new markets. Many of the Group's markets are mature. Our objective in these is to increase our market shares. In my opinion, we have the potential to achieve this in many markets. Although our geographical spread is already favorable, there is scope for continued geographic expansion, particularly for disposable lighters, matches and selected tobacco products. The most obvious targets for action are the new, expanding markets in East Europe and Asia.

Accordingly, growth is to be generated primarily through the establishment of operations in more markets, higher volumes for existing products and development of new products; in summary, through increased sales. To meet our expansion goal, organic growth must be supplemented by selective acquisitions. Swedish Match holds strong positions in such niches as cigar and pipe tobacco markets. We can further

advance our positions through acquisitions. We are the world's leading match producer, but maintain only a modest presence in certain markets, such as East Europe and Asia.

However, growth shall primarily be generated through our own efforts. Acquisitions will be viewed as an opportunity for complementing existing operations. We will exploit acquisition potential when the opportunity arises; that is, when the right object is available at the right price. We have the financial resources, and our readiness is high.

In order to best capitalize on opportunities for organic growth, Swedish Match has implemented a new organizational structure, which became effective on January 1, 1997. The operating units are divided into seven product divisions with global profit responsibility. The divisions market their products through seven sales regions which focus on the consumer markets within the region concerned with all Group products. In addition, there is a unit for the sale of advertising products to companies. All units operate under the Swedish Match name.

The purpose of the new structure is to make a more distinct division of responsibility, increase flexibility and add extra power to the marketing organizations. When a division decides to enter a new market with a new product, the time it takes until this introduction occurs must be as short as possible. When this happens, the decision must be based on knowledge and understanding of the market concerned, utilizing the presence established by the regional organization. The goal is to increase sales through growth in existing markets and expansion into new markets.

The Group is characterized by stability, favorable profitability and margins and a highly positive cash flow. The earnings trend has been favorable for many years in succession. I believe Swedish Match has the potential for continued improvement from an already high level.



Göran Lindén
President and Chief Executive Officer

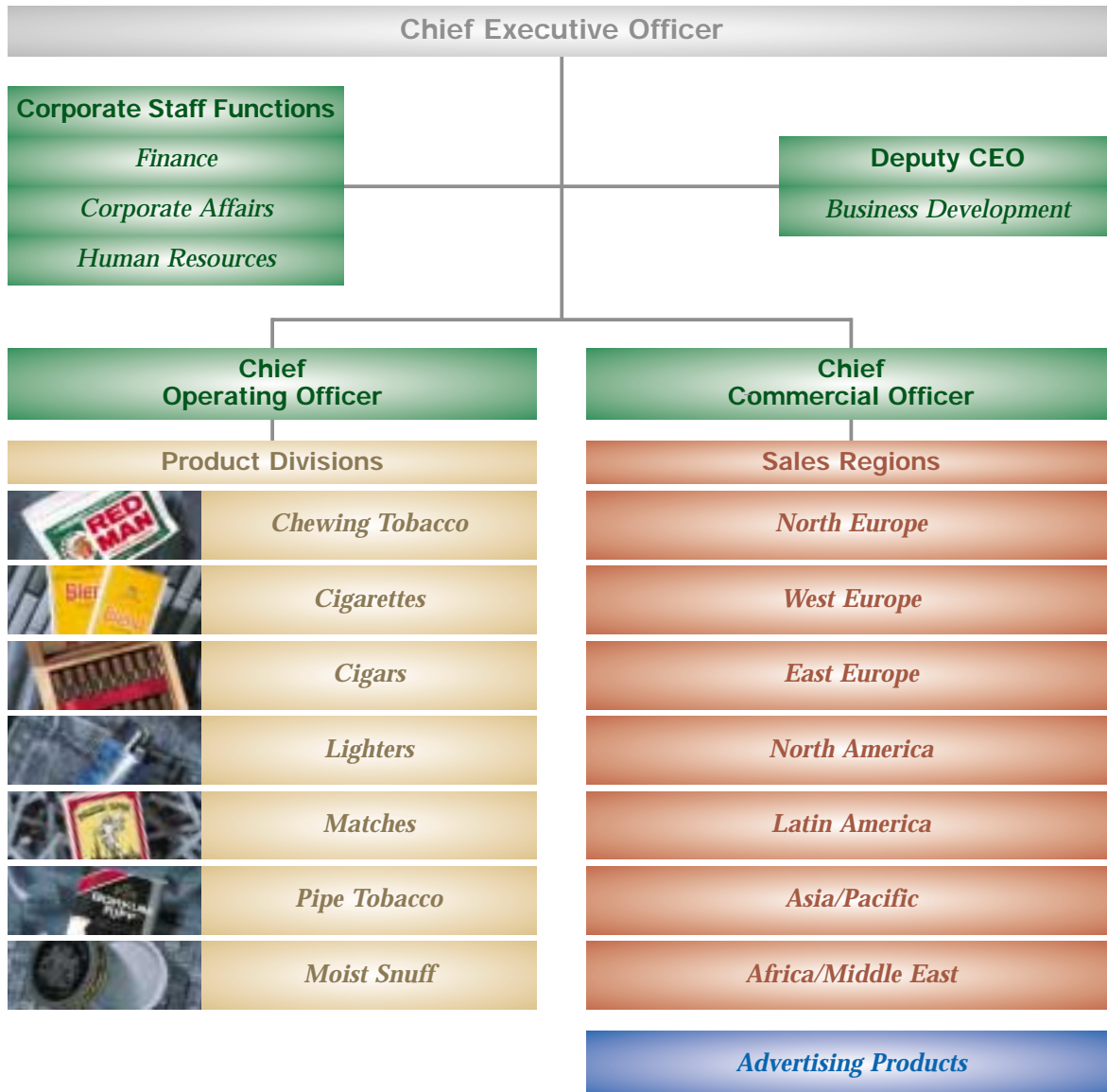
New organization

Structure

On January 1, 1997, Swedish Match adopted a comprehensive new organization. At the same time, the names of most operative units were changed,

so that all operations are conducted under the Swedish Match name. Effective on the same date, the Group's visual identity is being promoted worldwide through a common graphic profile.

The new structure establishes seven global product divisions which market their products through seven sales regions for marketing to consumers and one global unit for advertising products for company sales.



Product Divisions

Each of the seven Product Divisions is responsible for its own defined product area: chewing tobacco, cigarettes, cigars, lighters, matches, pipe tobacco and moist snuff. This responsibility encompasses product development, manufacturing, marketing strategies and brand-name management. Not all divisions are yet represented globally. However, one of the expressed tasks of any division is that of identifying the opportunities and requirements for expansion into new markets. Establishing new products in existing markets is also a viable alternative.

William G. McClure III, formerly President of the Pinkerton Group, Inc. subsidiary, has been appointed Chief Operating Officer.

Sales Regions

The Sales Regions are responsible within a defined geographic area for all marketing and sales of products from the divisions represented in the regions. A Sales Region operates through its own national market units or through external

sales channels. The Sales Regions are responsible for ensuring that established goals regarding volumes and revenues are fulfilled and that division strategies are implemented. Among their tasks is that of collecting market information and initiating activities for product and brand-name introductions or otherwise creating growth within the region.

Hans van den Berg, formerly President of the EBAS Group B.V. subsidiary, has been appointed Chief Commercial Officer.

Organized for growth

The new organization is designed to capitalize on and develop the expertise available in the Group's various units with greater efficiency than previously. This will be accomplished through organizing resources into an integrated structure. As a result, the effectiveness of marketing activities in particular can be increased in order to create the conditions necessary to realize the ambitious growth strategy.

The strategy is to promote organic growth through expansion

into new markets, primarily in East Europe and Asia, and growth through selective acquisitions, prioritizing the cigars, pipe tobacco and lights product areas in which Swedish Match today holds a strong position.

One name – Swedish Match

To create a strong and uniform identity, all operating units now appear under the name “Swedish Match” with an additional phrase describing the type of operation involved or identifying its location, for example, “Swedish Match Pipe Tobacco Division” or “Swedish Match Belgium Sales.” The graphic identity, including the blue-and-white logo, is also common for the entire Group – all in order to entrench, internally and externally, the Swedish Match profile “One Global Company.”

Share data

Change in share capital

		Par value per share, SEK	Increase in share capital, SEK	Number of shares issued	Total share capital, SEK	Total number of shares
April 11, 1994	New issue	10	3,448,260	344,826	407,948,360	40,794,836
January 9, 1996	New issue (registered) and split	2	519,168,144	259,584,072	927,116,504	463,558,252

Swedish Match AB. Share distribution, December 31, 1996

Size of holdings	Number of owners	Number of shares	Share of capital, %
100,001 –	233	368,738,955	79.55
50,001 – 100,000	112	8,264,860	1.78
20,001 – 50,000	301	9,644,200	2.08
10,001 – 20,000	508	7,571,864	1.63
5,001 – 10,000	1,421	10,813,569	2.33
2,001 – 5,000	4,898	15,967,939	3.44
1,001 – 2,000	8,415	12,452,814	2.69
501 – 1,000	15,332	11,755,483	2.54
201 – 500	32,002	10,950,052	2.36
1 – 200	103,840	7,398,516	1.60
Total	167,062	463,558,252	100.00
of which,			
foreign nominees		144,143,268	31.10
others registered outside Sweden		29,853,416	6.44
registered outside Sweden, total	3,389	173,996,684	37.54

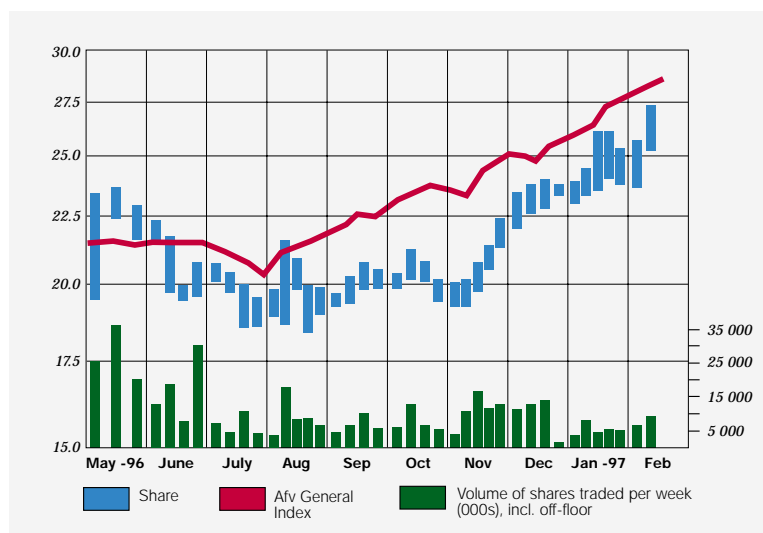
The company does not have access to information about the shareholdings registered through foreign nominees. This item could contain large, single holdings.

Largest shareholders, December 31, 1996

Owner	Number of shares	Voting rights and capital, %
Sparbankernas aktiefonder, Robur	55,006,000	11.87
Fidelity Funds ¹⁾	22,066,500	4.76
Allmänna Pensionsfonden 4:e Fondstyrelsen	21,958,990	4.74
Försäkringsbolaget SPP	20,466,013	4.42
Livförsäkrings AB Skandia	13,106,107	2.83
AMF Pensionsförsäkrings AB	12,299,970	2.65
Trygg-Hansa Livförsäkring	6,240,000	1.35
Ivy International Fund	5,000,000	1.08
Wasa Livförsäkring ömsesidigt	4,870,465	1.05
S-E-Bankens aktiefonder	4,659,920	1.01

1) February 3, 1997

Share price and turnover



Per-share data*

	1992**	1993**	1994**	1995**	1996
Income per share after full tax,					
before nonrecurring items, SEK	2.07	1.90	2.20	1.89	2.59
after nonrecurring items, SEK	2.07	1.82	2.42	2.37	2.39
Proposed dividend, SEK					1.10
Shareholders' equity per share, SEK	2.93	3.79	3.80	3.36	4.99
Market price at year-end, SEK					24.00
P/E ratio after tax***					10.0
Price/Equity					4.91
Direct return, %***					4.6
Average number of shares					463,558,252

* Calculated on number of shares in 1996.

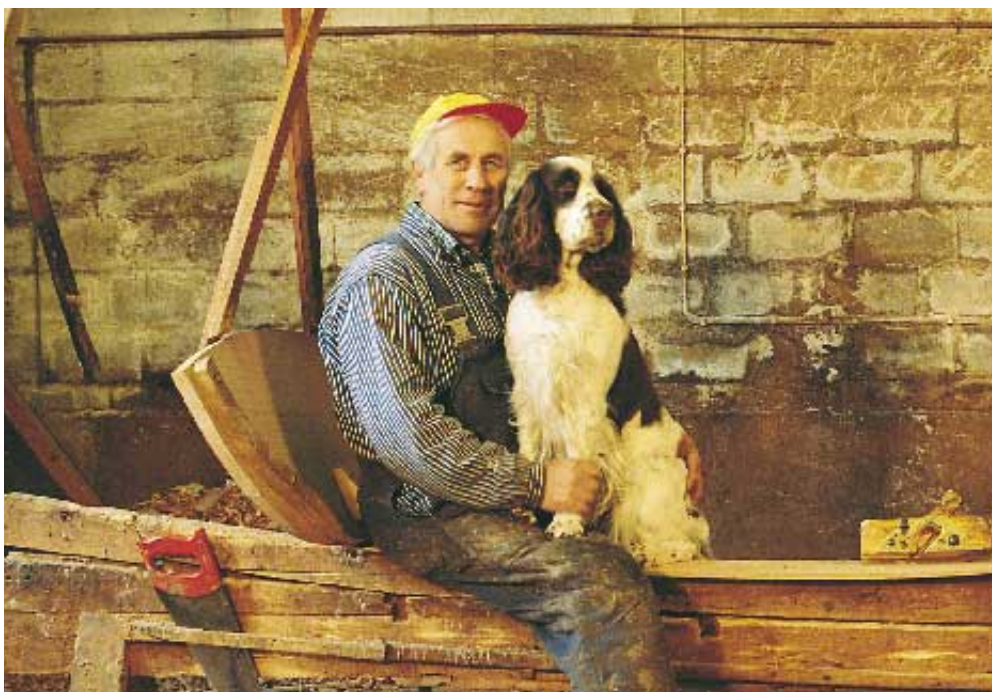
** Pro forma, see Note 1 page 36.

*** See definitions, page 57.

Board of Directors' Report

During the spring of 1996, Swedish Match AB (publ), which until then had been a Volvo subsidiary, was distributed to Volvo's shareholders. In connection with the distribution, Swedish Match was listed on the Stockholm Stock Exchange and on the NASDAQ Exchange in the United States. The listing on the Stockholm Exchange was made on the so-called O-List. Swedish Match will apply for listing on the A-List in the spring of 1997.

The year 1996 was characterized by a substantial improvement in Swedish Match's income before nonrecurring items, from SEK 1,494 million* to SEK 1,723 million, despite largely unchanged sales of SEK 7,416 million. The improvement was due to a positive price development for some of the Group's most important product categories, increased volumes for some product ranges, greater efficiency in production and to other cost reduction measures. The substantial hoarding, of cigarettes in particular, that occurred prior to a sharp rise of the tobacco tax in Sweden at the first of the year 1997 is estimated to have positively



affected income in the amount of SEK 45 million.

Swedish Match and Skandinavisk Tobakskompagni A/S, a Danish company, have long been parties to an agreement whereby Swedish Match holds all licence rights to the Prince cigarette in the Swedish market, including those pertaining to production, marketing and sales. The agreement was submitted for clearance by the European Union Commission which declared that, in the opinion of the Commission, the agreement conflicts with European Union fair trade laws.

Against this background, the two companies have renegotiated the agreement and have concluded an agreement whereby Swedish Match will continue to manufacture and distribute Prince cigarettes, while Skandinavisk Tobakskompagni A/S, as of May 1, 1997, will be responsible for marketing and sales of the brand in Sweden. The Commission has announced that the fair trade issues raised by the original agreement have been resolved in a manner acceptable to the Commission. The new agreements with Skandinavisk Tobakskompagni A/S extend

*Information pertaining to 1995 in the Board of Directors' Report is Pro forma. See Note 1, page 36.



through the year 2001, which was also the termination date of the earlier agreement. The financial provisions of the new agreements imply that the negative impact on Swedish Match's income will be limited to approximately SEK 40 million annually, based on 1996 volumes. Competition in the Swedish cigarette market will increase since Skandinavisk Tobakskompagni A/S will be cultivating the market with its own sales force. Accordingly, Swedish Match intends to maintain its marketing resource in the range of SEK 30–40 mil-

lion, which was formerly allocated to Prince.

An agreement providing for increased cooperation has been concluded with PT Java Match Factory Ltd (Jamafac), the largest producer of matches in Indonesia, which is the world's fourth largest match market. The purpose of the agreement is to further strengthen present cooperation in the match segment and introduce other products in Indonesia, such as Cricket disposable lighters.

The program to rationalize the Group's production structure is continuing. It has been decided to close the tobacco factories in Arvika and Härnösand and concentrate the manufacture of smoking tobacco products to the plants in Malmö and Belgium. The restructuring, which involves reducing the number of employees by 200, is expected to be completed not later than the start of 1998. The cost of the restructuring is estimated to be SEK 150 million and has been charged against the earnings 1996. Following full implementation of this program, production costs will be declining by approximately SEK 70 milli-

on annually compared with 1996.

Cigarette sales in Estonia were reduced by half following the sharp increase in the tax on domestically manufactured tobacco products that became effective January 1, 1996. To maintain Swedish Match's profitability in the Estonian market for cigarettes, production was transferred from Tallinn to the plant in Malmö during the second half of 1996. Match production in Hungary was concentrated to the plant in Szeged during the year.

New organization

Effective January 1, 1997, Swedish Match began operating in accordance with a new basic Group structure. In the new structure, the Group is being organized into seven Product Divisions, which market their products to consumers through seven Sales Regions, and a global unit for sales of advertising products to companies. The Product Divisions have global responsibilities for product development, manufacturing, marketing strategies and brand name promotion. The Sales Regions are responsible for all

Board of Directors' Report

marketing and sales in their defined geographical areas. In connection with the organizational change, the names of most of the operating units were changed so that they now include "Swedish Match."

Sales and operating income

Swedish Match's sales declined marginally in 1996 compared with 1995, from SEK 7,435 million to SEK 7,416 million. Sales were lower in all divisions except Tobacco Nordic. Sales revenue in foreign currencies was reduced by approximately SEK 375 million when translated to the stronger Swedish krona.

Operating income before nonrecurring items increased by 15 percent, from SEK 1,494 million to SEK 1,723 million. Income improved in all divisions. Income in Tobacco Nordic Division was affected in the amount of approximately SEK 45 million as a result of the increased sales during the final months of the year that were attributable to hoarding in anticipation of the increase in the tobacco tax in January 1997.

Nonrecurring items were

charged against income in a negative net amount of SEK 123 million, compared with a positive net amount of SEK 189 million in 1995. The charge in 1996 was related mainly to the reserve established for the closing of the tobacco factories in Arvika and Härnösand. Nonrecurring items also include compensation received in connection with the settlement of legal disputes.

Financial net

Group net financial expense in 1996 amounted to SEK 70 million, compared with net expense of SEK 107 million in 1995. Net financial expense was reduced successively during the year as a result of lower interest rates and the reduction in net debt.

Taxes

Group tax expense amounted to SEK 439 million, equal to a tax rate of 28.7 percent. See also Note 7, page 38.

Income per share and proposed dividend

Net income per share amounted to SEK 2.39 (1995: 2.37). The Board of Directors propose that a dividend of SEK 1.10 per

share be paid for 1996. In the listing particulars prepared in connection with the company's listing on the Stockholm Stock Exchange, the Board of Directors declared that, over the long term, Swedish Match will distribute between 40 and 50 percent of consolidated net income, taking into account the financial condition of the company and expected future development. The dividend proposed for 1996 is equal to 46 percent of net income for the year.

Capital expenditures

Group investments in property, plant and equipment in 1996 amounted to SEK 217 million (1995: 302). Capital expenditures were mainly for replacement investments.

Financing and liquidity

In June 1996 Swedish Match AB concluded an agreement covering a five-year syndicated bank loan within a framework of SEK 2,000 million. The loan replaced the short-term borrowing arranged to repay loans from Volvo Group Finance in connection with Swedish Match's separation from the

Volvo Group.

Liquid funds including short term investments amounted to SEK 942 million at year-end 1996, compared with SEK 804 million at the beginning of the year. Net debt at year-end was SEK 77 million, a reduction of SEK 1,118 million since the first of the year.

Net debt at year-end was low due to the fact that liabilities for income taxes as well as tobacco excise taxes were unusually high. As a result, net debt was affected by about SEK 500 million.

Equity/assets ratio

The Group's equity/assets ratio at the end of the fiscal year was 34.4 percent (1995: 25.0).

Personnel

The average number of

employees in the Group in 1996 was 6,580 (1995: 7,306), of whom 1,467 (1995: 1,553) were in Sweden. During the year Swedish Match paid SEK 1,114 million (1995: 1,140) in wages, salaries and other remuneration, including SEK 390 million (1995: 366) to employees in Sweden. See also Note 21 on page 47.

Proposed disposition of retained earnings

As shown in the Consolidated Balance Sheet, unrestricted shareholders' equity amounted to SEK 1,298 million, including net income for the fiscal year of SEK 1,109 million. It is proposed that SEK 98 million be allocated to legal reserves.

As shown in the Parent Company Balance Sheet, the sum of SEK 4,268 million, including

net income of SEK 678 million for the year, is available for disposition by the shareholders.

The Board of Directors and President propose that the earnings amounting to SEK 4,268 million available for disposition by the Annual General Meeting be distributed as follows: SEK 98 million to the legal reserve, to the shareholders, a dividend of SEK 1.10 per share amounting to SEK 510 million and that the balance be retained in the business.

The Board also proposes May 12, 1997 as the record date for payment of dividends to shareholders registered at VPC (Swedish Securities Register Center).

Stockholm, March 3, 1997

Bernt Magnusson
CHAIRMAN

Arne R. Bennborn

Jan Blomberg

Lennart Engström

Christer Nordgren

Bertil Y. Persson

Klaus Unger

Göran Lindén
PRESIDENT

My auditor's report was issued March 6, 1997.

Göran Tidström
AUTHORIZED PUBLIC ACCOUNTANT

Tobacco Nordic Division

Swedish Match's tobacco operations in the Nordic and Baltic countries offer a complete range of tobacco products: cigarettes, pipe tobacco, roll-your-own tobacco, cigars, cigarillos, chewing tobacco and moist snuff.

The Division's principal markets are Sweden and Estonia. Otherwise, export operations are directed mainly at the other Nordic countries and the Baltic countries, although pipe tobacco and cigarillos are exported to a large number of other countries as well. In 1996, the Division's sales amounted to SEK 3,518 million, an increase of 7 percent from SEK

3,289 million. The Swedish market accounted for 87 percent of sales. Operating income before nonrecurring items improved by 14 percent, from SEK 1,144 million to SEK 1,304 million.

The income improvement was primarily attributable to higher price levels, increased sales of moist snuff, cost reductions and considerable hoarding, primarily of cigarettes, in anticipation of a major tobacco-tax increase at the year-end 1996. The influence of hoarding on income is estimated to have been SEK 45 million.



House of Blend

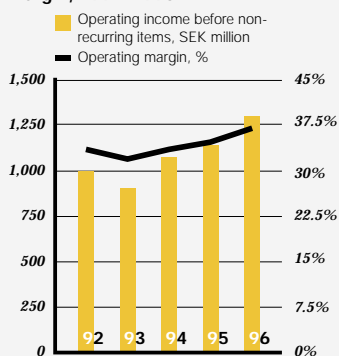
The Division's cigarette operations were handled by the House of Blend business unit. This also included cigars, cigarillos, pipe tobacco and roll-your-own tobacco, as supporting products.

Cigarettes

In 1996, cigarette sales in the Swedish market increased by nearly 2 percent, amounting to a total of 8,278 million cigarettes. Sales volumes were affected by wide-spread hoarding in anticipation of the tobacco-tax hike that became effective in the new year as a continuation of the process of the adaptation of Swedish tobacco tax to the EU



Operating income before non-recurring items and operating margin, 1992-1996



Key figures¹⁾

SEK M unless otherwise stated	1992	1993	1994	1995	1996
Sales					
Smoke ²⁾	2,038	1,867	2,132	2,116	2,169
Smokeless	472	540	609	675	797
Other	471	427	461	498	552
Total sales	2,981	2,834	3,202	3,289	3,518
Operating income before nonrecurring items					
Operating income before nonrecurring items	1,002	906	1,077	1,144	1,304
Operating margin, %	33.6	32.0	33.6	34.8	37.1
Capital expenditures	131	344	149	124	59
Average number of employees	1,308	1,253	1,456	1,459	1,293

1) Definitions, page 57
 2) AS Swedish Match Eesti, in which Swedish Match holds a 67-percent interest, is consolidated as of 1994.

Tobacco Nordic Division

level. Excluding hoarding at year-end 1996, the market declined by 4 percent.

During the year, the Swedish cigarette market was marked by increasing competition. The House of Blend's market share fell by 1 percentage point, to 79 percent. The fall was caused partly by a reduction in the number of products as well as reduced volumes for certain brands.

Market leader Blend maintained its market share of 35 percent. Prince and John Silver also defended their positions of 28 percent and 4 percent, respectively, while the market share for Right rose to 8 percent, due partly to the introduction of the new Right 100's variant, whose sales developed favorably.

During the year, large-scale test sales of the low-smoke cigarette Inside were commenced, attracting intense media and consumer interest. When the Inside cigarette is lit, the tobacco is not burned but rather heated up. Inside gives a rich and pleasant taste sensation. The amount of second-hand smoke is reduced by more than 80 per-

cent. Inside was developed through close cooperation with the American R.J. Reynolds Tobacco Company, which developed the underlying technology.

House of Blend cigarette sales in the Swedish market declined 2 percent. Sales of own brands rose in the tax-free markets of the Nordic and the

Baltic countries. The increase was primarily attributable to the brand families Blend and Right.

In Estonia, the business unit's sales fell by nearly 50 percent after a sizable tax increase on domestically manufactured cigarettes went into force on January 1, 1996. This eliminated the previous competitive





edge with respect to imported cigarettes, at the same time as smuggling increased. Among own brands, Rumba maintained its market-leading position.

Cigars and cigarillos

The decline in the Swedish mar-

ket continued. In 1996, volumes fell by almost 11 percent to 81 million. The market share fell by slightly more than 1 percent to 82 percent, partly due to the fact that a number of brands with small sales volumes were removed from the market in an on-going rationalization

of the product range. The most important brands – Bellman, Accent and Cortez – increased their market shares.

Sales to markets outside of Sweden increased by nearly 5 percent and were greater in terms of volume than sales in Sweden. The new Chinese and Japanese markets developed well during the year. Sales in Korea, Denmark and Norway continued to be favorable, with increased market shares. The primary export brands were Golden Point, Accent and Bellman.

Pipe and roll-your-own tobacco

The total Swedish market for pipe and roll-your-own tobacco increased during the year by 1 percent, to 1,301 tons. Pipe tobacco volumes fell somewhat, while volumes in roll-your-own tobacco increased as an effect of hoarding at the end of the year.

The market share for pipe tobacco declined only 1 percentage point to 71 percent despite the reduction in the number of pipe tobacco brands. The market-leading Greve Hamiltons

Tobacco Nordic Division



Blandning increased its market share from 52 to 53 percent. The market share for roll-your-own tobacco was unchanged at the same level, slightly less than 86 percent, primarily as a result of the favorable sales development of the leading John Silver brand.

The Borkum Riff pipe tobacco brand, which is exported to the U.S., is sold under a licensing agreement by UST, Inc. Borkum Riff's market share in the U.S. is 7 percent.

Sales of pipe tobacco amounted to SEK 129 million, of which

SEK 98 million on ex-port. Sales of roll-your-own tobacco amounted to SEK 193 million. The total increase for pipe and roll-your-own tobacco was SEK 28 million or 9 percent.

Gothia Snus

Sales of moist snuff in the Swedish market continued to increase and amounted to 5,637 tons, an increase of 4.3 percent. The business unit's market share was unchanged, 99.9 percent.

A contributing factor to the increasing moist snuff sales was the fact that many smokers are

switching to moist snuff, and their first choice is pouched snuff, whose total market share in net tons increased to 20 percent. Measured in number of consumer packages sold, the market share was 36 percent.

The leading loose moist snuff brand on the Swedish market was Generalsnus, whose market share amounted to 25 percent, followed by Ettan and Grovsnus. Among pouched moist snuff brands as well, Generalsnus was the market leader, while Catch was the leading moist snuff brand in the mini format.

Within the milder segment, the pouched Ettan Light was introduced during the year. The leading brand of the segment was General Snus Light.

Sales volumes in Norway rose 10 percent to 330 tons. The leading brand Generalsnus was complemented by the General Aromatic variant, which by the end of the year had become the third-largest brand in the market. In 1996, a re-establishment took place in the Danish market, with Ettan and Generalsnus being introduced at the end of 1996.

Sales in the tax-free markets increased by 27 percent to 348 tons. A large part of the increase stemmed from air and ferry traffic between Sweden and Finland, a market which has grown tangibly during the past two years, after a ban on the sale of moist snuff was introduced in Finland in 1995.

The Swedish chewing-tobacco market grew by 8 percent to nearly 13 tons. The business unit's market share amounted to 52 percent, a 6 percent reduction.

Sales of Gothia Snus, including tax-free and export, increased by 17 percent, amounting to SEK 790 million, of which chewing tobacco accounted for SEK 4.4 million.

Production

Use of production capacity increased at the Malmö cigarette plant, as a response to the higher volumes resulting from hoarding in Sweden, and the relocation of cigarette production from the Tallinn plant to Malmö during the second half of the year.

At the Gothenburg moist snuff plant, use of production

capacity increased, to meet the higher sales volumes, by 3 percent for loose moist snuff and 8 percent for pouched moist snuff.

The Swedish market for smoking products is shrinking. Swedish Match's operations are focused on cigarettes and moist snuff. To reduce costs and at least maintain profitability at its already high level, the product range has been reduced during the past two years and, with respect to exports, concentrated its marketing efforts on the most profitable markets.

The next stage will be the restructuring of the Swedish production organization. In 1996, it was decided to shut down the Arvika and Härnösand manufacturing operations, and concentrate all smoking products manufacturing to the Malmö and Belgium tobacco plants. The relocation of the Arvika and Härnösand production operations will begin in mid-year 1997, and is scheduled to be finished not later than the end of the year.

Restructuring costs have been estimated at SEK 150 million, and the annual income

improvement at approximately SEK 70 million.

Provision for restructuring costs was made in the 1996 second-quarter accounts.

The earnings improvement is expected to gain full effect in 1998, with some effect in 1997.

During 1996 tobacco excise taxes and VAT on the excise taxes amounted to SEK 9,159 million (1995: 8,769). This tax is paid to the Swedish State and is not included in the consolidated income statement.



Tobacco EU Division

Swedish Match is one of the largest cigar and cigarillo manufacturers in the world. Its product range covers all market segments in the European market, both in terms of product type and price. West Europe is the Division's most important market. The products are also exported, however, to a large number of other markets. The Division is based in the Netherlands. Sales, which expressed in local currency increased



by slightly more than 3 percent and in SEK decreased by slightly less than 7 percent, amounted to SEK 631 million. The increase was mainly attributable to larger volumes and price increases. Operating income before nonrecurring items improved by 10 percent, amounting to SEK 120 million. The income improvement is attributable primarily to higher sales as well as an increased level of mechanization and lower production costs.

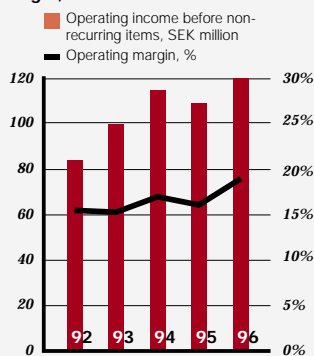


Market

The Division's volumes in the world market increased by 2 percent. The volume trend varied sharply, however, between local markets. In the Netherlands, Belgium and France, the introductions of the new Wings cigarillo brand, in two versions, and the similarly new Palette brand, both members of the Willem II brand family, contributed to the sales increase. Both of these new brands were introduced in September and by year-end they already accounted for 13 percent of the total volume for the Willem II family. Sales in France rose markedly, with a volume increase of 13 percent, to a record-high level.



Operating income before non-recurring items and operating margin, 1992-1996



Key figures¹⁾

SEK M unless otherwise stated	1992	1993	1994	1995	1996
Sales	543	655	678	676	631
Total sales	543	655	678	676	631
Operating income before non-recurring items ²⁾	84	100	115	109	120
Operating margin, %	15.5	15.3	17.0	16.1	19.0
Capital expenditures	31	34	69	14	20
Average number of employees	943	1,020	1,033	1,031	1,115

1) Definitions, page 57

2) Swedish Match's 40-percent interest in Arnold Andre is reported in accordance with the equity method.

Tobacco EU Division



The Division's market share within the European Union was unchanged, at 15 percent. Sales to markets outside of the EU rose by 23 percent, accounting for 6 percent of the Division's sales.

Sales to Australia in 1995 were quite low, due to uncertainty about the impact of added tobacco restrictions. However, these had no noticeable consumption effect. Consequently, deliveries to Australia increased by 45 percent during 1996. Market share rose to 37 percent.

The Division's products were introduced in new markets in

East Europe. During the year, the Division became the market leader in Estonia – though volumes were at a low level – and sales in Russia developed well.

At the close of 1996, Tobacco EU Division began to deliver cigars to the U.S., where the market for cigars in the higher price and quality segment is growing. The cigar in question is of a type new for the Division – the so-called long filler – which has begun to be sold in the U.S. under the brand name Montague. This cigar was introduced in Germany earlier in the year, where it was received well.

Montague is a hand-rolled cigar, made of selected high-grade raw tobacco in the factory in Indonesia, where it took more than a year to train personnel for this demanding type of manufacturing. With Montague, the Division intends to compete with products from Latin America and the West Indies. Deliveries to the U.S. were begun late in the year, which is why the 1996 sales figures were affected only marginally. The reception was favorable. At the same time as Montague was introduced, the Division began to sell high-price products of a traditional type from the La Paz, De Heeren van



Ruysdael and Willem II brand families, in the U.S.

Production

Ongoing production rationalization measures were completed during the year, which resulted in a higher degree of mechanization and lower production costs. Production capacity at all factories was used to the fullest. Periodically, market demand – in particular, for the newly introduced products Wings and Palette – could not be satisfied, which resulted in certain delivery problems.

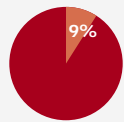
Capital expenditures

The factory in Indonesia, built in 1992 for the manufacture of semi-finished products for the Division's European cigar factories, was expanded during the year, to allow for addition of the manufacturing of the new Montague cigar brand, and to increase production capacity for semi-finished products. The new factory section was placed in full operation in February 1997. Further additions to the plant facilities are slated for 1997/98, after which the factory will have about 1,000 employees.

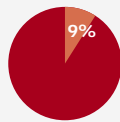
During the year, the former factory building at Valkenswaard in the Netherlands was sold, along with a factory building in Belgium. A capital gain of SEK 6 million is included in operating income. In Valkenswaard, construction of a new plant for packaging and distribution was projected. The head office for the cigar operations will also be housed in the new building, which is scheduled to be completed at the end of 1997, at a cost of SEK 50 million.

Tobacco USA Division

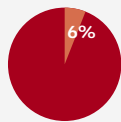
Swedish Match's operations in the U.S. are conducted through three business units: Chewing Tobacco, Moist Snuff and Pipe Tobacco. Its products are marketed and sold primarily in the U.S. The Division's sales in 1996 were unchanged expressed in local currency, but declined in Swedish kronor by 7 percent to SEK 1,202 million. Operating income before non-recurring items expressed in Swedish kronor rose by 23 percent to SEK 384 million. The improvement was attributable mainly to reduced costs in production, administration and distribution as well as higher sales of moist snuff, which became a profitable product group in the U.S. following comprehensive market investments in previous years.



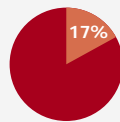
Share of Group sales



Share of Group capital expenditures

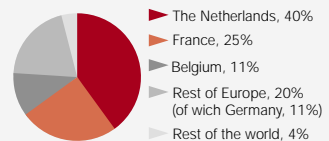


Share of Group operating income before nonrecurring and Group central items



Share of Group employees

Sales by geographical area

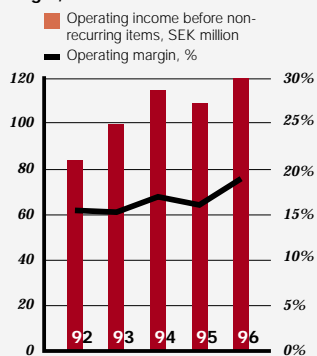


Chewing Tobacco

Despite intensified price competition, Tobacco USA Division strengthened its leadership position during 1996 in the mature chewing tobacco market in the U.S. The Division markets its chewing tobacco products under the brand names Red Man, Red Man Golden Blend, Red Man Select, Granger Select, J. D.'s Blend and certain regional brands. Market share rose by 0.6 percentage points to 45 percent. The total market for chewing tobacco declined, however, in 1996 by 2 percent. Red Man, the Division's best-seller first introduced on the market in 1904, remained the market leader with a share of



Operating income before non-recurring items and operating margin, 1992-1996



Key figures¹⁾

SEK M unless otherwise stated	1992	1993	1994	1995	1996
Sales					
Chewing Tobacco	927	1,208	1,233	1,173	1,046
Pipe Tobacco	69	85	75	60	53
Moist Snuff	34	41	31	54	103
Total sales	1,030	1,334	1,339	1,287	1,202
Operating income before nonrecurring items					
Operating income before nonrecurring items	188	239	249	311	384
Operating margin, %	18.3	17.9	18.6	24.2	31.9
Capital expenditures	19	22	20	27	11
Average number of employees	804	774	759	725	635

1) Definitions, page 57

Tobacco USA Division

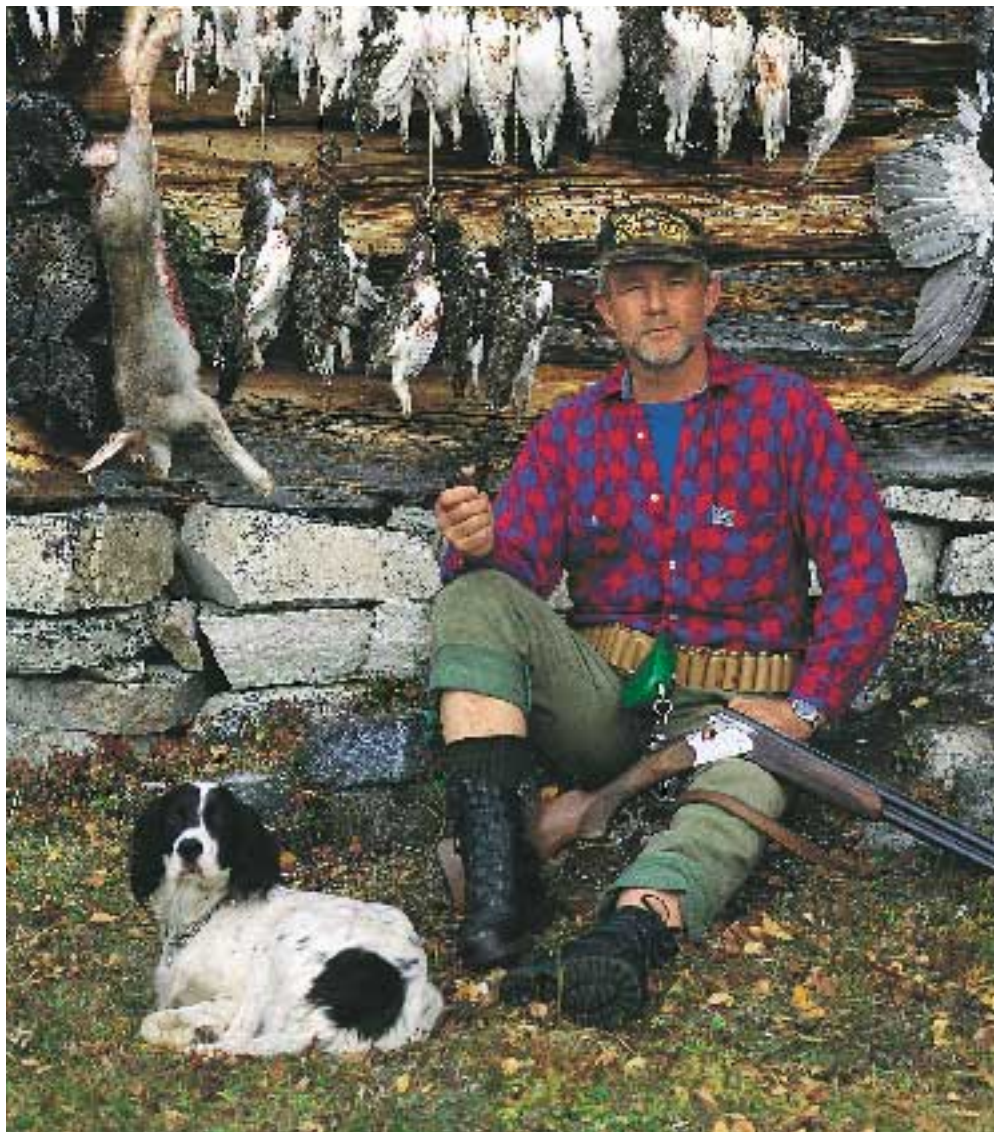
slightly more than 21 percent. Red Man Golden Blend has become the market's third largest-selling brand with a market share of slightly more than 12 percent. Red Man Select is also included in the family of Red Man products.

J. D.'s Blend, a low-price product, was launched in 1993 and showed a continued positive development. Its market share increased slightly more than 1 percent to 6 percent.

Sales revenues for chewing tobacco totaled SEK 1,046 million, down 11 percent. The decline was due mainly to lower volumes and substantial discounts offered in the consumer chain to counter growing price competition.

Moist snuff

Volume growth in the large American market for moist snuff has been positive strong for a long succession of years. The market is dominated by one manufacturer, UST, Inc., whose market share has declined recently in parallel with establishment and penetration by other manufacturers in this highly profitable market.



Tobacco USA Division markets moist snuff under the brand names Timber Wolf and Renegades and operations are based on the successes achieved with Timber Wolf. Timber Wolf is priced lower than other

premium segment brands, the primary target sector, offering consumers an inexpensive alternative. Profitability is good since the product sells without extensive marketing activities.

Since the introduction of Tim-



ber Wolf in 1994, geographical distribution has been expanded, and the brand was supplemented in March 1996 by Timber Wolf Cool Wintergreen and Timber Wolf Fine Cut Wintergreen. These were well received

on the market. In order to improve recognition of the brand, the business unit began in 1996 to sponsor a Timber Wolf race car which competed in the highly popular NASCAR Busch Grand National series.

Moist snuff volumes reported by the business unit remained low, but in 1996 market shares increased, up 1.2 percentage points over last year, to 2.3 percent.

Sales in 1996 totaled SEK 103 million, an increase of 91 percent.

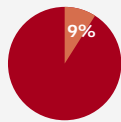
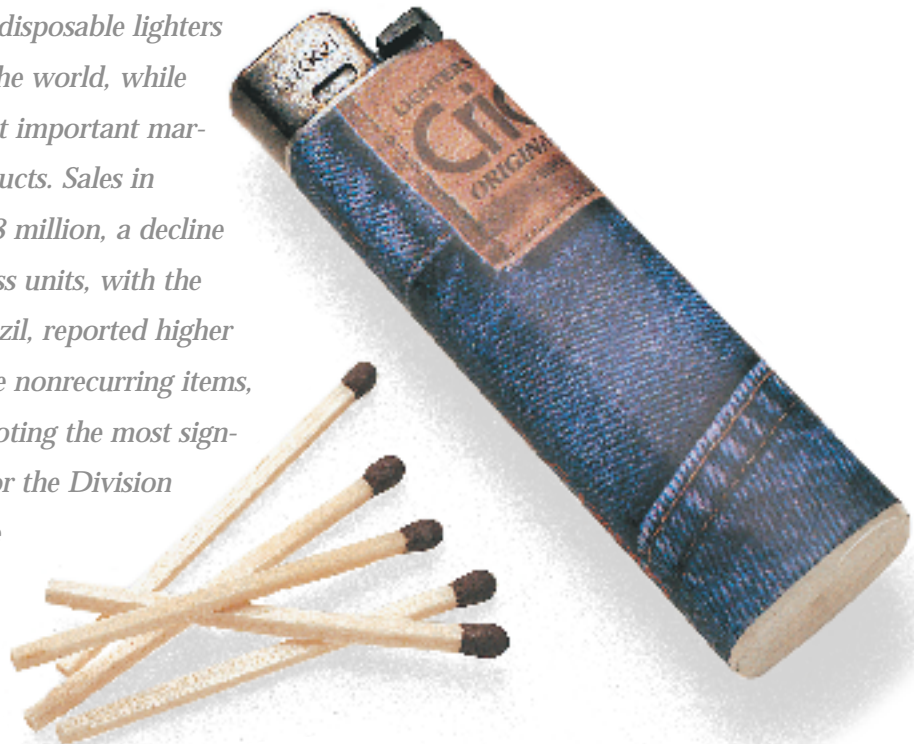
Pipe Tobacco

The Pipe Tobacco business unit defended its market positions in 1996, commanding a market share of 13 percent. Volumes were down 4.5 percent, corresponding to total market decline over the past several years. Some signs of increased market vitality were noted in the pipe tobacco sector in 1996, however, and volumes declined by only half of the shortfall reported during recent years.

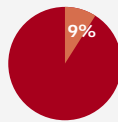
Half & Half, the business unit's leading brand, strengthened its market position as the second largest-selling brand of pipe tobacco in its price range and the fourth largest brand in the U.S., with a market share of 8 percent.

Lights Division

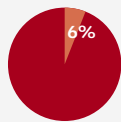
Lights Division consists of Match Europe, Match Brazil, Cricket Lighters and Advertising Products. Matches and disposable lighters are sold in all parts of the world, while West Europe is the most important market for advertising products. Sales in 1996 totaled SEK 2,078 million, a decline of 5 percent. All business units, with the exception of Match Brazil, reported higher operating income before nonrecurring items, with Cricket Lighters noting the most significant improvement. For the Division as a whole, income rose from SEK 41 million to SEK 108 million. Despite this strong improvement, however, operating income remains unsatisfactory.



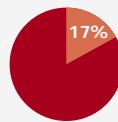
Share of Group sales



Share of Group capital expenditures

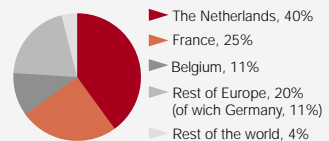


Share of Group operating income before nonrecurring and Group central items



Share of Group employees

Sales by geographical area



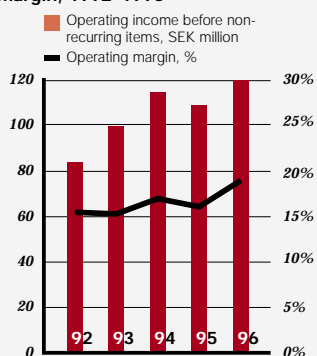
Match Europe

Despite a decline in the total market, Match Europe reported higher volumes in traditional European markets, up more than 4 percent to 60 billion matches. Particularly favorable volume growth was noted in Germany, France and the Netherlands. The business unit's overall market share in Europe rose from 51 to 59 percent. On the strength of successful exports to primarily the Middle East and Africa, Match Europe's total sales volume increased nearly 12 percent to approximately 100 billion matches.

Match Europe introduced an "outdoor" match in 1996 that features special resistance to



Operating income before non-recurring items and operating margin, 1992-1996



Key figures¹⁾

SEK M unless otherwise stated	1992	1993	1994	1995	1996
Sales					
Match Europe	783	838	770	779	762
Match Brazil	520	725	784	378	307
Cricket Lighters	543	753	768	796	818
Advertising Products	232	333	313	324	278
Other ²⁾	6	-33	-85	-84	-87
Total sales	2,084	2,616	2,550	2,193	2,078
Operating income before nonrecurring items²⁾					
Operating income before nonrecurring items ²⁾	220	255	255	41	108
Operating margin, %	10.6	9.7	10.0	1.9	5.2
Capital expenditures	79	132	136	137	113
Average number of employees	7,445	7,183	4,393	4,065	3,489

1) Definitions, page 57.
2) Includes eliminations of internal sales.

Lights Division

wind and moisture. The new match has received favorable market acceptance. Russia and Poland represent two new markets in which trademark products were launched in 1996 with the introduction of "Svedskie Spitchie" in Russia and "Janosik" in Poland. The new products received favorable consumer acceptance in both markets.

Significant improvements were made in the productivity of Match Europe's plant in Tidaholm, Sweden, compared with 1995, when the transfer of production from the former plant in Liverpool, England, caused considerable disruptions in the production process. In Hungary, production was concentrated to the plant in Szeged.

Sales invoiced by Match Europe in 1996 declined 2 percent to SEK 762 million. Negative effects of the stronger Swedish krona were partly offset by higher volumes and price increases.

Match Brazil

The match market in Brazil stabilized in 1996. The import of low-price products declined markedly during the second half of 1996, which facilitated

implementation of modest price increases after prices had fallen by about 40 percent in 1995. Strong competition from imported products characterized market trends during the early part of 1996, however, and a marginal decline was noted in Match Brazil's volumes for the full year to 71 billion matches. The Brazilian match market has declined by an estimated 5 percent, but Match Brazil increased its market share from 48 to 50 percent. Match Brazil's total volumes, including export operations, remained largely unchanged at about 77 billion matches.

Strong improvements were made in productivity, and operating costs were reduced through substantial cutbacks in the labor force. Poplar, which provides for better match quality, was planted on 210 hectares of own land in Brazil. Pending deliveries of wood raw material supplies from our poplar plantations, which are expected to commence in 2003, wood import from Uruguay was initiated during the year.

Sales amounted to SEK 307 million, a decline of 19 percent compared with 1995.

Cricket Lighters

Volumes rose 17 percent surpassing the 400-million lighter mark for the first time. Cricket remained the leading disposable lighter in Russia, strengthening its market presence. In other East European markets, efforts were continued to establish the Cricket trademark and contributed to increased sales. Rapid growth was reported in East Asian and Pacific Basin markets, and the business unit has established sales in a number of countries in the region, including the Philippines, Thailand, Malaysia, Vietnam, Japan and Indonesia. A joint-venture project was initiated in 1996 with local interests in Vietnam, where an assembly plant for lighters has been established. All components are supplied by the business unit. Demand was strong and the new plant has operated at full capacity since it was opened.

Volumes in the mature markets of West Europe, the U.S. and Japan remained virtually unchanged in 1996.

Profitability of Cricket Lighters improved significantly as a result of higher volumes

and the measures implemented by the business unit in 1995 and 1996 to increase competitiveness, capacity utilization and profitability. The product range was streamlined and reviewed in terms of product variations and design, marketing efficiency

was enhanced and production was further mechanized and automated. Substantial savings led to reduced total operating costs.

During the same period, Cricket Lighters made determined efforts to improve prod-

uct quality. It is the only lighter manufacturer in the world to receive certification in accordance with ISO 9002.

Sales invoiced by Cricket Lighters in 1996 amounted to SEK 818 million.

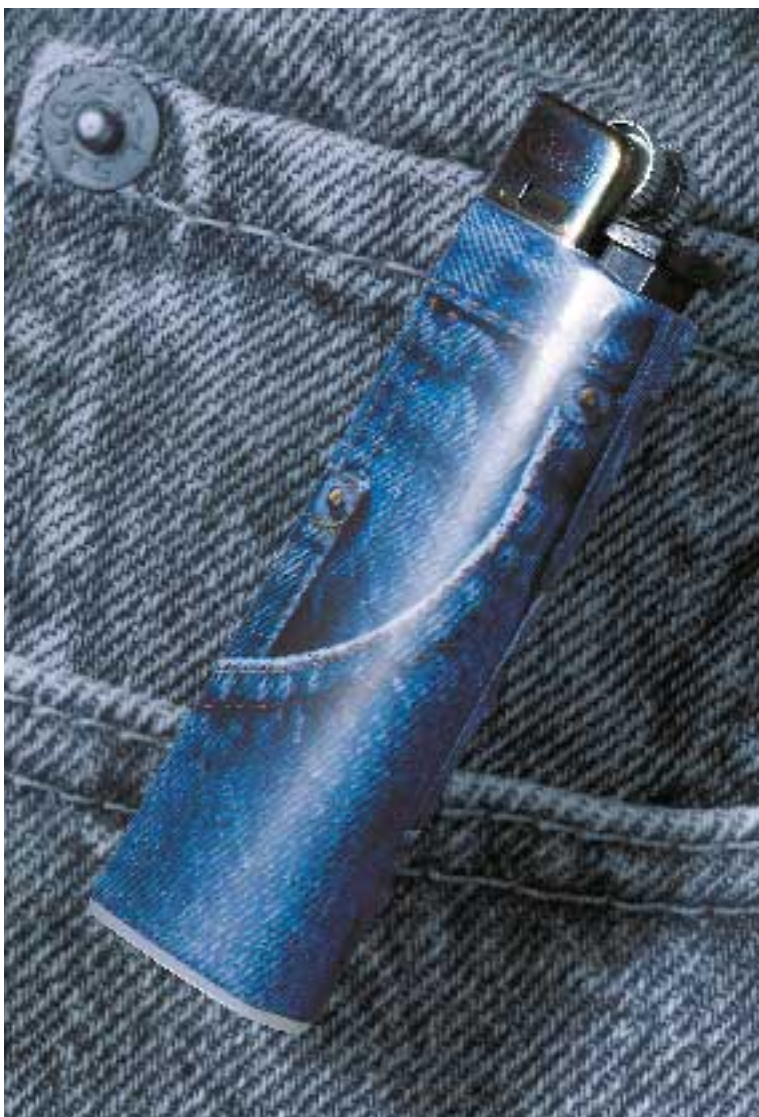
Advertising Products

The business unit is the leading manufacturer of advertising matches in Europe. Its largest customer categories comprise the hotel and restaurant sector and the tobacco industry. Advertising Products also sells lighters and supplementary products such as watches and pens.

During 1996, volumes developed positively in Sweden, Switzerland and foremost in England. Total volumes declined, however, due mainly to weakening markets and increased competition for advertising matches, particularly in France.

The volume decline was more than offset by price increases combined with productivity improvements in the Belgian advertising matches plant.

Invoiced sales in 1996 amounted to SEK 278 million, down 14 percent.



Treasury management

Corporate Treasury

Swedish Match Corporate Treasury is responsible for optimizing the return on financial assets and managing the Group's financial risks. This is accomplished through centralized borrowing, investment of surplus liquidity, coordinating cash flows, handling cash pools in various currencies and minimizing the effects of foreign exchange movements on the consolidated income statement. Corporate Treasury serves as an in-house bank and offers advisory and other financial services to the subsidiaries. Corporate Treasury conducts its operations as part of the Parent Company and within the framework of the financial policy for the Swedish Match Group set by the Board of Directors.

Financial risk exposure

The Group's financial risk exposure is attributable primarily to the large cash flow, the interest-bearing net debt and currency exposure. The goal for handling of the Group's financial risks is that they should be eliminated when this can be

done at reasonable cost and otherwise minimized as far as possible.

Syndicated bank loan

For purposes of refinancing, the Group raised a five-year syndicated bank loan in a total "framework" amount of SEK 2,000 million. The loan was arranged by Handelsbanken Markets and ABN AMRO Bank and included the participation of 13 international commercial banks that were considered to have good coverage in Swedish Match's present markets as well as in potential growth markets. The loan was heavily oversubscribed. Within the framework agreement, funds may be drawn in as many as four different currencies and with fixed-interest-rate periods ranging from one to six months.

Loans, liquid funds and net debt

At year-end the Group's interest-bearing loan debt amounted to SEK 1,019 million (1995: 1,999 million), of which SEK 1,000 million was denominated in Swedish kronor in the form of

the utilized part of Swedish Match's syndicated bank loan. Following the end of the year, the syndicated bank loan has been reduced to SEK 500 million through amortization, in line with the Group's policy of using surplus liquidity to repay external debt. The Group's interest-bearing net debt was reduced during the year by SEK 1,118 million to SEK 77 million.

Fixed-interest-rate periods of loans and structure of due dates

As of December 31, 1996, the average fixed-interest-rate period for the Group's interest-bearing assets was 10 days and the comparable period for its interest-bearing liabilities was slightly less than 90 days. The downward trend of interest rates in recent months is considered to justify a shorter interest-rate period.

The Group's interest-bearing assets carried an average interest rate of 4.6 percent at year-end. The average interest rate on the Group's total loan portfolio in 1996 was 6.1 percent at year-end.

Currency exposure

The Group is active internationally, which gives rise to risks related to changes in foreign exchange rates. In accordance with the Group's foreign exchange policy, the anticipated net flows in currencies other than each subsidiary's domestic currency are hedged on a rolling 12-month basis in the interval of 40 to 60 percent of net exposure. Subsidiaries hedge risks through internal forward

contracts with Corporate Treasury, which in turn arranges external forward contracts with banks.

As of December 31, 1996, the Group's total forecast transaction exposure, net, in foreign currency amounted to approximately SEK 3 million for the succeeding 12 months.

At the moment, Swedish Match AB has decided not to currency hedge shareholders' equity in subsidiaries.

Swedish Match Group B.V., Swiss Branch

In addition to the financial operations handled by Swedish Match Corporate Treasury in Stockholm, intra-Group lending operations are conducted by Swedish Match Group B.V., Swiss Branch, a branch office of Swedish Match AB's Dutch subsidiary, Swedish Match Group BV. The Swiss branch had assets of SEK 579 million as of December 31, 1996.

Consolidated income statements

SEK M		1996	1995 ¹⁾
Sales		7,416	7,435
<i>Operating costs</i>			
Cost of goods sold		- 3,798	- 3,900
Selling, general and administrative expenses	Note 3	- 1,641	- 1,768
Straight-line depreciation	Note 4	- 270	- 294
Share of earnings in associated companies		16	21
Nonrecurring items	Note 5	- 123	189
Operating income		1,600	1,683
<i>Financial items</i>			
Dividends		-	2
Interest income and expenses, net	Note 6	- 81	- 107
Other financial items, net	Note 6	11	- 2
Net financial items		- 70	- 107
Income before income taxes and minority interests		1,530	1,576
Income taxes	Note 7	- 439	- 473
Minority interests		18	- 6
Net profit		1,109	1,097

1) Pro forma. See Note 1.

Consolidated balance sheets

SEK M		Dec. 31, 1996	Dec. 31, 1995
Assets			
<i>Current assets</i>			
Cash and bank balances		942	804
Trade receivables (net of allowance for doubtful accounts of 71 for 1996 and 58 for 1995)		1,344	1,220
Accrued income and prepaid expenses		91	82
Income tax receivable		26	24
Deferred income tax receivables	Note 7	59	31
Other operating receivables		141	146
Financial receivables		59	64
Inventories	Note 8	1,388	1,532
Total current assets		4,050	3,903
<i>Fixed assets</i>			
Shares	Note 10	79	83
Long-term operating receivables		15	15
Long-term financial receivables		174	10
Deferred income tax receivable	Note 7	103	70
Intangible assets	Note 11	516	563
Property, plant and equipment	Note 9	1,940	2,002
Total fixed assets		2,827	2,743
Total assets		6,877	6,646

Consolidated balance sheets (cont.)

SEK M		Dec. 31, 1996	Dec. 31, 1995
Liabilities and shareholders' equity			
<i>Current liabilities</i>			
Accounts payable		338	345
Income tax liability		450	174
Deferred income tax liability	Note 7	4	256
Accrued expenses and other current liabilities	Note 12	1,952	1,801
Bank overdrafts and other current borrowings	Note 13	1,015	120
Payable to Volvo Group, net	Note 1	–	1,870
Other financial liabilities		255	120
Total current liabilities		4,014	4,686
<i>Long-term liabilities</i>			
Loans		4	9
Other liabilities	Note 14	153	168
Deferred income tax liability	Note 7	306	84
Pension provisions	Note 15	32	37
Total long-term liabilities		495	298
Minority interests		54	105
Shareholders' equity	Note 16	2,314	1,557
Total liabilities and shareholders' equity		6,877	6,646
<i>Commitments and contingencies</i>			
Assets pledged	Note 18	126	6
Contingent liabilities		50	65

Cash flows

SEK M	1996	1995 ¹⁾
<i>Operations</i>		
Net profit	1,109	1,097
Depreciation	270	294
Write-down of assets	11	–
Share in earnings of associated companies	– 17	– 21
Dividends from associated companies	9	10
Gain on sales of property, plant and equipment	– 9	– 18
Gain on sales of shares	– 1	– 336
Minority interests	– 17	6
Change in operating assets/liabilities		
Accounts receivable	– 135	182
Inventories	156	128
Other assets	– 7	– 27
Accounts payable	– 3	– 41
Accrued expenses and other current liabilities	263	– 123
Decrease in pension provisions and other long-term liabilities	– 22	– 9
Increase (decrease) in income tax liabilities	286	– 344
Decrease in deferred income tax liabilities	– 87	– 26
Cash flow from operations	1,806	772
<i>Investments</i>		
Investments in property, plant and equipment	– 217	– 302
Proceeds from the sales of property, plant and equipment	38	48
Investments in trademarks	– 1	– 16
Investments in other shares	– 1	– 5
Proceeds from sales of other shares	1	344
Change in financial receivables	– 160	24
Cash flow from investments	– 340	93
<i>Financing</i>		
Change in short-term loans	– 1,007	103
Dividends to minority interests	– 2	–
Payment of long-term loans	– 3	– 1
Dividend to Parent Company/shareholders, net	– 300	– 1,072
Cash flow from financing	– 1,312	– 970
Translation differences attributable to liquid funds	– 16	– 52
Increase (decrease) in liquid funds	138	– 157
Liquid funds at beginning of the year	804	961
Liquid funds at end of the year	942	804
<i>Year's payments for</i>		
Interest	163	288
Income taxes (net, after tax refunds)	254	538

1) Pro forma. See Note 1.

Notes to the consolidated financial statements

(All figures in SEK M, unless stated otherwise)

1 General

Swedish Match, which was previously a subsidiary within the Volvo Group, was distributed in 1996 to Volvo's shareholders and the company was listed on the Stockholm Stock Exchange. Certain operations which are currently part of Swedish Match were previously not legally accounted for as a subsidiary of the Swedish Match Group but were incorporated into the Group at December 31, 1995 as a preparatory step for the distribution. Information in this annual report pertaining to 1995 is presented pro forma. These pro forma financial statements consolidate all the accounts of those subsidiaries which were owned by Swedish Match at December 31, 1995 as if they had been members of the Swedish Match Group during all years presented.

The pro forma financial statements were prepared in accordance with the accounting principles generally accepted in Sweden. Prior to the distribution of Swedish Match, the Group was capitalized at December 31, 1995 to give Swedish Match an equity/assets ratio of 25%. The consolidated balance sheet at December 31, 1995 is actual and reflects this capitalization. Shareholders' equity has been adjusted for the accounting period prior to December 31, 1995 to show an equity/assets ratio of 25% at the close of each fiscal year. In the pro forma financial statements, interest expenses are netted by applying an assumed interest rate of 10% on the average net debt. Income tax is reported at an assumed rate of 30%. A more detailed description of the underlying adjustments and assumptions is provided in the listing particulars published in conjunction with Swedish Match being detached from Volvo and listed on the Stockholm Stock Exchange.

2 Significant accounting policies

Consolidated accounting

The consolidated accounts include the Parent Company, all subsidiaries and associated companies. Subsidiaries are defined as companies in which Swedish Match owns shares corresponding to more than 50% of the voting rights. Associated companies are defined as those in which Swedish Match has a long-term holding corresponding to at least 20% and at most 50% of the voting rights. Holdings in associated companies are reported in accordance with the equity method. The Group share in reported earnings of the

associated companies is shown in operating income and income taxes.

The consolidated accounts are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 1. All acquisitions of companies are reported in accordance with the purchase method. Divested companies are included in consolidation to the date of divestment. Companies acquired during the current year are included from the date of acquisition.

Minority interests in Swedish Match's earnings are reported after income taxes.

Other share holdings are reported at acquisition value and dividends received as income.

Sales

Sales are reported exclusive of tobacco taxes, other excise taxes and VAT.

Foreign currencies

Translation of financial statements of foreign subsidiaries

The balance sheets of foreign subsidiaries, except for those subsidiaries in highly inflationary economies, are translated to Swedish kronor at year-end rates. Income statements are translated at the average rate during the period. Translation differences arising from translation of income statements are recorded directly to shareholders' equity.

Subsidiaries operating in highly inflationary economies are translated according to monetary/nonmonetary method whereby monetary items are translated at the year-end rate and nonmonetary items at the rate prevailing on the transaction date. Income statements are translated at the average rate for the period, with the exception of depreciation and of certain elements of costs of goods sold which are translated at the applicable historical rate. Resulting differences are reported in the income statements.

Receivables and liabilities in foreign currencies

Receivables and liabilities denominated in foreign currencies are translated at year-end rates, with the exception of hedged items which are translated at the forward contract rate. Exchange gains and losses are reported in income.

Forward contracts

The Group enters into forward exchange contracts to hedge foreign currency risks associated with certain financial liabilities and anticipated but not yet committed sales and purchases denominated in foreign currencies. Forward exchange contracts entered into to hedge future transactions are not recorded until the respective transaction being

Notes to the consolidated financial statements

hedged is recorded. Balances in foreign currencies which have been hedged are translated using the related forward contract rate with realized and unrealized gains and losses being recorded in income.

Liquid funds

Liquid funds include bank deposits and money market instruments. For securities to be stated as liquid funds, there must exist an operating, daily and secondary market in which the securities can be traded.

Inventories

Inventories are recorded at the lower of costs or market value, in all material respects in accordance with the first-in/first-out method (FIFO), net of provisions for obsolescence.

Intangible assets

Goodwill is included in intangible assets and amortized on a straight-line basis over 5 to 20 years. Goodwill in larger subsidiaries with more than 20 years of operations, strong trademarks and a good market potential is amortized over 20 years.

The realizability of goodwill and other intangibles is evaluated periodically as events or circumstances indicate a possible inability to recover the book value. The evaluations necessarily involve significant management judgment regarding the capacity of an acquired business to perform as expected.

Property, plant and equipment

Depreciation on property, plant and equipment is based on historical costs and estimated economic lives of the assets. Buildings and land improvements are generally depreciated over periods ranging from 20 to 50 years. The estimated economic life for vehicles is normally five years and for machinery five to ten years.

Additions and significant renewals are capitalized whereas expenditures for maintenance and repairs are charged to income as incurred. When assets are sold or scrapped, the costs and related accumulated depreciation are eliminated from the accounts and any gain or loss is included in income.

Income taxes

The provision for income taxes includes Swedish and foreign income taxes currently payable and deferred income taxes arising as a result of temporary differences between financial and tax reporting calculated in accordance with the liability method. Deferred income tax assets and deferred income

tax liabilities are offset only for entities within the same tax jurisdiction.

A deferred income tax asset is recognized for temporary differences that will result in deductible amounts for future years and for tax-loss carryforwards. A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

Nonrecurring items

Significant income or expense items which are not expected to occur frequently are classified net as nonrecurring items and presented as a separate component within operating income. Nonrecurring items include expenses for restructuring programs as well as one-time gains on the sale of operations and shares previously reported as operating assets.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3 Selling, general and administrative expenses

Selling, general and administrative expenses include costs for research and development amounting to SEK 84 M in 1996 and SEK 112 M in 1995.

4 Depreciation and amortization

Depreciation and amortization in 1996 and 1995 are summarized below.

	1996	1995
Machinery and equipment	182	196
Buildings	32	42
Goodwill	44	46
Other	12	10
Total depreciation and amortization	270	294

Notes to the consolidated financial statements

5 Nonrecurring items, net

A provision of SEK 150 M was allocated for shutdown of the tobacco plants in Arvika and Härnösand. Compensation received for settlement of a dispute, SEK 27 M, is deducted from this amount.

In 1995, the Swedish Match Group sold its remaining shares of UST, Inc. and certain Prince licensing rights in the Swedish tax-free market, resulting in gains of SEK 336 M and SEK 44 M, respectively, which have been offset by a Group-wide restructuring charge of SEK 191 M.

7 Income taxes

Income before taxes and minority interests in 1996 and 1995 was distributed as follows:

	1996	1995
Sweden	920	1,002
Outside Sweden	610	629
Adjustments to net interest as described in Note 1		- 55
Total	1,530	1,576

Income tax expense in 1996 and 1995 was distributed as follows:

	1996	1995
<i>Current income taxes (benefits) and adjustments</i>		
Sweden	276	- 34
Outside Sweden	217	163
Total current income taxes	493	129
<i>Deferred income taxes (benefits) and adjustments</i>		
Sweden	- 79	- 20
Outside Sweden	- 9	4
Adjustments to net interest as described in Note 1		360
Total deferred income taxes (benefits) and adjustments	- 88	344
<i>Other taxes</i>		
Sweden	0	
Outside Sweden	34	
Total tax expense	439	473

6 Other financial items, net

	1996	1995 ¹⁾
Net interest		
Interest income	97	
Interest expenses	- 178	
Total net interest	- 81	- 107

1) Pro forma. See Note 1.

Other financial items, net, include exchange gains (losses) of SEK 15 M in 1996 and SEK 5 M in 1995.

Tax effects of temporary differences resulting in deferred income tax assets and liabilities as of December 31 in 1996 and 1995 are summarized as follows:

	1996	1995
Net operating loss carryforwards	88	93
Restructuring reserves	43	4
Postretirement benefits	60	66
Tax equalization reserve and profit equalization reserve	- 219	- 233
Accelerated depreciation	- 82	- 97
Inventory reserves	- 40	- 38
Valuation allowance	- 59	- 62
Other	61	28
Net deferred income tax liability	- 148	- 239
<i>Classified per balance sheet category</i>		
Current deferred income tax assets	59	31
Current deferred income tax liabilities	- 4	- 256
Long-term deferred income tax assets	103	70
Long-term deferred income tax liabilities	- 306	- 84
Net deferred income tax liabilities	- 148	- 239

Notes to the consolidated financial statements

(Note 7 cont.)

At December 31, 1996, the Group had tax-loss carryforwards amounting to SEK 273 M. The Group's tax-loss carryforwards expire in future years as follows:

Year	Amount
1997	1
1998	18
1999	29
2000	48
2001	98
Thereafter	79
Total tax-loss carryforwards	273

The Group has reserved SEK 56 M in connection with a tax claim related to the 1988 fiscal year, of which a portion is currently being disputed.

During 1996, consolidated income was charged with tax at a rate of 28.7%. The difference between the Group's tax expense and tax expense using the Swedish statutory tax rate of 28% is attributable to the items in the table above right:

	1996
Swedish tax rate	28.0
Adjustments for foreign tax rates	4.6
Nondeductible losses	1.2
Nontaxable items	- 5.7
Nondeductible goodwill amortization	0.8
Nondeductible expenses	2.3
Adjustments from prior years	- 2.5
Total	28.7

8 Inventories

Inventories at December 31 consist of the following items, after deductions for obsolescence:

	1996	1995
Finished products	361	343
Semi-finished products	77	70
Raw materials and supplies	950	1,119
Total inventories	1,388	1,532

9 Property, plant and equipment

Property, plant and equipment at December 31:

	Cost		Accumulated depreciation		Book value	
	1996	1995	1996	1995	1996	1995
Machinery and equipment	2,656	2,576	1,752	1,634	904	942
Buildings	1,160	1,149	387	321	773	828
Land	191	195	-	-	191	195
Construction in progress	72	37	-	-	72	37
Total property, plant and equipment	4,079	3,957	2,139	1,955	1,940	2,002

Land improvements are included in the buildings classification rather than being presented separately since such amounts are deemed immaterial. The net book value of land improvements at December 31, 1996 was SEK 5 M.

Tax values of real property in Sweden, at December 31:

	1996	1995
Buildings	431	505
Land	68	75
Total tax value	499	580

Notes to the consolidated financial statements

10 Shares

Shares in associated companies and other shares at December 31:

	1996		1995	
	Ownership interest, %	Book value	Ownership interest, %	Book value
Arnold André GmbH & Co. KG	40	78	40	82
Arnold André Verwaltungs GmbH	40	0	40	0
BVT Cricket & Co Ltd Vietnam	33	1	-	-
Cricket de Mexico SA de CV	20	0	20	0
AO Baltijskij Tabak	-	-	50	1
Total shares in associated companies	-	79	-	83
Other shares	-	0	-	0
Total shares	-	79	-	83

In the normal course of business, Swedish Match enters into transactions with certain of its associated companies. Amounts due from associated companies amounted to SEK

9 M in 1996 and SEK 11 M in 1995. Sales to associated companies were SEK 89 M in 1996 and SEK 75 M in 1995.

11 Intangible assets

Intangible assets at December 31 were as follows:

	Cost		Accumulated amortization		Net book value	
	1996	1995	1996	1995	1996	1995
Goodwill	862	869	376	349	486	520
Trademarks and other intangible assets	108	115	78	72	30	43
Total intangible assets	970	984	454	421	516	563

12 Accrued expenses and other current liabilities

Accrued expenses and other current liabilities at December 31 were as follows:

	1996	1995
Excise taxes	942	689
Accrued payroll and related taxes	245	277
VAT	312	405
Other	453	430
Total accrued expenses and other current liabilities	1,952	1,801

13 Lines of credit

The Swedish Match Group maintains lines of credit throughout the geographical areas where it conducts business. The unutilized portion of committed credit lines, in addition to the unutilized portion of the syndicated bank loan, amounted to SEK 594 M at December 31, 1996. Certain of the related borrowing arrangements require payment of commitment fees. These fees vary, but are normally not more than 0.25% of the unutilized portion of the credit line. The unutilized portion of the syndicated bank loan at December 31, 1996, was SEK 1,000 M.

Notes to the consolidated financial statements

14 Postretirement benefits other than pension

In addition to its pension plans, the Group's U.S. subsidiaries sponsor unfunded plans to provide health-care and other benefits for retired employees that meet minimum age and service requirements. The plans are generally contributory, with retiree contributions adjusted periodically and contain

other cost-sharing features such as deductibles and co-insurance. The estimated cost for postretirement health-care benefits is recognized on an accrual basis which is in accordance with the requirements of U.S. SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions."

The following summarizes the plans' status, reconciled to amounts in the balance sheet at December 31.

	1996	1995
<i>Accumulated benefit obligation</i>		
Retirees	53	60
Fully eligible active plan participants	8	13
Other active plan participants	51	49
Total accumulated obligation	112	122
Unamortized net gain from experience differences	33	11
Accrued liability classified as Other long-term liabilities in the balance sheet	145	133
Assumed weighted average discount rate, %	7.25	7.25

The components of the postretirement benefits costs at December 31 are as follows:

	1996	1995
Service cost	5	6
Interest cost	7	8
Other	- 1	- 2
Net postretirement benefit costs	11	12

The assumed health-care cost trend rate used in measuring the principal portion of the accumulated benefit obligation was 7.0% for 1996 and gradually declining to 5.5% by 1998 and remaining at that level thereafter. A 1.0 percentage point increase annually in the assumed cost trend rate would increase the accumulated benefit obligations at December 31, 1996 and the costs for postretirement benefits for 1996 by approximately 14% and 17%, respectively.

15 Pension provisions

The Group maintains different pension plans for its employees worldwide. Pension provisions are calculated according to the actuarial principles in each country. Most of the Group's pension schemes are defined benefit plans and are covered either by insurance or funded or unfunded pension plans.

The pension benefits provided to the employees of the Group's Swedish tobacco operations are partly covered by two independent funds. The market value of these funds exceeded the actuarial value of the pension obligation by about SEK 1,119 M at December 31, 1996. The excess funds can be disbursed by the plans on approval of the funds' Boards of Directors. During 1996, SEK 57 M was disbursed from these funds to the Group's tobacco subsidiaries in Sweden. The corresponding amount in 1995 was SEK 53 M.

Certain of the Group's defined benefit plans, primarily local or national multi-employer plans, are unfunded. The present value of the future retirement benefits is recorded as liability in the consolidated balance sheet.

The Group also funds a number of defined benefit plans, primarily in the U.S., Sweden and the U.K.

Notes to the consolidated financial statements

16 Shareholders' equity

On December 29, 1995, the Board of Directors of Swedish Match approved a split from 40,794,836 shares to 203,974,180 shares and an increase in the number of shares to 463,558,252. The split and increase in shares was registered on January 9, 1996.

As of December 31, 1995, the capital structure of the Group included 463,558,252 shares (par value SEK 2 each), distributed as follows:

	1996	1995
Share capital	927	927
Restricted reserves	89	93
Total restricted capital	1,016	1,020
Unrestricted reserves	189	- 560
Net income	1,109	1,097
Total unrestricted capital	1,298	537
Total shareholders' equity	2,314	1,557

In accordance with the Swedish Companies Act, the distribution of dividends is limited to the lesser of unrestricted equity shown in the consolidated or the Parent Company balance sheets after proposed appropriations to restricted equity.

The changes in shareholders' equity at December 31 were as follows:

	1996	1995
Balance, December 31, preceding year	1,557	1,760
Translation difference	- 52	- 228
Dividend to AB Volvo	- 300	
Assumed distributions to Parent Company, net, according to pro forma		- 1,072
Net profit	1,109	1,097
Balance, December 31	2,314	1,557

17 Financial instruments

The Group operates internationally, giving rise to exposure to market risk from changes in foreign exchange rates. Forward exchange contracts are used by the Group to reduce these risks.

At December 31, the Group had forward contracts outstanding in the following face (notional) amounts:

	1996	1995
Forward exchange contracts	743	739

The book value of all financial instruments held by the Swedish Match Group, with the exception of forward contracts, approximate fair value. The book value and estimated fair value of forward contracts are as follows:

	1996		1995	
	Book value	Estimated fair value	Book value	Estimated fair value
Forward exchange contracts	- 1	- 10	3	14

The fair value of forward exchange contracts reflects the estimated amounts that the Group would receive or pay to terminate the contracts at the balance sheet date, taking into account the current unrealized gains or losses on open contracts.

Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if the counterparties failed completely to perform as contracted. The Swedish Match Group does not have significant exposure to any individual customer or counterparty.

18 Commitments and contingencies

Leases

Future minimum payments by year under noncancelable operating leases with initial or remaining terms of one year or more were as follows at December 31, 1996:

Year	Future minimum payments
1997	23
1998	15
1999	11
2000	6
2001	4
Thereafter	5
Total minimum payments	64

The Group's rental expense for leasing contracts amounted to SEK 28 M in 1996.

Notes to the consolidated financial statements

Litigation

Swedish Match is a party to a number of routine legal proceedings in the course of its business. Even though company management cannot estimate the losses which could arise from ongoing or possible disputes, it is the management's opinion that such disputes will not result in any substantial damages or adversely affect Swedish Match's financial position or income.

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Environmental matters

One of the Group's U.S. subsidiaries has been identified as a Potentially Responsible Party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for a waste disposal site in U.S.

The site is being cleaned up and the subsidiary's share of the cost is estimated at a maximum of SEK 7 M, which has been reserved.

Other

The Swedish Match Group has reserved SEK 13 M for items including litigation, severance pay and workers' compensation related to a confectionery operations previously

19 Geographical information

Certain information by geographical area at December 31 is presented below:

	1996	1995
<i>Sales to non-Group customers</i>		
Sweden	3,679	3,362
West Europe, excluding Sweden	1,782	1,858
East Europe	121	200
North America	1,359	1,453
Latin America	372	441
Other	103	121
Total sales to non-Group customers	7,416	7,435
<i>Income before income taxes and minority interests</i>		
Sweden	919	1,002
West Europe, excluding Sweden	232	401
East Europe	- 15	28
North America	355	187
Latin America	52	41
Other	- 13	- 28
Adjustments to interest, net, as described in Note 1		- 55
Total income before income taxes and minority interests	1,530	1,576
<i>Assets</i>		
Sweden	3,067	2,484
West Europe, excluding Sweden	1,837	1,963
East Europe	209	302
North America	878	867
Latin America	691	832
Other	195	198
Total assets	6,877	6,646

Notes to the consolidated financial statements

20 Generally accepted accounting principles in the United States

The financial statements of the Swedish Match Group have been prepared in accordance with accounting principles generally accepted in Sweden ("Swedish GAAP"). In conjunction with Swedish Match's listing on NASDAQ in the U.S., the Company provides certain information in accordance with accounting principles generally accepted in the United

States ("U.S. GAAP"). Swedish Match also submits a Form 20-F report annually to the Securities and Exchange Commission (SEC) in the U.S., which contains certain information about Swedish Match's operations in compliance with statutory requirements.

Following is a summary of the estimated adjustments under U.S. GAAP that affect the Swedish Match Group's net income and consolidated shareholder's equity in applying U.S. GAAP.

	Note	1996	1995
<i>Reconciliation of net income</i>			
Net income reported under Swedish GAAP		1,109	1,097
<i>Adjustments to reconcile to corresponding amounts under U.S. GAAP</i>			
Consolidation:	1		
Amortization expense		- 308	- 308
Depreciation expense		- 3	- 3
Nonrecurring items		-	- 261
Restructuring costs	2	73	-
Early retirement benefits	3	- 5	-17
Financial instruments	4	- 22	11
Pension provision	5	61	-
Tax effect of above U.S. GAAP adjustments		- 32	78
Approximate net profit under U.S. GAAP		873	597
SEK per share:			
Approximate net profit under U.S. GAAP		1.88	1.29
<i>Reconciliation of shareholder's equity</i>			
Shareholder's equity under Swedish GAAP		2,314	1,557
<i>Adjustments (increases/decreases) to profit</i>			
Consolidation:	1		
Property, plant and equipment		112	115
Goodwill		5,365	5,673
Restructuring costs	2	73	
Early retirement benefits	3	-	5
Financial instruments	4	- 9	13
Pension provisions	5	123	64
Tax effects to above U.S. GAAP adjustments		- 118	- 87
Approximate shareholder's equity under U.S. GAAP		7,860	7,340

Notes to the consolidated financial statements

1. As of December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired the Group's parent in two steps in November 1993 and June 1994 and utilized the purchase method of accounting for the transactions. Accordingly, the excess of the purchase price over the book value of the net assets acquired was allocated to buildings, land and investments in other shares held by Swedish Match in which the fair value at the time of purchase exceeded the respective carrying amounts, with the remaining excess purchase prices being allocated to goodwill. Such allocations were recorded only at the Volvo Group level and were not "pushed down" to Swedish Match.

U.S. GAAP, as established by the Securities and Exchange Commission ("SEC"), requires "push down" accounting to be applied to a wholly owned subsidiary's stand-alone financial statements. "Push down" accounting should not be applied to subsidiaries which are owned less than 80%. Prior to June 1994, Volvo owned less than 80% of Swedish Match. Accordingly, the purchase accounting adjustments recorded by Volvo relating to Swedish Match have been recorded for U.S. GAAP purposes in their entirety from June 1994. Goodwill has been further adjusted since U.S. GAAP specifies that the acquisition price shall be determined based on the market price of the consideration at the date when the transaction was implemented and not, as is the case with Swedish GAAP, on the date the acquisition was announced.

The total gross value of the goodwill which in accordance with the above was assigned to Swedish Match in 1994 amounted to SEK 6,158 M. Adjustments for property, plant and equipment amounted to SEK 119 M. Goodwill is amortized over 20 years.

In addition, the gain recognized as a nonrecurring item on the sale of the UST, Inc. shares has instead increased the value of the assets at the time of the Volvo acquisition.

2. Nonrecurring items reported in income for 1996 includes restructuring costs of SEK 150 M pertaining to the shut down of the plants in Arvika and Härnösand to concentrate production of smoking tobacco products to the plants in Malmö and Belgium. Under Swedish GAAP, the entire costs for restructuring is booked in conjunction with the decision while under U.S. GAAP, only certain costs may be booked as restructuring cost. Costs for training, transfer of machinery and other costs, which pertain to future production, may only be reported when the costs arise.

3. In 1994, a subsidiary of the Swedish Match Group recorded a charge relating to early retirement benefits in accordance with Swedish GAAP. Under SFAS No. 88, "Employers Accounting for Settlements and Curtailments of Defined Benefits Pension Plans and for Termination Benefits", the criteria for recognizing this charge was not met until periods subsequent to 1994.

4. Under Swedish GAAP, unrealized exchange gains and losses on forward contracts which hedge expected future transactions are reported first when the underlying transaction is effected. Under U.S. GAAP, gains and losses on unrealized exchange differences for such forward contracts calculated based on the year-end fair value are included in reported income.

5. Pensions are accounted for by each entity in the Swedish Match Group, where applicable, based on principles deemed appropriate for local statutory purposes, under the condition that these mean that pension rights earned are reported as expenses.

Under U.S. GAAP, pensions are accounted for according to SFAS No. 87, "Employers' Accounting for Pensions". The Group has estimated the effect on net income and shareholder's equity assuming the application of SFAS No. 87.

Notes to the consolidated financial statements

	Swedish plans	Foreign plans Assets exceed accumulated benefits	Accumulated benefits exceed assets
Projected benefit obligation	62	471	94
Plan assets at fair value	151	518	55
Excess (deficit) of plan assets over projected benefit obligation	89	47	- 38
Prepaid (accrued) pensions under U.S. GAAP	50	54	- 17
Actuarial assumptions	1996		
Discount interest rate, %	7.75-9.0		
Payroll trend, %	6.0		
Return on funds allocated, %	8.7-9.0		

Notes to the consolidated financial statements

21 Personnel

The average number of employees during 1996 amounted in the Parent Company to 29 and 6,580 in the Group. The corresponding figures in 1995 were 13 and 7,306.

Wages, salaries and remunerations are summarized below.

	Group	Parent Company
Board of Directors and Presidents, of which bonus 11,9	45	3
Other employees	1,069	14
Total	1,114	17
January - December 1995	1,140	6

Number of Group employees, wages, salaries and remunerations by municipalities in Sweden.

	1996	1995
<i>Parent Company</i>		
Stockholm	29	12
Göteborg	-	1
<i>Other</i>		
Arvika	110	107
Göteborg	259	290
Härnösand	71	89
Kalmar	58	66
Malmö	338	364
Solna	46	67
Stockholm	261	240
Tidaholm	201	225
Vetlanda	94	92
Total	1,467	1,553

Group employees as well as wages, salaries and remunerations by country are summarized below.

	Average no. of employees		Wages, salaries, etc.	
	1996	1995	1996	1995
<i>Parent Company</i>				
Sweden	29	13	17	6
<i>Other</i>				
Belgium	569	593	86	112
Estonia	188	264	13	11
France	286	265	59	61
Ireland	34	34	8	8
Netherlands	470	479	126	117
Portugal	29	29	5	5
Switzerland	48	58	57	80
Spain	162	162	33	36
United Kingdom	86	86	23	23
Sweden	1,438	1,540	373	360
Germany	41	44	12	14
Hungary	464	490	16	13
United States	698	776	203	203
Brazil	1,057	1,417	56	61
Indonesia	445	345	3	2
Philippines	290	453	13	17
China	233	242	5	4
Other countries	13	16	6	7
Total	6,580	7,306	1,114	1,140
of whom,				
women	2,988	3,500		
men	3,592	3,806		

Notes to the consolidated financial statements

Information regarding benefits to senior executives is provided below.

Bernt Magnusson, Chairman of the Board of Swedish Match, received SEK 474,000 in Board fees during 1996 of which SEK 24,000 pertains to previous years.

Göran Lindén, President and Chief Executive Officer of Swedish Match, received SEK 2,283,000 in salary and benefits from March 1996. In addition, Göran Lindén has a contract covering a bonus which can amount to a maximum of 35% of the cash salary. Göran Lindén qualifies for a pension at age 60. From 60 to 65 years of age, the pension is paid in an amount corresponding to 70% of the fixed cash salary plus the average of the bonuses paid in the past three years. At age 65, the pension is paid at 45% of pension-related salary. Notice of termination is six months for Göran Lindén and 12 months for the Company. The company cannot serve notice of termination of his employment before March 1, 1998. Severance pay is paid at a maximum of two years' salary should the company terminate employment. The severance pay is reduced by the amount of other income, however, by a maximum of 50 percent of such income and not more than down to 50 percent of the severance pay.

Pension is paid to other senior executives from age 60. From 60 to 65 years of age, the pension is paid in an amount corresponding to 50-70% of pension-related salary and from age 65 at 50% of pension-related salary. Pension-related salary is defined as salary plus the average of the bonus paid in the past three years, which in no case may amount to more than 35% of cash salary.

For William G. McClure III, the pension age is 65 and 70% in pension.

Except for Göran Lindén, a mutual notice period of six months is applied. Severance pay is paid in an amount corresponding to one year's cash salary should the Company serve notice. If at the time notice is served, the employee is 55 years of age or older, the severance pay is increased by one-half year's cash salary. The severance pay is reduced by the amount of other income, however, by a maximum of 50% of such income and not more than down to 50 percent of the severance pay.

Parent Company income statements

SEK M		1996	1995
Sales		37.1	21.7
<i>Operating expenses</i>			
Cost of goods sold		- 8.2	- 8.9
Sales and administrative expenses		- 168.2	- 85.7
Straight-line depreciation	Note 1	- 0.5	- 0.3
Operating income/loss		- 139.8	- 73.2
<i>Financial items</i>			
Dividends		0.1	0.1
Anticipated dividends	Note 2	190.9	-
Interest income		51.4	95.8
Interest expenses		- 242.1	- 300.6
Other financial items, net	Note 3	- 145.1	45.7
Net financial items		- 144.8	- 159.0
Income/loss after financial items		- 284.6	- 232.2
Excess depreciation		- 0.2	-
Group contribution and shareholder contribution	Note 4	1,209.4	1,791.6
Income before taxes		924.6	1,559.4
Taxes		- 246.7	8.4
Net profit		677.9	1,567.8

Parent Company balance sheets

SEK M	Dec. 31, 1996	Dec. 31, 1995
Assets		
<i>Current assets</i>		
Liquid assets	518.2	–
Due from Parent Company	–	1,997.1
Due from other Group companies	463.5	130.6
Accounts receivable	1.6	2.3
Prepaid expenses	32.7	0.6
Other receivables	0.5	0.1
Inventories	Note 5 0.5	0.2
Total current assets	1,017.0	2,130.9
<i>Fixed assets</i>		
Long-term receivables due from Group companies	13.7	–
Other long-term receivables	–	0.1
Shares in subsidiaries	Note 6 6,841.4	7,015.1
Machinery and equipment	Note 7 1.9	0.6
Total fixed assets	6,857.0	7,015.8
Total assets	7,874.0	9,146.7

Parent Company balance sheets (cont.)

SEK M	Dec. 31, 1996	Dec. 31, 1995
Liabilities and shareholders' equity		
<i>Current liabilities</i>		
Accounts payable	5.3	1.1
Accrued expenses and prepaid income	42.9	3.2
Due to other Group companies	1,231.6	4,177.8
Income taxes due	305.9	56.3
Bank debt	1,000.0	–
Other liabilities	3.3	1.4
Total current liabilities	2,589.0	4,239.8
<i>Long-term liabilities</i>		
Owed to subsidiaries	2.0	2.0
Total liabilities	2,591.0	4,241.8
<i>Untaxed reserves</i>		
Accumulated excess depreciation	0.2	–
<i>Equity</i>		
	Note 8	
Share capital	927.1	927.1
Legal reserve	87.6	87.6
Total restricted shareholders' equity	1,014.7	1,014.7
Profit carried forward	3,590.2	2,322.4
Profit for the year	677.9	1,567.8
Total unrestricted shareholders' equity	4,268.1	3,890.2
Total equity	5,282.8	4,904.9
Total liabilities and shareholders' equity	7,874.0	9,146.7
Contingent liabilities	7.0	0
Assets pledged	31.1	26.9

Parent Company statement of change in financial position

SEK M	1996	1995
Net profit	677.9	1,567.8
Depreciation	0.7	0.3
Loss/gain (-) of sale of shares	145.5	- 0.9
Decrease (Increase) in operating assets		
Accounts receivable	1.8	- 2.4
Inventories	- 0.4	0.3
Other assets	- 28.7	80.4
Increase (decrease) in accounts payable and accrued expenses and other short-term liabilities	65.0	3.5
Increase (decrease) in pension provisions and other long-term liabilities	- 0.1	0.8
Increase (decrease) in income tax liabilities	249.6	- 5.8
Cash flow from operations	1,111.3	1,644.0
<i>Investments</i>		
Investments in property, machinery and equipment	- 1.8	- 0.8
Sales of rights	-	2.9
Investment in shares	- 0.7	- 1,233.7
Sale of shares	28.9	519.2
Payment of financial receivables	- 3.6	0.6
Net change in liquid funds from (applied for) investments	22.8	- 711.8
<i>Financing</i>		
Change in short-term loans	1,000.0	- 1.0
Change in Group balances	- 1,315.9	6,259.5
Share dividend	- 300.0	- 7,190.7
Net change in liquid funds from (applied for) financing	- 615.9	- 932.2
Liquid funds at beginning of the year	0	0
Liquid funds at end of the year	518.2	0

Notes to the Parent Company financial statements

All figures in SEK M unless otherwise stated.

1 Depreciation

Costs for depreciation in the 1995 and 1996 fiscal years pertain entirely to machinery and equipment

2 Anticipated dividends

Dividends have been anticipated as follows:

	1996	1995
Swedish Match Group BV	53.7	-
Pinkerton Group, Inc.	137.2	-
Total	190.9	-

3 Other financial items, net

Other financial income and expenses, net, include exchange rate gains amounting to of SEK 44.6 M for fiscal year 1996 and SEK 0.4 M for 1995. An amount of SEK 145.5 M pertaining to a loss on the divestment of shares in a subsidiary is included in 1996.

4 Group contributions and shareholders

	1996	1995
Group contribution from		
AB Fortos	-	230.5
Svenska Tobaks AB	1,223.0	-
Procordia United Brands AB	53.0	-
Tobaks Fastighets AB	15.1	-
Gullbergsvass Fastighets AB	4.4	-
Swedish Match Arenco AB	9.0	-
Swedish Match Industries AB	14.3	-
Shareholder contribution from AB Fortos	-	1,578.9
Shareholder contribution to		
Procordia United Brands AB	- 106.0	-
Swedish Match Arenco AB	- 3.4	-7.8
Swedish Match Industries AB	-	- 10.0
Total	1,209.4	1,791.6

5 Inventories

The inventories at December 31, 1995 and 1996 comprise in their entirety finished goods.

Notes to the Parent Company financial statements

6 Shares

Subsidiary	Number of shares/ participations	Currency	Par value 000s	Book value SEK 000s	Parent Company holdings, %
Holdings as at Dec. 31, 1996					
Arenco AB	5,500	SEK	550	850	100
Swedish Match Industries AB					
common shares	30,000	SEK	30,000	195,000	100
preference shares	851	SEK	851	0	99.8
Procordia United Brands AB	200,000	SEK	20,000	2,908,782	100
Export AB Svalan	500	SEK	50	2,772	100
Intermatch Sweden AB	10,000	SEK	1,000	1,300	100
AB Jönköping Vulcan	600	SEK	60	70	100
Svenska Tändsticks AB	1,000	SEK	100	100	100
Svenska Tändsticksbolagets Försäljnings AB	3,000	SEK	300	360	100
Svenska Tändsticks Philippine Company	20,000	PHP	20,000	2	100
Pinkerton Group, Inc.	100	USD	100	848,729	100
BCP International BV	112,055	NLG	112,055	700,000	100
Swedish Match Group BV	17,060,000	NLG	1,706	2,161,596	100
Nitedals Tændstikker A/S	500	NOK	500	486	100
Swedish Match SA	10,604	CHF	1,591	21,400	100
SA Allumettièrre Caussemille ¹⁾	10,000	FRF	1,000	0	100
The Burma Match Co. Ltd ²⁾	300,000	BUK	3,000	0	100
Vulcan Trading Co. Ltd ³⁾	4,000	BUK	400	0	100
Total				6,841,447	

1) Nationalized in November 1963.

2) Nationalized in December 1968.

3) Nationalized in January 1969.

In addition, shares are owned in Union Allumettièrre Marocaine S.A. Ownership is only formal. All rights and obligations accrue to Group companies.

Other shares at December 31, 1996.

The Parent Company holds shares in one operating company:

Yaka Feudor Sa	JPY	100,000	0	15.4
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Notes to the Parent Company financial statements

7 Machinery and equipment

Machinery and equipment at December 31 consists of:

	Acquisition costs		Accumulated depreciation according to plan		Book value	
	1996	1995	1996	1995	1996	1995
Machinery and equipment	3.4	1.6	1.5	1.0	1.9	0.6

Depreciation in excess of plan occurred in the amount of SEK 0.2 M during 1996.

8 Shareholders' equity

The company's shareholders' equity is distributed among 463,558,252 shares with a par value of SEK 2 each. All shares carry one vote and are unrestricted.

	Share capital	Other restricted legal reserves	Unrestricted equity	Total equity
Year-end shareholders' equity, 1994	407.9	87.6	9,513.2	10,008.7
Payment to shareholders	-	-	- 6,219.7	- 6,219.7
Dividend	-	-	- 971.1	- 971.1
New issue	519.2	-	-	519.2
Net profit	-	-	1,567.8	1,567.8
Year-end shareholders' equity, 1995	927.1	87.6	3,890.2	4,904.9
Dividend to shareholders	-	-	- 300.0	- 300.0
Net profit	-	-	677.9	677.9
Year-end shareholders' equity, 1996	927.1	87.6	4,268.1	5,282.2

Auditor's Report

I have examined the Annual Report, the consolidated financial accounts, the accounting records, and the administration by the Board of Directors and the President for the year 1996. The examination was conducted in accordance with generally accepted auditing standards.

Parent Company

The Annual Report has been prepared in accordance with the Swedish Companies Act.

I recommend

that the income statement and balance sheet be adopted,
that unappropriated funds be distributed in accordance with the proposal in the Board of Directors Report and
that the Board of Directors and President be discharged from liability for their administration of the Company during fiscal year 1996.

Group

The consolidated financial accounts have been prepared in accordance with the Swedish Companies Act.

I recommend

that the consolidated income statement and consolidated balance sheet be adopted.

Stockholm, March 6, 1997

Göran Tidström
Authorized Public Accountant

Definitions

Operating margin

is operating income before nonrecurring items divided by sales, expressed as a percentage.

Return on operating capital

is operating income before nonrecurring items divided by average operating capital, expressed as a percentage. Average operating capital is calculated using the sum of operating capital of the year's opening and closing balances divided by two. The rolling 12-month average was applied in 1996.

Operating capital

is current operating assets, intangible assets, property, plant and equipment and other long-term operating assets, reduced by current operating liabilities.

Return on shareholders' equity

is net income for the year divided by average shareholders' equity, expressed as a percentage. Average shareholders' equity is calculated using the sum of shareholders' equity of the year's opening and closing

balances divided by two.

Interest coverage

is income before income taxes and minority interests plus interest expense expressed as a multiple of interest expense. Interest expense in 1995 was calculated applying an interest rate of 10 percent on average interest-bearing liabilities.

Debt/equity ratio

is net debt divided by the sum of shareholders' equity and minority interests, expressed as a percentage.

Net debt

is interest-bearing liabilities less liquid funds.

Equity/assets ratio

is shareholders' equity and minority interests divided by total assets, expressed as a percentage.

Operating cash flow

is operating income before nonrecurring items plus depreciation and amortization plus/minus reductions/increases in net current operating assets (adjusted to exclude currency translation effects as well as amounts related to nonrecurring items) minus capital expenditures plus book value of property, plant and equipment sold, but excluding effects of acquisitions and sales of subsidiaries.

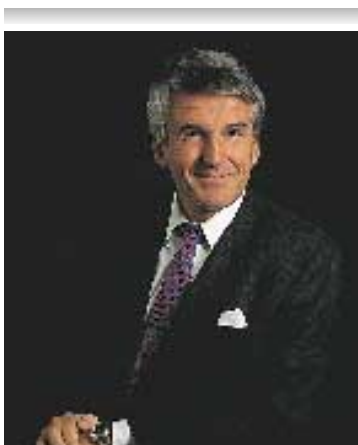
P/E ratio after tax

Market price divided by income per share after nonrecurring items.

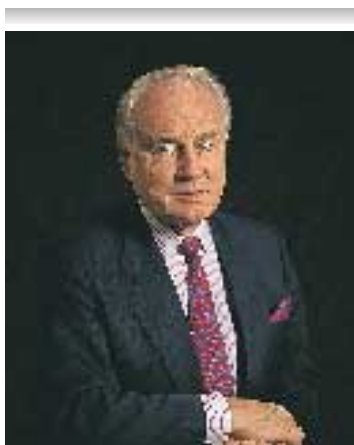
Direct return

Dividend as a percentage of market price.

Board of Directors



Bernt Magnusson, born 1941. Chairman. Member since 1993. Chairman of NCC AB. Other Board assignments: Vice Chairman of Avesta Sheffield AB. Member of the Boards of Nordbanken AB, Burmah Castrol plc., Silja Oy Ab, Högånäs AB, ICB Shipping AB, Nordstjernan AB, the Federation of Swedish Industries and the Stockholm Chamber of Commerce. Advisor to the European Bank for Reconstruction and Development. Shareholding in Swedish Match AB: 1,500 shares.



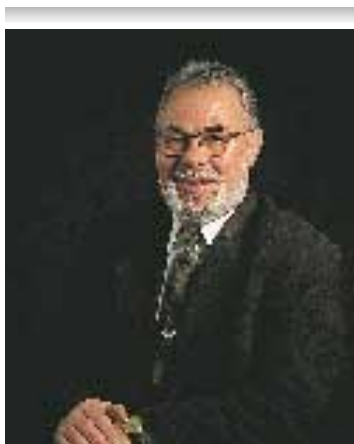
Arne R. Bennborn, born 1932. Member since 1996. Honorary Dr. Tech. Other Board assignments: Vice Chairman of Invest in Sweden Agency-ISA. Member of the Royal Academy of Engineering Sciences. Shareholding in Swedish Match AB: 0.



Jan Blomberg, born 1939. Member since 1996. Other Board assignments: Chairman of Fastighets AB Närkebro, Vice Chairman of Posten AB. Member of the Boards of PLM AB, Garphyttan Industrier AB, Investment AB Bure, Inductus AB, Byggelit AB, Svenska Spel AB and Mälarskog Industrier AB. Shareholding in Swedish Match AB: 2,068 shares.



Lennart Engström, born 1934. Member since 1972 (including old Swedish Match) Represents the Swedish Trade Union Confederation (LO). Shop steward for the Industrial Union at Swedish Match Industries AB, Tidaholm, Sweden. Other Board assignments: Member of the Industrial Union's Central Committee. Vice Chairman of Tidaholm's Sparbank. Shareholding in Swedish Match AB: 0.



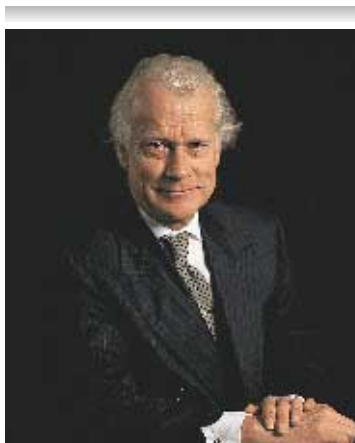
Christer Nordgren, born 1943. Member since 1982. Represents LO. Shop steward for the Swedish Food Workers Association (Livs) at the tobacco factory in Malmö, Sweden. Shareholding in Swedish Match AB: 0.



Bertil Y. Persson, born 1940. Member since 1996, formerly deputy member from 1986. Represents the Federation of Salaried Employees in Industry and Services (PTK). Deputy shop steward for the Swedish Association of Management and Professional Staff (Ledarna) at the tobacco factory in Malmö, Sweden. Shareholding in Swedish Match AB: 1,365 shares.



Klaus Unger, born 1934. Member since 1984. President and Chief Executive Officer of Swedish Match AB until February 14, 1996. Other Board assignments: Member of the Board of Arnold André GmbH & Co, KG. Member of the Royal Swedish Academy of Engineering Sciences. Shareholding in Swedish Match AB: 2,831 shares.



Göran Lindén, born 1944. Member since 1985. President and Chief Executive Officer of Swedish Match AB since February 15, 1996. Other Board assignments: Chairman of the Board of Partena AB. Member of the Boards of Pharmacia & Upjohn, Inc., VenCap Industrier AB, Monark Stiga AB, Liber AB and the 6th AP Fund. Shareholding in Swedish Match AB: 11,957 shares.



Rolf Esbjörnsson, born 1950. Deputy member since 1994. Represents LO. Shop steward for Livs at the tobacco factory in Arvika, Sweden. Shareholding in Swedish Match AB: 200 shares.



Dag Ivarsson, born 1946. Deputy member since 1985. Represents PTK. Shop steward for Ledarna at Swedish Match Industries AB in Vetlanda, Sweden. Shareholding in Swedish Match AB: 0.



Bertil Persson, born 1947. Deputy member since 1996. Represents PTK. Deputy shop steward for Swedish Industrial Salaried Employees Association (SIF) at the tobacco factory in Malmö, Sweden. Shareholding in Swedish Match AB: 200 shares.

Auditors

Göran Tidström, born 1946. Authorized Public Accountant, Öhrlings Coopers & Lybrand AB. Auditor in Swedish Match since 1986.

Deputy

Åke Danielsson, born 1947. Authorized Public Accountant, Öhrlings Coopers & Lybrand AB. Auditor in Swedish Match since 1990.

Group Management *from January 1, 1997*



Göran Lindén, born 1944. President and Chief Executive Officer of Swedish Match AB since February 15, 1996.



Massimo Rossi, born 1942. Executive Vice President and Deputy Chief Executive Officer. Board assignments: Chairman of Duni AB. Member of the Boards of the Solstickan Foundation, City Mail Sweden AB and Phimco Industriels Inc., the Philippines. Shareholding in Swedish Match AB: 61,400 shares.



Hans van den Berg, born 1945. Executive Vice President and Chief Commercial Officer. Shareholding in Swedish Match AB: 923 shares.



William G. McClure III, born 1944. Executive Vice President and Chief Operating Officer. Shareholding in Swedish Match AB: ADRs representing 10,000 shares.



Bo Aulin, born 1948. Senior Vice President, Corporate Affairs, Secretary and General Counsel. Shareholding in Swedish Match AB: 0.



Jan Gabrielsson, born 1938. Senior Vice President, Chief Financial Officer. Shareholding in Swedish Match AB: 10,000 shares.



Göran Streiffert, born 1946. Senior Vice President, Human Resources, effective as of January 1, 1997. Shareholding in Swedish Match AB: 0.

Addresses

Swedish Match Corporate Headquarters

Swedish Match
SE-118 85 Stockholm

Chewing Tobacco Division

Swedish Match
Chewing Tobacco Division
(head office)
P.O. Box 11588
Richmond, Virginia 23230-1588
USA

Swedish Match
Chewing Tobacco Division
(Owensboro factory)
P.O. Box 986
Owensboro, Kentucky 42301
USA

Swedish Match
Leaf Tobacco
P.O. Box 1872
Owensboro, Kentucky 42302-1872
USA

Cigarette Division

Swedish Match
Cigarette Division (head office)
SE-118 85 Stockholm
Sweden

Swedish Match
Cigarette Division (Malmö factory)
Hanögatan 9
SE-211 24 Malmö
Sweden

Swedish Match
Cigarette Division (Arvika factory)
Box 913
SE-671 29 Arvika
Sweden

Swedish Match
Cigarette Division
(Härnösand factory)
Box 53
SE-871 22 Härnösand
Sweden

Cigar Division

Swedish Match
Cigar Division (head office)
P.O. Box 306
NL-5500 AH Veldhoven
The Netherlands

Swedish Match
Cigar Division (Valkenswaard factory)
P.O. Box 1
NL-5550 AA Valkenswaard
The Netherlands

Swedish Match
Cigar Division (Houthalen factory)
Europark 1030
B-3530 Houthalen
Belgium

Swedish Match
Cigar Division (Overpelt factory)
Willem II straat 43
B-3900 Overpelt
Belgium

Swedish Match
Cigar Division (Pandaan factory)
JL Stadion 28
Pandaan 67156
Indonesia

Lareka Machines B.V.
P.O. Box 836
NL-5550 AV Valkenswaard
The Netherlands

Arnold André (*Associated Company*)
Postfach 1247
D-32212 Bünde
Germany

Lighter Division

Swedish Match
Lighter Division (head office)
P.O. Box 222
CH-1260 Nyon 1
Switzerland

Swedish Match
Lighter Division (Lyon factory)
B.P. 116
F-69142 Rillieux La Pape Cedex
France

Swedish Match
Lighter Division (Assen factory)
P.O. Box 82
NL-9400 AB Assen
The Netherlands

Swedish Match
Lighter Division (Manila factory)
P.O. Box 7215
Airmail Distribution Center NAIA
Philippines

Swedish Match
Lighter Division (Manaus factory)
Rua Poraque 240
Distrito Industrial Castelo Branco
69075-180 Manaus AM
Brazil

Swedish Match
Lighter Division (Sao Joao factory)
Rua Carlos Guedes, 44/70
36300-000 - Sao Joao Del Rei - MG
Brazil

Yaka Feodor K.K
(*Associated Company*)
3-7 Usazaki-naka, Shirahama-cho
Himeji, Hyogo Pref. 672
Japan

Match Division

Swedish Match
Match Division (head office)
P.O. Box 222
CH-1260 Nyon 1
Switzerland

Swedish Match
Match Division (Tidaholm factory)
P.O. Box 84
SE-522 22 Tidaholm
Sweden

Swedish Match
Match Division (Vetlanda factory)
P.O. Box 1002
SE-574 28 Vetlanda
Sweden

Swedish Match
Match Division (Valencia factory)
San Bartolomé, 68
E-46115 Alfara del Patriarca -
Valencia
Spain

Addresses

Swedish Match

Match Division (Szeged factory)

Bakay Nándor utca 7-9
H-6701 Szeged
Hungary

Swedish Match

Match Division

(Geraardsbergen factory)
Gaverstraat, 35
B-9500 Geraardsbergen
Belgium

Swedish Match

Match Division (Curitiba factory)

Travessa Pinheiro, 194
80230-160 Curitiba - PR
Brazil

Swedish Match

Match Division (Piraí factory)

Rua Prefeito Gumercindo Sguario,
372 84240-000 Piraí do Sul - PR
Brazil

Swedish Match

Match Division

(Saõ Lourenço factory)
Av. Belmino Correia, 7412
54740-000 Saõ Lourenço da Mata-PE
Brazil

Swedish Match

Arenco (Kalmar)

P.O. Box 915
SE-391 29 Kalmar
Sweden

Swedish Match

Arenco Shanghai

Land lot 14
Jin Qiao Processing Zone for Export
Pudong, Shanghai 201206
P.R. China

Pipe Tobacco Division

Swedish Match

Pipe Tobacco Division (head office)

P.O. Box 11588
Richmond, Virginia 23230-1588
USA

Swedish Match

Pipe Tobacco Division

SE-118 85 Stockholm
Sweden

Snuff Division

Swedish Match

Snuff Division (head office)

Box 77
SE-401 21 Göteborg
Sweden

Swedish Match

Snuff Division

SE-118 85 Stockholm
Sweden

Swedish Match

Snuff Division

P.O. Box 11588
Richmond, Virginia 23230-1588
USA

North European Sales Region

Swedish Match

North European Sales Region

(head office)
SE-118 85 Stockholm
Sweden

Swedish Match

Finland Sales

Heikasvägen 2A, 4 vån
FIN-00210 Helsingfors
Finland

Swedish Match

Norway Sales

Boks 546
N-1411 Kolbotn
Norway

Swedish Match

Estonia Sales

Kunderi 8
EE-0100 Tallinn
Estonia

Swedish Match

Lithuania Sales

Pilies Street 8-3
LT-2000 Vilnius
Lithuania

West European Sales Region

Swedish Match

West European Sales Region

(head office)
P.O. Box 306
NL-5500 AH Veldhoven
The Netherlands

Swedish Match

Austria Sales

P.O. Box 203
A-1013 Vienna
Austria

Swedish Match

Belgium Sales

Athena Hallencomplex
Heiveldekens 9 E
B-2550 Kontich
Belgium

Swedish Match

France Sales

B.P. 116
F-69140 Rillieux La Pape Cedex
France

Swedish Match

France Sales Tobacco

43, Avenue de Friedland
F-75008 Paris
France

Swedish Match

Germany Sales

Postfach 103135
D-50471 Köln
Germany

Swedish Match

Ireland Sales

Maguire & Paterson House
Hammond Lane
Dublin 7
Ireland

Swedish Match

Netherlands Sales

P.O. Box 306
NL-5500 AH Veldhoven
The Netherlands

Swedish Match**Portugal Sales**

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P-1250 Lisboa
Portugal

Swedish Match**Spain Sales**

Centro Comercial Gran Via de
Hortaleza C/Arequipa
1, E-28043 Madrid
Spain

Swedish Match**Switzerland Sales**

Postfach
CH-8604 Volketswil
Switzerland

Swedish Match**UK Sales**

Sword House
Totteridge Road
High Wycombe
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England

**East European
Sales Region****Swedish Match****East European Sales Region**

(head office)
SE-118 85 Stockholm
Sweden

Swedish Match**East European Sales Region**

Nagytétényi út 112
H-1222 Budapest
Hungary

Swedish Match**Hungary Sales**

Nagytétényi út 112
H-1222 Budapest
Hungary

Baltic Tobacco Ltd.

Bolshaya Monetnaya Ulitsa 26/28
197061 St Petersburg
Russia

**North American
Sales Region****Swedish Match**

North American Sales Region
P.O. Box 11588
Richmond, Virginia 23230-1588
USA

**Latin American
Sales Region****Swedish Match****Latin American Sales Region**

Caixa Postal 9074
22260 Rio de Janeiro, RJ
Brazil

**Asia/Pacific
Sales Region****Swedish Match****Asia/Pacific Sales Region (head office)**

P.O. Box 222
CH-1260 Nyon 1
Switzerland

Swedish Match**Japan Sales**

Nihonbashi Kajiwara Bldg., 6fl.
Nihonbashi Kakigara-cho 2-13-3
Chuo-ku, Tokyo 103
Japan

Swedish Match**Philippines Sales**

P.O. Box 7215
Airmail Distribution Center NAIA
Philippines

Swedish Match**Hong Kong Sales**

c/o Starmax (Hong Kong) Ltd., Suite
503 5th floor, Chinachem Hollywood
Center 1-13 Hollywood Road
Central Hong Kong

**Africa/Middle East
Sales Region****Swedish Match****Africa & Middle East Sales Region**

Centro Comercial Gran Via de
Hortaleza C/Arequipa 1
E-28043 Madrid
Spain

Advertising Products**Swedish Match****Advertising Products Sales**

(head office)
P.O. Box 222
CH-1260 Nyon 1
Switzerland

Swedish Match**Advertising Products Benelux**

Gaverstraat, 35
B-9500 Geraardsbergen
Belgium

Swedish Match**Advertising Products France**

B.P. 10401
F-75814 Paris Cedex 17
France

Swedish Match**Advertising Products Germany**

P.O. Box 260
D-27368 Visselhövede
Germany

Swedish Match**Advertising Products North America**

2951 Flowers Road South
Oxford Building Suite 200
Atlanta, Georgia 30341
USA

Swedish Match**Advertising Products Sweden**

SE-118 85 Stockholm
Sweden

Swedish Match**Advertising Products Switzerland**

Postfach
CH-8604 Volketswil
Switzerland

Swedish Match**Advertising Products UK**

Sword House
Totteridge Road
High Wycombe
Bucks HP13 6EJ
England

Swedish Match *Global Team*

On September 26, 1996, Swedish Match decided to join as principal partner in a Whitbread project organized by the Krantz/Nilson Team for participation in the Whitbread Round the World Race 1997/98.

Whitbread Round the World Race is the largest yacht race circumnavigating the globe. Whitbread is not just a race, it is also one of the greatest challenges and adventures of our time, which creates interest well outside the sailing communities. As a result, the Whitbread race has become one of the world's most TV-exposed sports events which has contributed to the Whitbread project increasingly developing into a commercial project on a sporting basis.

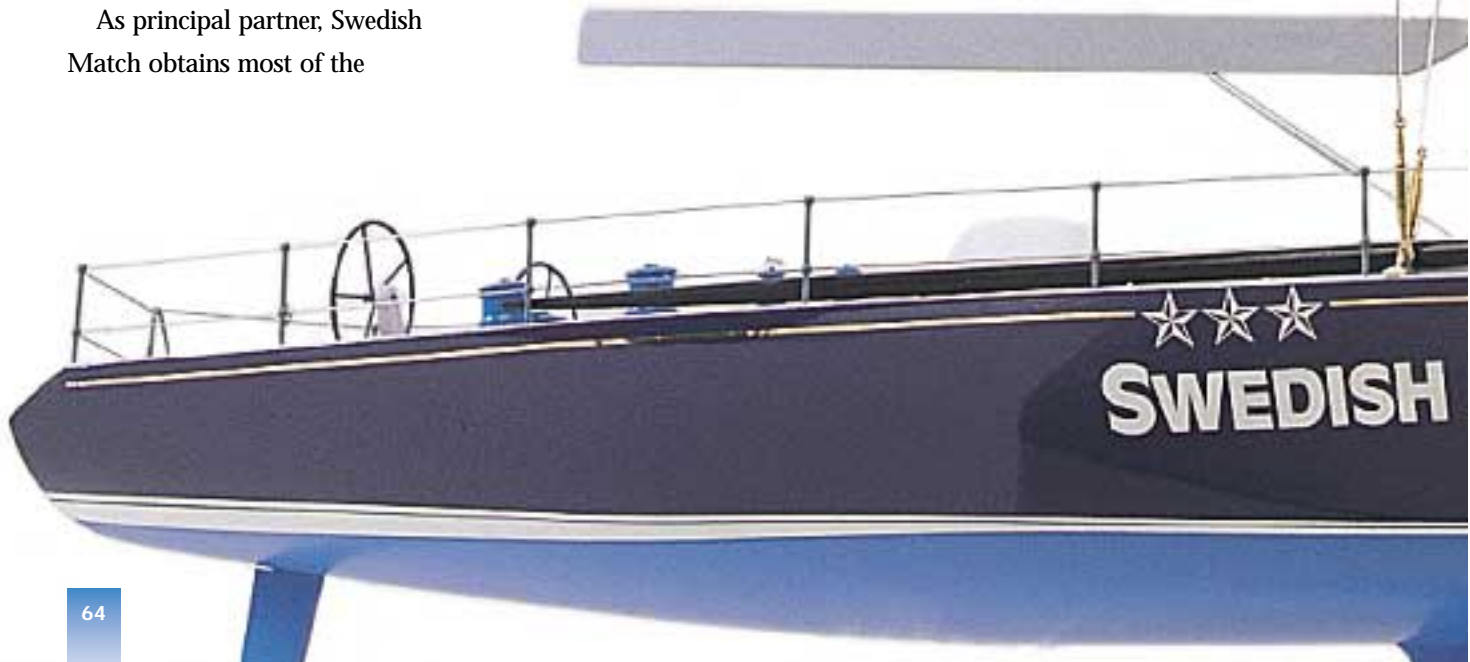
As principal partner, Swedish Match obtains most of the

commercial value which is generated by the project. Swedish Match also has the right to name the project as well as the W60 sailboat.

The Skipper Gunnar Krantz and Co-skipper/navigator Roger Nilson start in Southampton, England with a Swedish/New Zealand ten-man crew on September 21 on the eight months voyage. TV exposure in many countries is expected to be three times greater compared with the 1993/94 race.

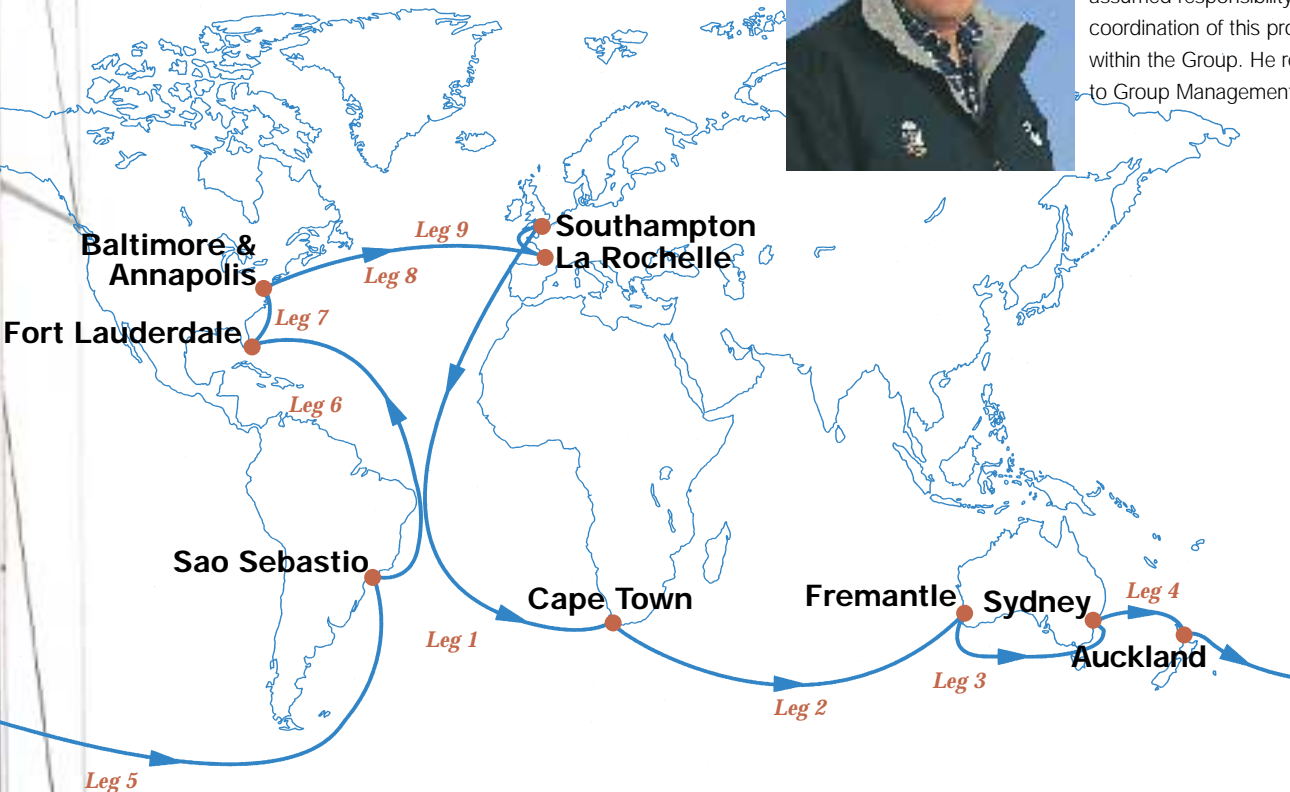
The aim of Swedish Match's involvement in the project is to capitalize on the Whitbread's global character to promote Swedish Match's worldwide operations, strengthen global as well as local brand names and contribute to increase sales in more the 140 markets.

The project will contribute to an external and internal gathering around the Swedish Match name. Moreover, it will be used to create business opportunities and strengthen business relations.





Lars Elmenius, formerly President of Svenska Tobaks AB and Executive Vice President of Swedish Match, has assumed responsibility for coordination of this project within the Group. He reports to Group Management.



Addresses

Product Divisions

Swedish Match

Chewing Tobacco Division

P.O. Box 11588
Richmond, Virginia 23230-1588
USA
Tel. +1 804 287 3220
Fax +1 804 287 3282

Swedish Match

Cigarette Division

SE-118 85 Stockholm
Sweden
Tel. +46 8 658 0140
Fax +46 8 668 7217

Swedish Match

Cigar Division

P.O. Box 306
NL-5500 AH Veldhoven
The Netherlands
Tel. +31 40 250 4604
Fax +31 40 250 4696

Swedish Match

Lighter Division

P.O. Box 222
CH-1260 Nyon 1
Switzerland
Tel. +41 22 363 9111
Fax +41 22 361 9912

Swedish Match

Match Division

P.O. Box 222
CH-1260 Nyon 1
Switzerland
Tel. +41 22 363 9111
Fax +41 22 363 9172

Swedish Match

Pipe Tobacco Division

P.O. Box 11588
Richmond, Virginia 23230-1588
USA
Tel. +1 804 287 3220
Fax +1 804 287 3232

Swedish Match

Snuff Division

Box 77
SE-401 21 Göteborg
Sweden
Tel. +46 31 80 86 00
Fax +46 31 15 61 04

Sales Regions

Swedish Match

North European Sales Region

SE-118 85 Stockholm
Sweden
Tel. +46 8 658 0200
Fax +46 8 720 6928

Swedish Match

West European Sales Region

P.O. Box 306
NL-5500 AH Veldhoven
The Netherlands
Tel. +31 40 250 4604
Fax +31 40 250 4696

Swedish Match

East European Sales Region

SE-118 85 Stockholm
Sweden
Tel. +46 8 658 0200
Fax +46 8 84 20 15

Swedish Match

North American Sales Region

P.O. Box 11588
Richmond, Virginia 23230-1588
USA
Tel. +1 804 287 3220
Fax +1 804 287 3208

Swedish Match

Latin American Sales Region

Caixa Postal 9074
22260 Rio de Janeiro, RJ
Brazil
Tel. +55 21 539 0202
Fax +55 21 286 1849

Swedish Match

Asia/Pacific Sales Region

P.O. Box 222
CH-1260 Nyon 1
Switzerland
Tel. +41 22 363 9111
Fax +41 22 361 9912

Swedish Match

Africa/Middle East Sales Region

Centro Comercial
Gran Via de Hortaleza
C/Arequipa, 1
E-28043 Madrid
Spain
Tel. +34 1 381 6400
Fax +34 1 381 7873

Swedish Match

Advertising Products Sales

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