

ANNUAL REPORT 2004



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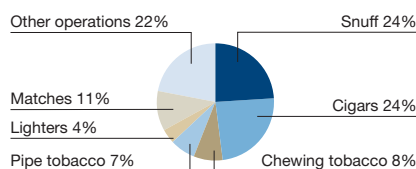
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A certain degree of risk and uncertainty is associated with the forward-looking comments made in this Annual Report. Although Swedish Match considers that these comments constitute reasonable assumptions, Swedish Match cannot guarantee their fulfillment.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

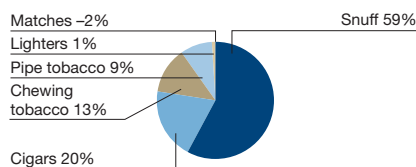
Swedish Match in brief

Swedish Match is a unique company with a broad range of market-leading brands in the product areas snuff, chewing tobacco, cigars and pipe tobacco – niche tobacco products – as well as matches and lighters. The Group's global operations generated sales of 13,007 MSEK in more than 150 countries in 2004. Production facilities are located in 16 countries. The average number of employees during 2004 was 15,039. The Swedish Match share is listed on the Stockholmsbörsen (SWMA).

Net sales by product area, %



Operating income by product area*, %



* Excluding other operations and major one time items.



Snus is currently used by about one million consumers in Sweden. Every fifth snus user is a woman.

This is Swedish Match



SNUFF



CIGARS



CHEWING TOBACCO

Product areas

Swedish Match is the only company with significant international snuff operations. The company holds a leading position in the Nordic snuff market and in South Africa. In the US, the Group has made steady and significant gains in market shares.

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

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

Main brands

Ettan · General · Catch · Grovsnus · Göteborgs Rapé · Timber Wolf · Longhorn · Renegades · Taxi

Macanudo · La Paz · Clubmaster · Willem II · Wings · de Heeren van Ruysdael · Justus van Maurik · Bellman · Garcia y Vega

Red Man · Southern Pride · Granger Select · JD's Blend

Production

Production units:
Sweden
USA
South Africa

Production units:
Belgium
Dominican Republic
Indonesia
Honduras
USA
Germany (jointly owned)

Production units:
USA

Share of Group results

Net sales,
24%



Operating income,
59%



Net sales,
24%



Operating income,
20%



Net sales,
8%



Operating income,
13%





PIPE TOBACCO

Swedish Match is one of the world's largest producers of pipe tobacco. The largest markets for pipe tobacco are North America and Europe. The Group also has a significant presence in South Africa.



LIGHTERS

Swedish Match is one of the players in the international market for lighters. The lighters are sold on a global scale, with Europe – especially Russia – and Asia as the largest markets.



MATCHES

Swedish Match has approximately 10 percent of the world market for matches. The Group's main markets are Western Europe, Brazil, Indonesia and India. The brands are mainly local and extremely strong in their respective home countries.

Borkum Riff · Best Blend · Greve Gilbert
 Hamiltons Blandning · Half&Half · Boxer ·
 Mellow Breeze · Velvet · Paladin ·
 Black & White · 1904

Cricket · Feudor · Poppell

Solstickan · Swan Vestas · Three Stars ·
 England's Glory · Redheads · Fiat Lux · Ship

Production units:

USA
 South Africa

Production units:

Netherlands
 Philippines
 Brazil

Production units:

Brazil
 Bulgaria
 India
 Indonesia (jointly owned)
 China
 Spain (to be closed)
 Sweden
 Turkey
 Hungary

Net sales,
7%



Operating income,
9%



Net sales,
4%



Operating income,
1%



Net sales,
11%



Operating income,
-2%



Swedish Match 2004

Sales in Swedish Crowns were 13,007 MSEK (13,036).

In local currencies, sales were up 3 percent



Operating income amounted to 3,370 MSEK (2,224)



Operating income includes income of 1,521 MSEK from a settlement in a lawsuit relating to marketing and competition in the US, and expenses of 240 MSEK from match impairment charges and provisions



Net income for the year amounted to 1,828 MSEK (1,558)



Earnings per share increased to 5.61 SEK (4.68)



The Board of Directors proposes an increased dividend to 1.90 SEK (1.70)

Key data, MSEK	2004	2003	2002
Net sales	13,007	13,036	13,643
Operating income	3,370	2,224	2,371
Operating income before depreciation	2,869	2,889	3,090
Net income for the year	1,828	1,558	1,429
Earnings per share, SEK	5.61	4.68	4.10
Dividend per share, SEK	1.90*	1.70	1.60
Return on shareholders' equity, %	43.7	38.9	35.2

* Board proposal

Creating value for shareholders is central focus



The year 2004 was yet another strong period for Swedish Match. Earnings and cash flow improved, snuff passed three billion SEK in sales and cigars posted strong growth. With a strong product portfolio, active programs for productivity improvements and a highly solid financial position, we have favorable possibilities to grow further with good profitability and to fulfill the high demands of our shareholders.

First and foremost, thanks are due to all employees for their fine contributions during the year. It would never have been possible to achieve such positive results without their single-minded and self-sacrificing efforts.

During the year, we gradually strengthened the Group's position. Our product portfolio has never been stronger than now and our financial position is the best ever, with a strong cash flow and low indebtedness. We possess a high level of expertise in the organization, strong brands and enhanced competitiveness as a result of the broadening and renewal of the product portfolio. We will continue to build on these strengths on both sides of the Atlantic, and will also be stepping up our efforts in the growing economies in Eastern Europe and Asia, where standards of living and purchasing power

are rising rapidly.

The past year has been eventful for Swedish Match and our shareholders were able to enjoy yet another year of positive returns. Our strategy to create long-term shareholder value is based on several key components:

- organic growth
- structural programs aimed at enhancing productivity
- active measures to improve the capital structure
- complementary acquisitions of companies

Organic growth

Our organic growth is mainly attributable to snuff products and cigars.

We are the only snuff producer to hold a significant position in the international market. We are number one in Northern Europe and a major player in the US, with a market share of slightly less than 9 percent. In South Africa, we are one of two leading players in the market.

Experience shows that smokeless alternatives can be an effective approach for achieving real success in the drive to reduce cigarette smoking. The example set by Sweden is worthy of imitation. Sweden is the first country to have achieved WHO's goal of smokers totaling less than 20 percent of the adult population, at the same time as tobacco use is just as widespread in Sweden as in the rest of Western Europe. How is this possible? The answer lies in Swedish snuff.

As a consequence of this unique pattern of consumption, Sweden has a lower incidence of tobacco-related illnesses than any other comparable country. This is what is commonly referred to in public-health circles as "The Swedish Experience".

The trend is the result of substantial long-term investment in research and development by Swedish Match. Through continued investment and product development, we will strengthen our competitiveness and live up to our aim of working in harmony with social trends instead of against them.

We have been working for a long time to secure the removal of the ban on the sale of Swedish snuff products in the EU. Following the negative ruling of the European Court of Justice in December, the legal route to lifting the ban is now closed. It is now up to the politicians to put the issue on the agenda and get the ban lifted. "The Swedish Experience", combined with the fact that the health risks from oral snuff are considerably lower than those from cigarettes, in particular, clearly point towards a lifting of the ban in the long term.

The snuff product area has doubled its net sales and operating income since the late 1990s. In 2004, sales of snuff products exceeded 3 billion SEK (ending up at 3,081 MSEK), while operating income amounted to 1,373 MSEK.

Our cigars performed strongly during the year, and we see growth potential in this area also. Swedish Match is one



of the world's largest producers of cigars and cigarillos and the second largest globally in terms of sales value. Our largest markets are the US and Western Europe, which also account for the major part of the world market. We noted significant growth in North America during the year, in both the premium segment and the segment for flavored machine-made cigars. We are leaders in the premium cigar segment and also hold a significant, and during the year growing, presence in the segment for machine-made cigars. In Europe, Swedish Match is one of the largest players in several markets.

During 2004, sales for the Cigars product area rose by 5 percent to 3,171 MSEK, while operating income increased by 19 percent to 466 MSEK.

Structural programs

To maintain our competitiveness, we continuously work to improve productivity and ensure that our organizational structure is efficient to keep pace with changes in the business environment. Unfortunately, this resulted in a number of employees becoming redundant and having to leave the company during the year.

An extensive change process was implemented in the Continental Europe division, primarily in the Cigars product area, with the emphasis on improved business processes and personnel reductions aimed at reducing costs and improving the business. A similar program is under way in the North Europe

division. Our global match operations are also undergoing restructuring aimed at improving profitability.

Financial strategy

Swedish Match is continuing with its basic policy of distributing a generous portion of surplus funds to shareholders. Our policy is that surplus funds not needed for operations should be transferred to shareholders in the form of dividends and share buyback programs. The dividend paid in 2004 in respect of operations during 2003 amounted to 558 MSEK. Share buybacks totaled 658 MSEK, which is the maximum amount permitted under the current regulations regarding profit distribution, as laid down in the Swedish Companies Act.

Operations during the year generated a strong cash flow of 3,626 MSEK, representing an increase of 988 MSEK. During 2004, we more than halved our net debt to 527 MSEK, further increasing the company's financial strength.

Efforts to minimize the use of working capital in operations continued, with 338 MSEK (265) being released from working capital during the year.

Investments in fixed assets amounted to 486 MSEK (551). After two years of relatively high investments aimed at increasing production capacity for snuff and cigars, a slightly lower level of investments is now predicted.

The year can be summarized in figures as follows:

- Group sales rose by 3 percent in local currencies. Sales in Swedish kronor were largely unchanged due primarily to the continued weakening of the USD against the SEK. We continued to grow organically, with the growth areas of snuff and cigars both performing strongly. Snuff products grew in terms of volume in the US and Northern Europe, while cigars also showed strong growth, particularly in North America.
- Operating income amounted to 3,370 MSEK (2,224). Operating income for the year includes a number of major one time items, including settlement income and costs for restructuring programs in the form of write-downs of assets and costs for laying off personnel. Excluding major one time items, Group operating income shows a continued improvement, indicating that underlying operations performed well.
- During the year, we achieved major success in North America:
 - Operations broke new records in terms of sales and earnings in local currencies. However, the weaker dollar meant that the increase was smaller in SEK.
 - Following two years of legal action against US Tobacco for illegal anti-competitive activities in the North American snuff market, we reached a settlement during the first quarter. We received a cash payment totaling 200 MUSD and – without payment

– US Tobacco's premium cigar operations, with annual sales of 11 MUSD. The operations were integrated in our premium cigar company, General Cigar, during the second quarter. As a result of the settlement, our financial position was strengthened and market conditions normalized. We have every reason to be pleased with this settlement.

- The outcome for shareholders was favorable, with earnings per share of 5.61 SEK (4.68), an increase of 20 percent. This includes the settlement income from US Tobacco and other major one time items. Share performance during the year was positive, with the share price rising 5 percent, from 73.50 SEK to 77 SEK. A dividend of 1.70 SEK per share was paid during the year.

The past year demonstrates yet again the strength of our strategies.

During the most recent five-year period, Swedish Match has generated a total return – in terms of share price increases including dividends – of 206 percent for the shareholders.

Acquisitions/divestments

No major acquisitions and divestments were made during the year. In January, we received 117 MSEK in proceeds from the sale of our profile clothing operation.

In February 2005, an agreement in principle was concluded relating to the acquisition of the minority shareholding in General Cigar. The acquisition is taking place against the background of strong performance by our premium cigar operations in the US and the opportunity to achieve synergies between our North America division and General Cigar. We believe that earnings per share will be affected positively by the transaction and the subsequent integration of operations.

The future

As I mentioned by way of introduction, the Group has never been stronger. We will continue to develop all of our operations.

In practice, this means that we will continue to develop our snuff products by introducing new and improved variants while expanding our marketing in the longer term to more markets and segments with growth potential. The greatest potential exists in our home markets in Scandinavia and in North America.

In view of these circumstances, we are not concerned about the long-term future of snuff products despite the negative ruling by the European Court of Justice. Furthermore, the EU ruling will be continuously reviewed and tobacco products with lower health risks must be evaluated. In this regard, it is not acceptable to turn a blind eye to "The Swedish Experience", which clearly shows that snus is more beneficial than harmful in society.

A continued positive trend is forecast for our cigar product area, in both North America and Europe. In Europe, organizational changes, cutbacks and additional new product launches are expected to have a positive impact on earnings.

The total markets for chewing tobacco and pipe tobacco in Europe and North America are in a state of continual decline. We have been able to maintain favorable profitability and a strong cash flow through efficiency enhancements, cutbacks and price increases, and by launching our pipe tobacco products in several new markets. Sales of chewing tobacco increased in local currency. During the year, we gained further market shares for our Red Man brand, which celebrated its centenary in 2004 and is still the leading brand of chewing tobacco in the US market. The strategy entails adjustments to match the trend of market demand in addition to diligent

everyday work on products, marketing and sales, and preparations for possible structural changes. Our pipe tobacco operations in South Africa reported record earnings in local currency, and export operations in South Africa are being expanded continuously.

Our lights product operations – matches and lighters – have strong local brands, but price pressure from producers in low-cost countries has led to declining volumes in certain markets. We are actively working with restructurings, efficiency improvements and cost savings to improve our competitiveness and profitability.

Overall, the year showed that Swedish Match has stable and growing operations based on well-established business strategies and a cash flow and financial position that provide us with excellent opportunities to meet the high expectations placed on us by our shareholders.

We have an organization with loyal and skilled employees worldwide. As a result, I am confident that we can continue to build operations for the future that will remain sustainable and profitable long-term.

Stockholm, February 2005

Sven Hindrikes
President and CEO

Harm Reduction

“Harm Reduction”, meaning alternative strategies for reducing the harmful effects of tobacco, continued to be a significant component in international public-health discussions during 2004.

It is well-known that the world’s leading medical and scientific institutions hold the consumption of tobacco products responsible for large-scale human suffering, illness and death. The debate has mainly focused on cigarette smoking, since this is considered to cause the highest incidence of illness, due to the repeated inhalation of smoke. But smokeless tobacco products have not been viewed as harmless, and certain forms of smokeless tobacco have been regarded as causing a substantial risk of illness, albeit on a smaller scale than applies to cigarette smoking.

Public health mission

There are more than one billion cigarette smokers in the world. To date, anti-smoking strategies have had only a limited effect, and the World Health Organization (WHO) estimates that if the present level of consumption continues, half a billion of the people alive today will die as a direct result of cigarette smoking. There is nothing to suggest that tobacco consumption will cease in the foreseeable future. Accordingly, it is a high-priority public-health mission to tackle the problem. The question is how to reduce the harmful effects for those consumers who continue to use tobacco, in parallel with continued efforts to persuade children and young people not to start smoking, to protect people from tobacco smoke in the environment and to encourage and facilitate breaking the smoking habit.

Key role for Swedish snus

Against this background, an increasing number of researchers have begun to advocate harm-reduction strategies. Swedish snus has had a key role in this debate, which has attracted greatly increased attention in scientific publications, in articles in the media and at medical conferences. This is partly because smokeless tobacco products show an entirely different profile from cigarettes in terms of harmful effects. Consumption of smokeless tobacco does not involve any burning and inhalation of toxic substances, which

immediately eliminates the risk of contracting a large number of illnesses that are ascribed to tobacco use. In addition, smokeless tobacco contains a smaller number of undesirable substances than the smoke that comes from combustion.

A significant contribution during 2004 was the evaluation conducted by an international panel that examined low-nitrosamine tobacco products, such as snus, and made a comparison between the health risks associated with these products and the risks from smoking. The panel was financed by the National Cancer Institute in the US and was led by David T. Levy, a professor at the Pacific Institute for Research and Evaluation, Calverton, Maryland. The panel members were unanimous in their final conclusion that the use of snus with a low nitrosamine content reduces the relative health risks by at least 90 percent compared with smoking.

During 2004, a study from Norway was published that claimed to have established a link between consumption of smokeless tobacco products and the incidence of cancer of the pancreas, but the study has several obvious weaknesses.

Nevertheless, the results of this study appear to have influenced the conclusions drawn in a report – still unpublished at the end of 2004 – on an evaluation conducted by the International Agency for Research on Cancer (IARC), a body within the WHO. In the information that has emerged about the evaluation at the time of writing, the conclusion that there is evidence that smokeless tobacco products can cause cancer is retained. It is clear that no distinction was made between the risk profiles for different smokeless products, and the considerably lower risk from snus compared with smoking is not made clear.

The ruling by the European Court of Justice that the snus ban does not violate European law disregards the potential of snus to contribute to improved public health. The ban denies the population access to the considerably less harmful form of tobacco use that snus represents and establishes a virtual monopoly for cigarettes, which have been documented as the most dangerous of tobacco products.

But Swedish Match is continuing with the purposeful research it has been con-

ducting for nearly 20 years, which shows that the content of nitrosamines and other potentially harmful components in smokeless tobacco can be reduced. Swedish Match’s development of Swedish snus under its own GOTHIA TEK® quality designation, with strict limits for undesired components, shows that it is possible to do the same thing for tobacco products as has been done for food products.

GOTHIA TEK® the starting point

Swedish Match does not maintain that smokeless tobacco is harmless. But a growing volume of scientific literature shows that a number of the health risks associated with smoking are nonexistent or minimal for users of Swedish snus. Researchers now refer to GOTHIA TEK® as a starting point for “Harm Reduction” strategies and regulations for tobacco products.

The results obtained by Swedish Match through improved snus technology are thus gaining increasing importance as the global health community grapples with the question of how best to reduce the illnesses associated with tobacco. It is clear that many smokers do not manage, or do not want, to stop using tobacco, and the Swedish experience of persuading large numbers of smokers to switch to snus is potentially a very valuable source of knowledge for an overall strategy to reduce the risks.

Experience in Sweden has shown that tobacco consumption does not need to result in a large number of illnesses. In other industries, such as food, pharmaceuticals and alcohol, different rules apply to different products, and this too suggests that different tobacco products will also be regulated in different ways in due course to make it easier for consumers to choose tobacco and other nicotine products with a lower risk level.

In all probability, interest in work along these lines will increase, and this will foster cooperation between companies, legislators and promoters of public health. The market for tobacco products could thus change as dramatically as did the markets for food and pharmaceuticals when scientifically based regulations came into effect in these areas.

The Swedish Match share

The Swedish Match share is listed on the Stockholmsbörsen in Sweden (and was also listed on the NASDAQ Exchange in the US up to and including October 15, 2004). Total share capital amounts to 807.8 MSEK, distributed among 336.6 million shares with a par value of 2.40 SEK each. Each share carries one vote. A round lot was 500 shares during 2004.

Turnover

Total turnover in 2004 amounted to approximately 449 million Swedish Match shares on the Stockholmsbörsen, with a daily average turnover of approximately 1.8 million shares. The turnover rate, or the liquidity of the share on the Stockholmsbörsen, was 127 percent during the year, compared with the market average of 134 percent.

On August 19, 2004, Swedish Match decided to cancel its program for American Depositary Receipts (ADRs) – symbol SWMAY – and delist the ADRs from NASDAQ. The last day of trading in the ADRs was October 15, 2004. Also after cancellation of the ADR program, Swedish Match is registered with the Securities and Exchange Commission (SEC) in the US.

Price trend

The Company's market capitalization at year-end 2004 amounted to 25.9 billion SEK. The share price increased 4.8 percent during the year, while the SIX General Index rose 17 percent.

The lowest price paid during the year was 67.50 SEK on February 12, and the highest price paid was 83.00 SEK on April 13.

Ownership structure

At year-end, foreign ownership interests corresponded to 72.6 percent of total share capital, an increase of 11.9 percentage points compared with 2003. Swedish ownership interests were distributed among institutions, with 12.1 percent of the share capital, mutual funds with 5.5 percent, and private persons with 9.8 percent. The ten largest shareholders account for 20.0 percent of share capital.

Dividend

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

percent and 50 percent of net income for the year.

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of 1.90 SEK per share (1.70) be distributed to shareholders. This corresponds to a total of 611 MSEK (558), calculated according to the number of shares outstanding at year-end. The proposed dividend amounts to 33 percent (36) of net income for the year.

Repurchase of shares

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

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

Largest shareholders at December 31, 2004^{1, 2}

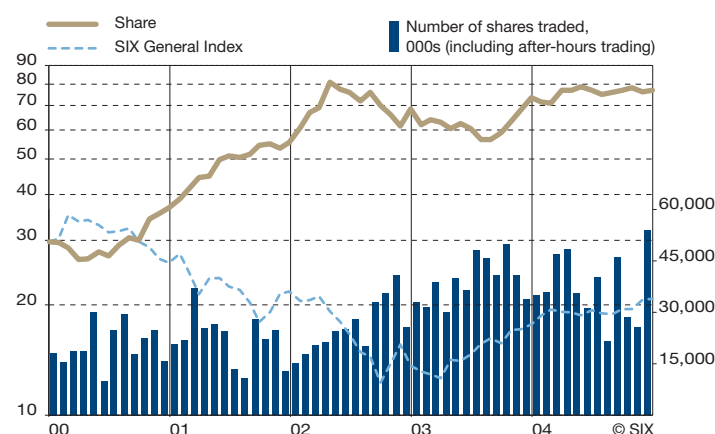
Owner	No. of shares	% of share capital
Fidelity Funds	15,515,385	4.8
Capital Group	12,189,349	3.8
SHB/SPP fonder	7,477,002	2.3
Robur fonder	6,532,565	2.0
SEB	5,063,025	1.6
Threadneedle Inv Fund	4,511,718	1.4
GMO International Funds	3,923,242	1.2
Janus Funds	3,454,223	1.1
Second AP Fund	3,041,202	0.9
Third AP Fund	2,877,342	0.9
Total of 10 largest shareholders	64,585,053	20.0
Others	256,931,840	80.0
TOTAL	321,516,893	100.0

¹ Due to nominee registration, certain shareholders may have larger holdings than what is shown in the share register.

² Registered direct ownership and ownership through trustees. In addition, the company owns 15,079,288 shares acquired through buybacks.

Source: SIS Ägarservice AB

Share performance



Transfers of capital to Swedish Match shareholders

MSEK	2000	2001	2002	2003	2004	Total
Dividends	490	508	535	558	611*	2,702
Redemptions, net	996	–	–	–	–	996
Share repurchases and sale of treasury shares, net	905	1,169	552	904	576	4,106
Total	2,391	1,677	1,087	1,462	1,187	7,804

* Proposed dividend for fiscal year 2004.

Share distribution at December 31, 2004

Size of holding	No. of owners	%	No. of shares	% of capital and votes
1 – 1,000	87,921	92.7	15,927,105	5.0
1,001 – 5,000	5,763	6.1	11,646,207	3.6
5,001 – 20,000	721	0.8	6,879,393	2.1
20,001 – 50,000	139	0.1	4,317,080	1.3
50,001 – 100,000	82	0.1	5,951,507	1.9
100,001 – 1,000,000	179	0.2	56,289,887	17.5
1,000,001 –	55	< 0.1	220,505,714	68.6
Total*	94,860	100.0	321,516,893	100.0

* Excluding shares held by Swedish Match.

Source: SIS Ägarservice AB

Per-share data*

	2000	2001	2002	2003	2004
Earnings per share, basic, SEK					
Excluding major one time items	2.76	3.40	4.10	4.68	3.64**
Including major one time items	2.76	3.40	4.10	4.68	5.61
Earnings per share, diluted, SEK					
Excluding major one time items	2.76	3.38	4.07	4.66	3.63**
Including major one time items	2.76	3.38	4.07	4.66	5.59
Dividend, SEK	1.35	1.45	1.60	1.70	1.90***
Share price at year-end, SEK	36.50	55.50	68.50	73.50	77.00
Shareholders' equity, SEK	12.22	11.73	11.72	12.21	13.55
P/E ratio after tax	13.2	16.4	16.8	15.7	13.7
EBIT multiple	9.0	11.2	11.3	12.3	7.6
Share price/equity	3.0	4.7	5.8	6.0	5.7
Direct return, %	3.7	2.6	2.3	2.3	2.5
Total return, %	32.0	55.6	25.5	10.1	7.0
Average number of shares, basic	410,177,322	361,506,184	348,295,163	332,679,210	325,708,645
Average number of shares, diluted	410,196,494	363,016,335	350,894,438	334,162,492	327,013,542
Number of shareholders	105,950	101,200	100,260	98,425	94,860

* Where appropriate, adjusted for bonus issue element at redemption. As of 2001, Swedish Match follows the Swedish Financial Accounting Standards Council's Recommendation RR 9 in regard to income tax. Comparative figures for 2000 have been adjusted in accordance with these accounting principles.

** Excluding settlement income from UST and match impairment charges and provisions of 1,281 MSEK, net.

*** Board proposal.

Long-term growth and sustainable value creation

Swedish Match's business concept is to be the unique tobacco company, with world-leading brands and niche products in growing markets, that works in line with social and consumer trends.

Swedish Match's main strategies are aimed at achieving solid and sustainably profitable operations that provide satisfaction to consumers and value to shareholders.

The Group shall enhance its competitiveness through continuous improvements to productivity, renewal of the brand portfolio and a constant focus on structural measures.

Long-term growth will be prioritized. It is intended that growth will primarily be organic, supplemented by selected acquisitions. Brand-building and product broadening are cornerstones in the Group's efforts to achieve organic growth.

The Group's financial position shall be optimized based on balancing the Group's operational and financial needs and the need to create value for share-

holders. This will involve working actively to make the balance sheet more efficient, maximize the return on capital employed and generous transfers of surplus funds to shareholders.

Swedish Match shall practice sound risk management based on a high standard of corporate governance.

Product area strategies

Snuff

Snuff has increasingly become an accepted form of tobacco use. The trend is driven by the increasing medical awareness of the health hazards caused by cigarette smoking and the constantly expanding political measures to reduce or eliminate smoking. This means that more and more cigarette smokers in an increasing number of countries will be demanding alternatives to cigarettes.

There is a clear link between the decline in cigarette smoking and the growth of snus consumption over many years in Sweden. A number of independent scientific studies have provided documentary evidence that the health risks associated with snus are considerably lower than the risk from cigarette smoking.

Swedish Match's growth strategy for snuff focuses on attaining leading international market positions. The Group is the largest player in Northern Europe and one of four players in the world's largest snuff market, the US, where it is well positioned in the rapidly growing value segment. The strategy is aimed at further strengthening these positions and developing snuff as a smokeless alternative in an increasing number of markets.

Cigars

Swedish Match is among the leading players, holding the number two position in the world in terms of cigar sales and the number one position in the premium segment in the US, the world's largest cigar market.

Swedish Match's strategies for cigars are to strengthen its market positions in the two main markets – the US and Europe, to focus on global growth segments and segments where its presence can be increased. During the past few years, there has been strong demand for various types of flavored cigars, a trend that Swedish Match has been able to



successfully exploit, particularly in the US. The strategy is also aimed at expanding the market for the Group's strong brands in the US premium segment to also cover an increasing number of countries in Europe and Asia.

Chewing tobacco and pipe tobacco
Swedish Match is number one in chewing tobacco in the world's only large market for the product, namely the US, and is one of the world's largest players in the pipe tobacco segment. Both of these product areas are characterized by declining demand, with low recruitment

of new consumers. The operations show favorable profitability with a strong cash flow and make a positive contribution to the Group's strength.

Swedish Match is prioritizing and evaluating new smokeless tobacco alternatives. The strategic focus on product development will continue, in order to broaden the product offering and increase the proportion of new markets.

The strategy involves continuously increasing productivity and strengthening market positions to sustain good profitability.

Lighters and matches

Swedish Match is the world's largest producer of matches and has a wide geographic spread of lighter sales. The market for matches is declining, while the market for lighters has stagnated. Both products are exposed to intense price competition from low-cost countries. Accordingly, Swedish Match is strategically prioritizing efforts to increase efficiency and tighten control of costs, combined with structural measures and continuous product development aimed at strengthening margins and market shares.

Cash flow

MSEK	2000	2001	2002	2003	2004
Operations					
Income after financial items	1,710	1,840	2,126	2,174	3,206
Depreciation, amortizations and write-downs	543	670	651	665	932
Other	51	78	-53	49	-31
	2,304	2,588	2,724	2,888	4,107
Taxes paid	-590	-634	-241	-515	-819
Cash flow from operations before changes in working capital	1,714	1,954	2,483	2,373	3,288
Cash flow from changes in working capital	-769	-345	102	265	338
Cash flow from operations	945	1,609	2,585	2,638	3,626



Swedish Match – a brand company



Swedish Match products are some of the global retail sector's most common products. Matches, lighters and tobacco products are sold in most types of convenience stores, from large shopping centers to the local service store on the corner in most countries around the world. As a result, the Group's brands are exposed daily to millions of consumers.

The early international history of Swedish Match within matches and tobacco products forms part of the background for this global coverage.

The distribution and sales organization and marketing activities are adapted to meet national and local market requirements, which can vary strongly depending on legislation, industrial development, traditions and consumer patterns. The distribution chain extends basically from Swedish Match warehouses situated adjacent to production units to wholly owned national sales companies, for the most part, or independent distributors and, ultimately, to the retail sector. In some markets, wholesalers are also involved as an intermediate link in the chain.

Consumer confidence in Swedish Match brands is the most critical success factor. The brands often represent substantial investments over long periods of

time in product development, quality development, packaging, distribution, marketing and sales. Many of the Group's brands are some of the oldest, and yet very vibrant, brands in international and local retail business operations.

Brand loyalty in the tobacco market is unique – the choice of a tobacco brand often entails a loyalty that extends over several decades.

Brand responsibility is delegated to marketing divisions operating in close proximity to distribution and sales activities conducted in constant contact with customers and consumers. Swedish Match sales personnel offer customers advice about product quality and handling, sales support, marketing and store display materials and cooperate with customers in the planning and implementation of sales campaigns and product displays. This work, combined with continuous customer contacts and surveys, creates knowledge and experience related to brand profiling and positions.



Awareness, flexibility and speed are the key words for Swedish Match branding activities. Its long and vibrant brand tradition must be nurtured continuously with new schools of thoughts and revisions.

- In preparation for the impending ban on smoking in restaurants in Sweden, the Group introduced snuff vending machines, "snusomater," in restaurants, bars, pubs and cafés in December 2004.
- **Cricket**, launched in 1961, was the world's first disposable lighter.

- The match brand **Three Stars** is 120 years old, intended mainly for export.
- **Solstickan**, the Swedish match brand, features one of Sweden's most widely recognized symbols, the Solsticke boy.
- **Borkum Riff** is not only the world's leading pipe tobacco brand, but also the first to be sold in a variety of different flavors. Whiskey was launched in 1962 and remains the most popular.
- The match brand **Redheads** is a cult icon in Australia, where contests are held annually featuring competitions between caricatures and new versions of Miss Redheads.



- The cigar family **Willem II** was created in 1916 and the cigars are sold today in 80 countries.
- In 1977, Swedish Match became the first company to introduce snus in **portioned pouches**.
- **Macanudo** is the leading premium cigar brand in the US and the world's best-selling, hand-rolled cigar.
- Swedish Match has been active with brand extension in the form of Grillbags, Firelogs and Firelighters sold under well-known match brands.
- **Red Man**, the leading chewing tobacco brand in the US, has been produced using the same ingredients for more than 100 years.
- "**Ettan**", the Swedish snus brand, was created in 1822 – more than 180 years ago!



SNUFF

There are nearly one million snus consumers in Sweden and 400,000 of them use General.



General

There are nearly one million snus consumers in Sweden and 400,000 of them use General. General is a snus that stands for discreet elegance and uncompromising quality, with deep roots in the many hundreds of years of Swedish snus traditions.

When the Swedish Tobacco Monopoly was established in 1915, and took over all snus production in the country, there were 103 different brands – most of which were produced by small, local companies. A few years later, the number of brands had been reduced to 17. Several are still on the market. General is one of them.

Despite its name, General has never had any connection with generals. General snus was the producer's designation for a "general" snus that was sold without a proprietary brand. The flavor of general snus could vary a great deal, since the blend was adjusted to the availability of tobacco and other ingredients.

Eventually, the ingredients were standardized, even for the general snus. But the name lived on. In Gothenburg, which quickly became the capital city Swedish snus, several snus producers sold a general snus brand.

The ingredients used by Swedish Match today are basically the same as the secret recipe that was acquired by the Swedish Tobacco Monopoly from a local producer in Gothenburg back in 1915. Swedish Match has developed General into a classic brand that stands on historical grounds, while also offering values that are attractive in today's price-conscious society.

Catch

Launched in 1999, Catch may be described as tobacco for the 21st century, with its new flavors and practical portioned pouches for the modern metropolitan lifestyle. An alternative for trend-conscious consumers.

Catch is a portioned snus sold in normal and mini-pouches for simple and discreet use. Catch Dry is an alternative for consumers who prefer a slightly drier variety. Catch is sold in Licorice, Vanilla Coffee, Cassis Menthol and Eucalyptus flavors.



MACHINE-MADE CIGARS

Bellman, a brand that combines tradition with modern consumer demands.

Bellman

Bellman is the oldest and best-selling Swedish cigar brand. Production was started in 1865 by the firm Renard & Elbe in Stockholm, and Bellman has been appreciated for generations as a classic, traditional, natural and unpretentious cigar.

Bellman is the market leader in Sweden and Norway.

In 2003, a new design was introduced for the entire Bellman family. A more distinctive logo and uniform brand presentation was introduced in all Nordic markets in 2004. The launch of the "New" Bellman was combined with an extension of the brand to also include flavored cigars, which are noting increased demand throughout the western world. In addition to Bellman Gold and Bellman Silver (with a slightly milder taste), vanilla-flavored Bellman Moments are now also available. As a result, Bellman today is a modern and leading brand that combines tradition with modern consumer demands.



PREMIUM CIGARS

Partagas, a cigar brand with traditions from 19th century Cuba, has rekindled an old tradition – a cigar that can be launched seasonally.



Partagas Cifuentes Blend

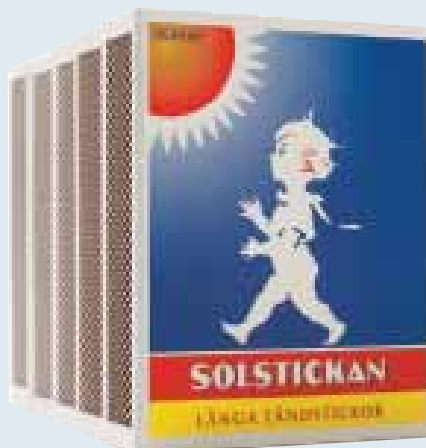
Partagas was created as a cigar brand in Cuba in 1845 by the Spanish settler Jaime Partagas. His descendants, father and son Ramón Cifuentes, made Partagas the leading cigar brand in Cuba. Two years after the Cuban revolution, in 1961, Ramón Cifuentes was forced to leave Cuba, never to return. Seventeen years later, he successfully started producing Partagas cigars again, in the Dominican Republic.

The family also used its Cifuentes name for a proprietary, relatively small brand in Cuba before the revolution in 1959. The brand was re-launched in 2004, with a strong link to Partagas, under the name Partagas Cifuentes Blend, complete with a new packaging design. The launch as a limited edition under the name Cifuentes Blend Fall Selection rekindled an old tradition – a cigar that can be launched seasonally.



MATCHES

Matches from Swedish Match – well-known brands in Sweden, Benin and Cape Verde.



Solstickan

Solstickan is one of Sweden's best-known brands, and the Solsticke boy is one of the country's most recognized pictorial symbols.

The Solstickan Foundation was established in 1936 to collect money for "the benefit of children and the elderly." The strategy was simple but ingenious: to collect money through sales of matches, an inexpensive but necessary everyday commodity. Almost nobody would have refused to buy them if the price had been raised by half an öre (small fraction of a penny) per box. Especially not if they knew the money was going to a worthy cause. Since the matchboxes were sold by the millions, the millions of half-öres soon added up to big money.

The artist Einar Nerman was commissioned to design the matchbox cover, and he created the Solsticke boy, using his son Tom as the model.

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

Three Stars

Three Stars is a 120-year old, international brand that originated from Westra Tändsticksfabriken in Jönköping.

Three Stars has served mainly as a brand for exports. The original matchbox design carried the Jönköping name as a quality guarantee for the plant's world-famous matches. Like many other successful brands, it has been exposed to plagiarism attempts, with variations featuring both four and five stars.

Thanks to the brand's long traditions and strong consumer loyalty, it is not surprising

CHEWING TOBACCO

After 100 years, Red Man is stronger than ever.

The wrapper for this cigar is grown in San Augustin Valley in Honduras. It is allowed to grow longer than normal on the tobacco plantation to provide an exceptionally full flavor. The binder and filler leaves consist mainly of tobacco from Nicaragua.

Consumer opinions of this re-born brand that was launched in 2004 have been highly positive. Swedish Match sells Partagas brand cigars solely in the US.



Red Man

It was long before the age of the automobile, a time when horse and wagon took pioneering settlers to "The Wild West", and Grover Cleveland was the US President, when a young American named John W. Pinkerton started a tobacco company in 1887. He developed a chewing tobacco blend that, in 1904, was known as Red Man.

During the 1900s, Red Man became the leading brand of chewing tobacco, and it's still the leader today. The brand went nationwide in 1963, with sales in 42 of the 50 US states, and the product was re-launched during the

1980s and 90s. Red Man celebrated 100 years in 2004, stronger than ever with a leading market position.

The Swedish Match Group's category leadership in the American retail sector is a key factor for continued success. Its position is defended and strengthened through new products, and its sales and marketing strategies are designed to safeguard the Group's position as the leader in this tobacco segment.

Marketing activities are conducted in partnership with producers of premium products for hunters and fishermen.



that the design of the export matchbox has changed very little throughout its 120-year history. Three Stars matches are produced today at the Swedish Match plant in Tidaholm in Sweden. The brand is the Group's globetrotter, and is exported to many markets in Africa and the Middle East, including Ethiopia, Kenya, Mozambique, South Africa, Namibia, Benin, Ghana, Gambia, Mauritius, Egypt, Cape Verde, Guinea/Conakry and Uganda.

Board of Directors' Report 2004

Net sales

Net sales for the year in Swedish kronor amounted to 13,007 MSEK (13,036). In local currencies, sales rose by 3 percent.

Sales of snuff amounted to 3,081 MSEK (2,995), up 3 percent. In local currencies, sales rose by 6 percent. Volumes in Scandinavia rose by 1 percent and in the US by 3 percent, expressed in terms of the number of cans sold.

In the Swedish market, the volume increase during the year was lower than in earlier years due to a decline in the rate of overall market growth and increased competition. According to Nielsen data, the company's share of the US market was 8.9 percent, compared with 9.1 percent in the preceding year.

In local currency, sales of chewing tobacco in the US increased. Sales of cigars totaled 3,171 MSEK (3,008), up 5 percent. In local currencies, sales rose by 13 percent. In the US, volumes for machine-made cigars rose as a result of the broadened and renewed product portfolio coupled with an expanding market. Volumes of premium cigars also rose in the North American market. The volume trend in European markets was distributed unevenly between different countries but overall volume slightly exceeded that of the preceding year. Sales of pipe tobacco and accessories amounted to 901 MSEK (909).

Sales for the Matches product area decreased by 1 percent to 1,378 MSEK (1,395). Sales volumes declined in all significant markets. Expressed in Swedish kronor, the Lighters product area also noted a decrease in sales to 582 MSEK (599), but showed a slight increase expressed in local currency.

Operating income

Operating income included income of 1,521 MSEK from a settlement with the UST Group and an expense of 240 MSEK for a write-down in match operations and provisions for the acquisition of shares in Wimco Ltd. Excluding these items, operating income for the year amounted to 2,089 MSEK (2,224), a decrease of 6 percent. The decrease was due to extensive restructuring measures in Europe, which generated costs of 235 MSEK, and the one time effect on operating income for snuff operations deriving from the company's repositioning of American Timber Wolf snuff, which totaled 50 MSEK. Operating income was also affected by negative translation effects totaling 94 MSEK when the earnings of foreign subsidiaries were translated into SEK, primarily because of the weaker USD.

Major one time effects

In March, Swedish Match reached a settlement with the UST Group in regard to a dispute between Swedish Match North America, Inc. and US Smokeless Tobacco company and its subsidiaries (UST). According to the settlement, Swedish Match received a cash payment of 200 MUSD and UST transferred its cigar operations to Swedish Match. Operating income was positively affected by the settlement in an amount of 1,521 MSEK, after deduction for special legal expenses, and earnings after tax were affected positively in an amount of 881 MSEK.

During the third quarter of 2004, the Supreme Court of India upheld a ruling from the Securities and Exchange Board

Net sales and operating income by product area

MSEK	Net sales			Operating income		
	2004	2003	2002	2004	2003	2002
Snuff	3,081	2,995	2,788	1,373	1,386	1,233
Chewing tobacco	1,058	1,146	1,333	304	336	406
Cigars	3,171	3,008	3,318	466	393	472
Pipe tobacco and Accessories	901	909	843	220	201	164
Matches	1,378	1,395	1,648	-57	83	221
Lighters	582	599	700	7	14	56
Other operations	2,836	2,984	3,013	-224	-189	-181
Subtotal	13,007	13,036	13,643	2,089	2,224	2,371
Settlement income, UST	-	-	-	1,521	-	-
Match impairment charges	-	-	-	-150	-	-
Provisions for acquisition of shares in Wimco Ltd.	-	-	-	-90	-	-
Total	13,007	13,036	13,643	3,370	2,224	2,371

of Indias requiring that Swedish Match make a public offer to acquire 20 percent of the 26 percent of the shares outstanding in Wimco Ltd. An amount of 90 MSEK for acquisition costs, interest and overhead for the acquisition has been expensed. The costs related to the acquisition of the shares in Wimco Ltd are not expected to be tax-deductible.

As a result of the weak trend of earnings in the Matches product area, the value of the assets in Matches operations was tested for impairment during the third quarter. The calculation, which was based on a cash-flow analysis, resulted in an impairment charge of 150 MSEK. The charge is not expected to be tax-deductible.

Other operations

Other operations include the distribution of tobacco products in the Swedish market, sales and distribution of advertising and other products in Europe, corporate overheads, costs for business development and certain legal expenses. For the year, net expenses for other operations were 224 MSEK (expense: 189). Earnings were charged with 29 MSEK for provisions related to severance pay and other items for the former CEO plus expenses of 15 MSEK for the closure of a distribution center in Malmö, Sweden.

Research and development

Swedish Match conducts a certain amount of research and development in Sweden and the US, mainly related to the characteristics of the tobacco plant and tobacco. Costs of 113 MSEK (100) for research and development are included in the company's selling expenses.

Net financial expense

Net interest expense for the year amounted to 163 MSEK (expense: 54). Net interest for the preceding year included a gain of 120 MSEK pertaining to the cancellation of interest rate swaps. Net, other financial items amounted to an expense of 1 MSEK (4).

Taxes

Total tax expense for the year amounted to 1,314 MSEK (572), corresponding to an overall tax rate of 41 percent. The tax rate was temporarily increased as a result of the 42 percent tax charge on the settlement income received from UST, and because of the cost provision for acquiring shares in Wimco Ltd, the impairment charge on matches assets and because certain restructuring costs are not expected to be tax-deductible.

Earnings per share

Earnings per share for the year amounted to 5.61 SEK (4.68), including the effect of the UST settlement income and major one time costs.

Summary of consolidated income statement

MSEK	2004	2003	2002
Net sales	13,007	13,036	13,643
Operating income	3,370	2,224	2,371
Net financial expense	-164	-50	-245
Taxes	-1,314	-572	-648
Minority interest	-64	-44	-49
Profit for year	1,828	1,558	1,429
Earnings per share, SEK	5.61	4.68	4.10

Summary of consolidated balance sheet

MSEK	2004	2003
Fixed assets	6,735	7,126
Inventories	2,476	2,676
Current receivables	2,408	2,634
Liquid funds	3,002	2,666
Total assets	14,621	15,102
Shareholders' equity	4,358	4,010
Minority interests	473	597
Provisions	3,111	2,119
Long-term liabilities	2,580	4,601
Current liabilities	4,099	3,775
Total shareholders' equity and liabilities	14,621	15,102
Operating capital	7,054	8,377
Net debt	527	2,715

Summary of consolidated cash flow statement

MSEK	2004	2003	2002
Cash flow from current operations	3,626	2,638	2,585
Cash flow from investing activities	-471	-625	-717
Cash flow from financing activities	-2,779	-1,327	-1,366
Cash flow for the year	376	686	502
Liquid funds, at the beginning of the year	2,666	2,016	1,606
Translation differences in liquid funds	-40	-36	-92
Liquid funds at year-end	3,002	2,666	2,016

Distribution of surplus funds

Dividend

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

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of 1.90 SEK per share (1.70) be distributed to shareholders. This corresponds to a total of 611 MSEK (558), calculated according to the number of shares outstanding at year-end. The proposed dividend amounts to 33 percent (36) of net income for the year.

Repurchase of Company shares

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

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

Share structure

At the Annual General Meeting in April 2004, approval was given for a reduction of the share capital in an amount of 36 MSEK by canceling 15 million shares. This reduction was registered in October. Following the reduction, the Company's share capital amounts to 807.8 MSEK, represented by 336,596,181 shares, each with a par value of 2.40 SEK. During the year 8,834,948 shares were repurchased at an average price of 74.52 SEK. Overall, the shares repurchased over time have been purchased at an average price of 49.30 SEK. In addition during 2004, 2,018,660 previously repurchased shares were sold when holders of options exercised their redemption rights. At December 31, 2004, the Company held 15,079,288 of its own shares, corresponding to 4.5 percent of the total number of shares. The total number of shares outstanding, net after buybacks, amounted to 321,516,893 at year-end. In addition, at year-end the Company held issued call options on its own holding corresponding to 4,848,549 shares, with exercise successively from 2004 to 2009.

As approved by the shareholders at the Annual General Meeting, the Company has a mandate to repurchase its treasury shares in such numbers that the Company's holding at any given time does not exceed 10 percent of all the shares in

the Company. In accordance with the decision of the Annual General Meeting, repurchased shares may be used to acquire companies and to cover options issued within the framework of the Company's options program. The Board of Directors will propose to the Annual General Meeting in April 2005 that the mandate to repurchase shares not exceeding 10 percent of all the shares in the Company be renewed. It will also be proposed that 12,000,000 previously repurchased shares be cancelled.

Furthermore, the Board has decided to propose that the Annual General Meeting approve a reduction in share capital by decreasing the par value of shares from 2.40 SEK to 1.20 SEK and a reduction of 114 MSEK in the statutory reserve. As a result of the reduction, 532 MSEK will be transferred from restricted shareholders' equity to non-restricted shareholders' equity. It is proposed that the resulting funds be used for the repurchase of the Company's shares.

Liquid funds

At December 31, 2004, cash and bank deposits plus short-term investments amounted to 3,002 MSEK, compared with 2,666 MSEK at the beginning of the year. In addition to liquid funds, Swedish Match had a confirmed line of credit totaling 2,250 MSEK at year-end. The credit facility includes a borrowing restriction – or covenant – that operating income after financial items plus interest expense, divided by interest expense (interest coverage ratio) must amount to at least 3.0. For 2004, the interest coverage ratio was 13.1.

Financing

Interest-bearing loans amounted to 3,529 MSEK at December 31, 2004. The Group's main financing is effected through a Swedish medium-term note program of 4,000 MSEK and a global medium-term note program with a framework amount of 1,000 MEUR. Utilization of these programs amounted to 3,186 MSEK at December 31, 2004.

During November, Swedish Match prematurely redeemed bonds due to mature on October 1, 2006 with a nominal value of 120 MEUR. The bonds were redeemed to provide the Company with a more balanced maturity profile in the loan portfolio.

Investments and depreciation

The Group's direct investments in tangible fixed assets amounted to 486 MSEK (551). Total depreciation according to plan amounted to 654 MSEK (665), of which depreciation of tangible fixed assets amounted to 332 MSEK (346) and amortization of intangible assets amounted to 322 MSEK (319). The amortization of intangible assets comprised 147 MSEK (107) relating to trademarks, etc. and 175 MSEK (212) relating to goodwill.

Equity/assets ratio and net debt/equity ratio

At the end of the fiscal year, the Group's equity/assets ratio amounted to 33.0 percent, compared with 30.5 percent a year earlier.

At the end of 2004, the Group had interest-bearing loans that exceeded liquid funds by 527 MSEK. The corresponding amount at the end of the preceding year was 2,715 MSEK. As yet unpaid tax in regard to the settlement income from UST, amounts to 410 MSEK. The net debt/equity ratio – that is, net debt as a percentage of shareholders' equity and minority interest – amounted to 10.9 percent at December 31, 2004.

Other events

During the first quarter the sales of the clothing portion of Swedish Match's advertising products business to New Wave Group AB was completed. The divestment resulted in a cash flow of 117 MSEK to the Company from the sales proceeds and repayment of loans.

On June 8, The European Court of Justice (ECJ) held a hearing related to the ban of certain oral tobacco products not intended to be chewed (i.e. snus) within the European Union. On December 14, the ECJ upheld the ban.

Earlier, an announcement was made that Swedish Match would end its American Depository Receipts (ADRs) program and delist from Nasdaq. The last day of trading of ADRs was on October 15.

On October 22, a law was enacted in the US, which requires tobacco companies to fund a "buy-out" for tobacco farmers. The law stipulates that the cost for this shall be paid by the tobacco companies that operate in the US. The assessment for each company is based on the relative size of each tobacco segment and then its market share in each segment. The act was effective from the fourth quarter of 2004 through the third quarter of 2014. For Swedish Match the impact is increased costs in the range of 3.5 MUS\$ per year, which depends on the relative size of each tobacco segment and Swedish Match's relative share in each segment in later years.

Events after the period

On January 20, 2005, the decision to cease production and close the Valencia match factory in Spain was announced. This decision was due to operating losses and declining match volumes in Europe. The closure is expected to be completed in the first half of 2005 and will result in charges for severance pay etc. in the magnitude of 30 MSEK.

Changed accounting principles – Transition to IFRS

The financial statements for fiscal year 2004 are prepared in accordance with Swedish Generally Accepted Accounting Principles ("Swedish GAAP") whereas the financial statements for fiscal year 2005 will be prepared in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS is due to a regulation by the European Union stating that all publicly traded companies within the European Union shall prepare consolidated financial statements fully in compliance with IFRS from and including fiscal year 2005.

According to the rules, IFRS has to be applied retrospectively for fiscal year 2004 for comparison reasons and restated figures for 2004 has to be included in the financial reports for 2005. However, the accounting of financial instruments (IAS 32 and IAS 39) and of share-based options (IFRS 2) is exempt from retrospective application and will not be restated by Swedish Match. Restated figures for 2004 will not be reported.

For Swedish Match, the transition to IFRS will change the accounting of biological assets (IAS 41), goodwill

(IFRS 3 and IAS 38), financial instruments (IAS 32 and IAS 39) and share-based options (IFRS 2). The accounting principles for employee benefits (IAS 19) was already adopted on January 1, 2004, under Swedish GAAP whereas Swedish Match's financial statements already comply with IAS 19.

Changes in financial statements due to transition to IFRS
Special treatment will apply for biological assets under IFRS, whereas these assets are treated according to the same rules as for other fixed assets under Swedish GAAP. The special treatment of biological assets is outlined in IAS 41 – *Agriculture*. According to IAS 41, biological assets shall be reported at its fair value at each reporting date. The change in fair value may be attributable to physical changes or changes in market prices of biological assets. Increments or decrements in the fair value of a biological asset shall be recognized in the income statement as gains or losses. This implies that the income statement will reflect an assessed net growth in addition to actual harvest or felling. The new rules also affect the accounting of

inventory as the initial measurement of agricultural produce shall be reported at its fair value. Swedish Match's biological assets consist of forestry and leaf tobacco plants. The restated book value of biological assets amounts to 98 MSEK which compares to the book value according to Swedish GAAP of 76 MSEK.

The accounting for goodwill will change in two respects; the criteria for recognizing goodwill in a business combination has been determined in more detail and the rules for amortization have changed. The new rules for accounting of goodwill are mainly outlined in IFRS 3 – *Business combinations* and IAS 38 – *Intangible assets*. The way of performing a purchase price allocation is made more rigorous in IFRS 3 compared to Swedish GAAP and requires more intangible assets to be identified prior to the recognition of goodwill. The useful lives of the intangible assets will be determined as finite or indefinite. Finite lived intangible assets will be amortized according to plan whereas amortization according to plan will cease for indefinite lived intangible assets. Indefinite lived intangible assets will instead be tested for impairment annually. Goodwill will by definition always have an indefinite useful life. Under present Swedish GAAP, all intangible assets, including goodwill, are determined to have finite useful

lives and are amortized according to plan. For Swedish Match, the restated 2004 financial statements will not amortize goodwill whereas the book value of goodwill will increase by 167 MSEK and operating profit by 175 MSEK.

The rules for reporting of share-based payments (such as Swedish Match's option program), IFRS 2, imply that an assessed fair value of the options shall be expensed at grant date.

The rules for reporting of financial instruments, IAS 39, mainly imply that financial instruments shall be reported at fair value at each reporting date.

The changes due to the application of IFRS 2 and IAS 39 will effect Swedish Match's financial reporting for 2005. Comparative figures for 2004 will not be prepared as retrospective application is not required according to the transition rules.

Comparison of financial statements according to Swedish GAAP and IFRS

In the tables below, the financial statements according to Swedish GAAP is accompanied with the restated financial statements according to IFRS as well as the reconciliation between the two.

Consolidated adjusted opening balance per January 1, 2004, in summary

MSEK	Reported, Dec 31, 2003	Biological assets, IAS 41	Pensions, IAS 19	IFRS Jan 1, 2004
Intangible fixed assets	3,648			3,648
Tangible fixed assets	2,862	8		2,869
Financial fixed assets	616		108	724
Current operating assets	5,310			5,310
Liquid Funds	2,666			2,666
Total assets	15,102	8	108	15,218
Shareholders' equity	4,010	5	-257	3,758
Minority interests	597	0	7	604
Provisions	2,119	2	357	2,478
Long-term loans	4,535			4,535
Other long-term liabilities	66			66
Short-term loans	846			846
Other current liabilities	2,929		0	2,930
Total shareholders' equity, provisions and liabilities	15,102	8	108	15,218

Consolidated adjusted closing balance per December 31, 2004, in summary

MSEK	Reported, Dec 31, 2004	Goodwill, IAS 38	Biological assets, IAS 41	IFRS, Dec 31, 2004
Intangible fixed assets	3,285	167		3,452
Tangible fixed assets	2,690		22	2,712
Financial fixed assets	760			760
Current operating assets	4,884			4,884
Liquid Funds	3,002			3,002
Total assets	14,621	167	22	14,809
Shareholders' equity	4,358	143	15	4,516
Minority interests	473	7	1	481
Provisions	3,111	16	6	3,134
Long-term loans	2,559			2,559
Other long-term liabilities	21			21
Short-term loans	970			970
Other current liabilities	3,129			3,129
Total shareholders' equity, provisions and liabilities	14,621	167	22	14,809

Consolidated Income Statement in summary

MSEK	Reported, Jan-Dec 2004	Goodwill, IAS 38	Biological assets, IAS 41	IFRS, Jan-Dec 2004
Net sales, including tobacco tax	21,705			21,705
Less tobacco tax	-8,698			-8,698
Net sales	13,007			13,007
Cost of goods sold*	-7,262		15	-7,247
Gross profit	5,745		15	5,760
Sales and administrative expenses **	-3,575			-3,575
Amortization intangible assets	-322	175		-147
Shares in earnings of associated companies	1			1
	1,849	175	15	2,040
Settlement income	1,521			1,521
Operating income	3,370	175	15	3,561
Net interest expens	-163			-163
Other financial items, net	-1			-1
Net financial items	-164			-164
Income before taxes	3,206	175	15	3,396
Taxes	-1,314	-18	-4	-1,336
Minority interests	-64	-8	-1	-72
Net income for the period	1,828	149	10	1,988
Earnings per share, basic, SEK	5.61			6.10
Earnings per share, diluted, SEK	5.59			6.08

* Including write-downs in match operations with 150 MSEK

** Including provision for acquisition of shares in Wimco Ltd. of 90 MSEK



Portion-packed snus becoming increasingly popular

Sales and operating income in 2004

Sales in 2004 amounted to 3,081 MSEK (2,995), an increase of 3 percent. Sales in local currency increased by 6 percent. Volumes in northern Europe increased by 1 percent, measured as the number of cans sold, and by 3 percent in the US. In the Swedish market, volume growth during 2004 was weaker than previous years due to a slowdown in total market growth and increased competition.

Operating income declined to 1,373 MSEK (1,386). In local currencies, operating income increased by 1 percent. The operating margin was 44.6 percent (46.3).

Market

Snuff has been consumed for centuries in the Nordic region, North America, Africa and Asia. After a

period of decline, the popularity of snuff – or snus – has grown strongly over the past 30 years at the expense of cigarette smoking. Snus is used today by approximately one million consumers in Sweden, where 800,000 men and 200,000 women can choose between many different varieties of snus, either in traditional loose-weight or portioned pouches. The market in Norway is growing rapidly as more smokers are making the switch to snus. In the US, the world's largest snuff market, a stronger increase in demand was noted during 2004 in parallel with the introduction of new low-price products and new flavors.

One of the main reasons for the growth in snuff sales over the past decade has been growing health awareness, as well as stricter restrictions against smoking in a growing number of coun-

tries. Sweden has taken the lead in pioneering this trend. “The Swedish Experience” is an international concept in medical and public health circles that is attracting growing interest. The concept is based on the correlation between high snus consumption, low cigarette consumption and a lower incidence of tobacco-related illness than most comparable countries. Swedish snus has proved to be an effective alternative, with lower health risks, for people who want to quit smoking.

Northern Europe

Sweden and Norway account for more than two-thirds of total snuff sales by Swedish Match. In 2004, the Group sold 208 million cans in these two countries, an increase of 1 percent compared with 2003.

The Swedish market has grown steadily since the early 1970s, and vol-



Key data, MSEK	2004	2003	2002
Net sales	3,081	2,995	2,788
Operating income	1,373	1,386	1,233
Operating margin, %	45	46	44
Investments in tangible assets	242	219	424
Average operating capital	1,077	1,180*	735*
Average number of employees	924	908	825

* Average operating capital for 2002 and 2003 is computed in accordance with the definition used prior to 2004.

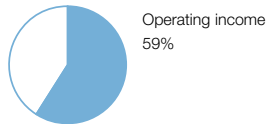
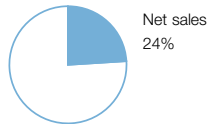
Production units

Sweden, USA and South Africa.

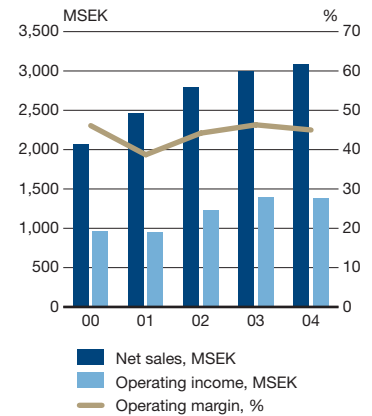
Main brands

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

Share of Group



Net sales and operating income



ume growth in 2004 amounted to nearly 3 percent. At year-end, Swedish Match had a volume share of the market estimated at 96 percent. Business growth is attributable to new products, with a continued increase in market share for portioned snus, both in terms of volume and unit sales. About 57 percent of all snus sold in Sweden is now in portioned pouches available in different sizes and flavors that attract both men and women in all social groups. One in five snus users is a woman, which represents a doubling of the number of female snus consumers over the past five years, according to the market research company Temo. The majority of new snus users are former smokers, and surveys show that snus users have higher average incomes and levels of education than smokers.

In addition to Swedish Match, there are a number of competing companies such as Gallaher and Fiedler & Lundgren.

Their volumes consist mainly of portioned snuff and, according to estimates by Nielsen, their combined market share has increased by 3.3 percentage points over the past three years.

Snus is sold in cans and rolls, or logs, containing 10 cans. The two most important sales channels are supermarkets and convenience stores, but Swedish Match coolers for snus products are also installed in cafés, bars, tobacco stores, gas stations and smaller convenience stores. The coolers guarantee that the snus maintains the highest quality and taste, which is an important competitive tool for the Group.

In line with this endeavor, Swedish Match has developed a proprietary product and quality standard, **GOTHIATEK®**. Every snus can with the **GOTHIATEK®** label is produced in



accordance with unique guidelines concerning tobacco selections and handling, cultivation control that includes

the use of pesticides, production processes in accordance with standards for food and foodstuffs, storage and cooling controls and strict enforcement of the maximum allowable content of undesirable substances.

The Norwegian market grew by more than 20 percent in 2004, in parallel with growing consumer appreciation for snus as an alternative to cigarettes.



Demand also increased after the ban on smoking in restaurants that took effect on June 1, 2004. With a population that amounts to slightly more than half of Sweden's population, Norwegians consume an estimated 25 million cans of snus annually, about one-eighth of consumption in Sweden.

The best-selling brands are General, Ettan, Grovsnus and Catch, each of which has its own unique characteristics for taste, brand image and packaging. During 2004, Swedish Match launched new varieties of its Catch, Grov and General brands, including a new, larger portioned format.

North America

The US is the world's largest market for snuff, with more than 900 million cans sold during 2004. After many years of volume growth in the range of 2-3 percent annually, growth increased to more than 5 percent in 2003 and 2004, according to the market survey company AC Nielsen.

Until the mid-1990s, the American snuff market was dominated by a smaller number of brands with limited taste and price variations. When Swedish Match introduced its TimberWolf brand in 1994, the consumer was offered a product generally perceived to combine high quality with a much lower price than existing products. TimberWolf has since grown into a major brand, with a market share of more than 7.5 percent. In 2002, a new lower price segment was created when the snuff production company Conwood launched its Grizzly brand. With its limited offering and low prices, the new segment doubled in size during 2004, increasing its volume market share to 12 percent.

Swedish Match has products in both the premium and low-price segments with brands such as Renegades, TimberWolf and Longhorn, which account for a combined 8.9 percent of total market vol-



ume. Major competitors include US Tobacco (UST), with an estimated volume market share of 69 percent, according to AC Nielsen, as well as Conwood and Swisher.

The Group's successful test marketing of the Longhorn brand was expanded in 2004 to provide national sales coverage, reaching a volume market share of 1.8 percent at year-end, according to AC Nielsen. Available in four varieties, Longhorn is positioned in

the lowest price segment and offers high quality at a very competitive price. Timber Wolf noted a lower volume market share in 2004. During the autumn, actions were taken to increase Timber Wolf's product portfolio and, in turn, provide more value for the consumer. A new peach-flavored variety of Timber Wolf was introduced, and the product group was repositioned with market-adjusted price reductions.

Snuff is sold mainly in tobacconist shops, convenience stores, special discount stores specializing in tobacco products and supermarkets.

In March 2004, an agreement was reached between Swedish Match and UST for settlement of a legal dispute over marketing of UST's snuff products. Under terms of the settlement, UST





agreed to pay 200 MUSD to Swedish Match and transfer its cigar operations to a Swedish Match subsidiary.

South Africa

In South Africa, snuff is readily available in the form of nasal snuff. With the acquisition of Leonard Dingler in 1999, Swedish Match became the second largest player in the South African market. The Group's Taxi brand is the country's best-selling snuff brand and, like most Swedish Match products sold in South Africa, it is produced locally in the country.

Snus is sold mainly in convenience stores, discount stores, small shops and kiosks and distributed to local wholesalers through a proprietary local sales network.

Europe

Sales of moist snuff for oral use were forbidden within the European Union in 1992. Among the reasons for the decision was the claim that snuff was highly carcinogenic. However, Sweden succeeded in obtaining an exemption from the sales ban for the Swedish market at the time of its accession in 1995. Since then, a number of epidemiological studies in Sweden have shown that there are no scientific grounds for suspecting that snus can cause cancer. Accordingly, EU authorities decided in 2001 to abolish the requirement for cancer warnings on snus packaging. In Swedish Match's view, the consequence of this decision should have been that the ban itself was also lifted. The legality of the ban was challenged in two cases heard by the European Court of Justice during 2004. In December, the Court ruled that the ban is not illegal.

Sales of dry nasal snuff are permitted in Europe. Swedish Match sells the brands Singleton's, Kensington and Rumney's, mainly in and around the alpine regions of Germany, Switzerland, Austria, Italy and France.

Other markets

In addition to distribution and sales in established markets where Swedish Match has a strong presence, the Group continuously conducts market tests with various snus products in other countries around the world.

Two of the most promising test sales campaigns for Swedish snus products are focused in the Russian and American markets. In Russia, Swedish Match has conducted test sales since the autumn of 2002, first in Moscow and later in St. Petersburg. The products – General, Ettan and Click brands – have been sold mainly in gas

stations, supermarkets and tobacco stores. The tests are continuing to expand in parallel with rising volume sales. In the US, test sales are also continuing for Swedish snus produced in accordance with the Swedish Match GOTHIA TEK® standard, which differs in certain respects from American snuff that is usually placed inside the bottom lip, while Swedish snuff is placed under the upper lip. Well-known Swedish brands such as General and new test brands are being sold in markets around Chicago, Minneapolis and New York, to name just a few. The test launch in India was finished during 2004.

Outlook

Swedish Match is well positioned to capitalize on the market potential of snus products in Sweden, North America and other markets. The Group will strive to achieve profitable growth through existing and new product development and various marketing activities.

Longhorn snuff was launched in the US market toward year-end 2003. It is a competitive product in the important value price segment.





Strong growth in sales and earnings

Sales and operating income in 2004

Sales in 2004 amounted to 3,171 MSEK (3,008), an increase of 5 percent. Sales in local currency increased by 13 percent.

Volumes for machine-made cigars in the US increased as a result of a broader and renewed product portfolio and a growing market. Volumes sales of premium cigars in the North American market also increased. In the European market, volume growth varied between different countries, with total volume slightly higher than the preceding year.

Operating income improved by 73 MSEK to MSEK 466 (393), an increase of 19 percent attributable mainly to stronger sales in the US. The product area was adversely affected by charges for restructuring of the European operations costs totaling 36 MSEK (30) and the weakening of USD.

Market

North America and Western Europe are the two main consumer regions for cigars, accounting for a combined 75 percent of global market demand. There are also growing niche markets in countries in other parts of the world where living standards and purchasing power are increasing. Cigars are sold as premium cigars – comprising exclusive, handmade brands produced mainly in Latin America, Cuba and the Caribbean – and machine-made cigars.



Swedish Match is one of the world's largest producers and distributors of cigars and the second largest in terms of global sales value. The Group has well-established positions in the American premium segment, the segment comprising machine-made mass-market cigars in North America and the machine-made segment in Europe. Some of the brands are sold globally, including Macanudo, La Paz and Willem II.

North America/premium cigars

Swedish Match owns 64 percent of General Cigar and, during the first quarter of 2005, reached during an agreement in principle with minority owners to acquire all remaining shares in the company. General Cigar is the market leader in premium cigars, with well-known brands such as Macanudo, Partagas, Punch and La Gloria Cubana. During 2004, the Astral and Helix brands were also added to the Swedish Match portfolio of cigar

Key data, MSEK	2004	2003	2002
Net sales	3,171	3,008	3,318
Operating income	466	393	472
Operating margin, %	15	13	14
Investments in tangible assets	127	193	169
Average operating capital	4,395	5,330*	6,247*
Average number of employees	7,781	7,148	6,504

* Average operating capital for 2002 and 2003 is computed in accordance with the definition used prior to 2004.

Production units

Belgium, Dominican Republic, Indonesia, Honduras, USA and Germany (through partly-owned Arnold André).

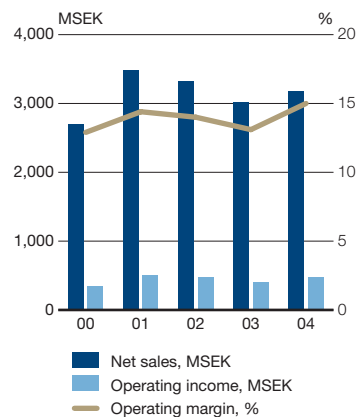
Main brands

Macanudo, La Paz, Clubmaster, Willem II, Wings, de Heeren van Ruysdael, Justus van Maurik, Bellman and Garcia y Vega.

Share of Group



Net sales and operating income



products through a settlement with UST. In February 2005, a Court of Appeals in New York ruled in favor of General Cigar in a dispute whereby Cubatabaco claimed that General Cigar did not have the right to use the Cohiba brand. The case originated in 1997. Handmade premium cigars in the US account for 36 percent of the Group's total cigar sales. The American market for premium cigars showed growth in both value and volume during 2004, following a few years of stable growth. Swedish Match estimates its share of the premium segment in the US at about 30 percent.

General Cigar produces its premium cigars in the Dominican Republic and Honduras, with high-quality leaves from plantations in Latin America, the US and Africa.

North America/machine-made cigars
The segment for machine-made cigars has been characterized historically by

steady volume growth in the range of 2-4 percent annually. According to AC Nielson, volume growth in the American market amounted to 2.3 percent during 2004, which was attributable to the launch of new varieties and flavors. The primary players in the segment are Altadis, Swisher, Middleton and Swedish Match, which has a market share of about 7 percent. Group sales in this segment account for 28 percent of total cigar sales by Swedish Match.

White Owl and Garcia y Vega are two of Swedish Match most successful machine-made cigar brands in the US. Flavored cigars sold under the White Owl brand accounted for a substantial percentage of market growth in 2004. These and other brands in the category

are produced in Dothan, Alabama, in the US and the Dominican Republic. Supported by the success of White Owl cigars, Swedish Match increased its market shares somewhat. Swedish Match volumes in this segment increased by 18 percent in North America during 2004.



Handmade premium cigars



Machine-made cigars are sold primarily in gas stations, small convenience stores, supermarkets, tobacco shops and discount stores. Swedish Match distributes cigars via its own sales network, which also distributes snuff, chewing tobacco, pipe tobacco and lighters.

Europe

Swedish Match has a strong position in the segment for machine-made cigars and a relatively small presence in the premium cigar segment. A number of smaller players and a few large European companies such as Altadis compete in the market. Swedish Match estimates its market share at about 15 percent. Sales of machine-made European cigars accounted for 25 percent of the Group's total cigar sales in 2004.

Consumption of cigars was relatively unchanged in Europe during 2004. The strongest market growth was noted in countries such as Spain, France and Italy, while demand in Germany, Belgium and the Netherlands was unchanged or lower.

Some of the best-known Swedish Match brands in the European machine-made cigar segment are La Paz, Willem II, Justus van Maurik and Wings. To meet the growing demand for aromatic/flavored cigars and cigarillos, the Group launched a new product line, La Paz Wilde Aroma cigarillos and Salsa, a new low-price cigarillo brand.

Swedish Match also markets premium cigars in Europe, including Macanudo, El Credito and Excalibur. The high-quality Dominican cigars are

positioned as a complement to alternative handmade, premium cigars from other countries and build on the Group's strength in marketing some of the best premium cigars in the US.

Other markets

There are several smaller markets outside Europe and North America that offer strong potential for both machine-made and handmade, premium cigars in the years ahead. Australia, a market where Swedish Match has a well-established position, could be followed by other markets in Asia and Eastern Europe, where increasing purchasing power and a growing distribution network provide long-term market opportunities.



Outlook

The North American market is experiencing continued growth, while the European market is more stable. In this market environment, Swedish Match will focus on development and marketing efforts in segments that offer the best potential for business growth, and maintain strict control of cost and product offerings in segments that are stable or declining.



Cigars are perishable goods and should be stored in the proper environment to retain their qualities. The best way to retain the cigar's aroma and freshness is to store the product in a humidor, a wooden cigar case. The temperature in a humidor should be maintained between 18 and 20 degrees Celsius, with a humidity level between 68 and 72 percent. Cigars can be stored in a humidor for unlimited time periods, and many high-quality cigars require some storage time to reach their full flavor and quality.



Good profitability in shrinking market

Sales and operating income in 2004

Sales in 2004 declined by 8 percent to 1,058 MSEK (1,446). Operating income declined by 10 percent to 304 MSEK (336), including costs related to the tobacco chewing gum Firebreak in Japan.

Both sales and operating income for chewing tobacco in the US increased in local currency.

Market

Chewing tobacco is a traditional American product. Market volume has been declining steadily by 4-6 percent annually for about the past 10 years. This trend continued in 2004, with a decline of about 6 percent, according to AC Nielsen. The influx of new consumers is limited, as many people are choosing snuff as their alternative smokeless product.

Most consumers are men who work in outdoor environments, with a special concentration in agriculture in southeastern and western states. Swedish Match chewing tobacco is produced in Owensboro, Kentucky, with the same type of tobacco used to produce cigars and is grown mainly in Wisconsin and Pennsylvania. A small portion of the tobacco is purchased from Asia and Latin America. Consumers can choose between two product variants: loose leaf and plug, with the latter consisting of tobacco leaves compressed into blocks. The products are sold mainly in two segments, a higher premium segment that accounts for 70 percent of the total market, and a lower price segment.

Swedish Match is the leading market player, with a market share that grew to more than 43 percent in 2004. The

two main competitors are Conwood and National Tobacco.

The market's leading brand is Red Man, which marked its 100th anniversary in 2004. Other well-known brands sold by Swedish Match include Southern Pride and Granger Select. The main distribution channels for chewing tobacco are convenience stores and discount stores specializing in tobacco products.

Tobacco chewing gum

During 2004, Swedish Match continued and expanded its Japanese sales of Firebreak, a unique tobacco chewing gum developed by the Group as a smokeless alternative for adult consumers and the

first of its kind in the world. Firebreak meets the requirements of the GOTHIA TEK® quality standard developed by Swedish Match, which means that it contains extremely low lev-



Key data, MSEK	2004	2003	2002
Net sales	1,058	1,146	1,333
Operating income	304	336	406
Operating margin, %	29	29	30
Investments in tangible assets	18	23	42
Average operating capital	172	355*	504*
Average number of employees	346	346	347

* Average operating capital for 2002 and 2003 is computed in accordance with the definition used prior to 2004.

Production unit
USA

Main brands

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

Share of Group

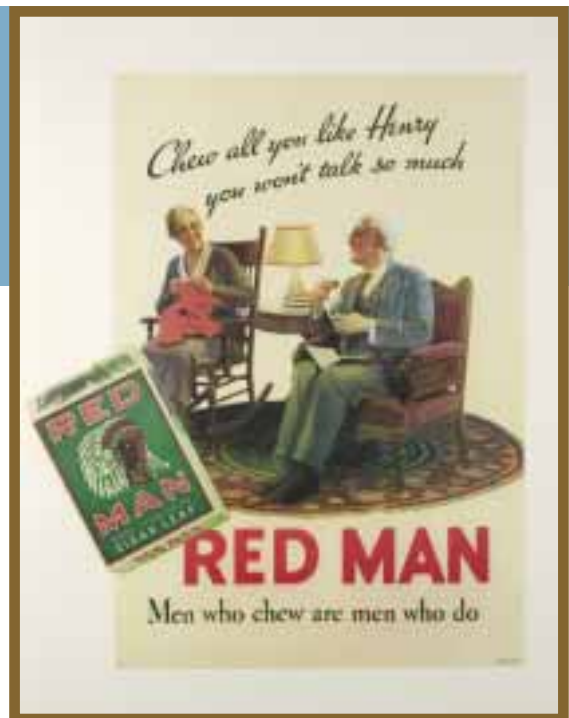
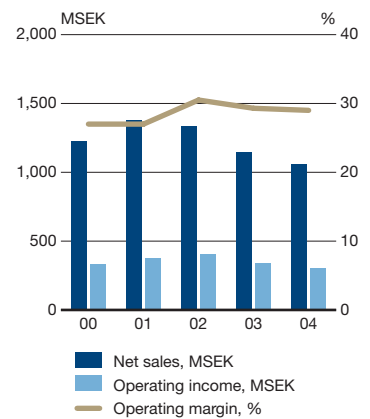


Net sales
8%



Operating income
13%

Net sales and operating income



Red Man celebrated 100 years in 2004

els of undesirable substances. The test is being conducted in Tokyo, which has a high percentage of smokers and stringent restrictions on smoking in public places. The fact that the age limit of 20 for purchasing tobacco products is enforced relatively effectively in Japan was also considered as an assurance that Firebreak will not be sold to underage consumers. The test provides Swedish Match with interesting information

about the potential for this and similar products in the global market.

Outlook

The decline in chewing tobacco consumption is expected to continue. Profitability is however, expected to remain favorable with a positive cash flow. Growth in tobacco chewing gum offers some future potential.





Continued strong operating income

Sales and operating income in 2004

Sales totaled 901 MSEK (909). Operating income increased to 220 MSEK (201), an increase of 9 percent. Operating income was affected favorably by improved productivity, better price levels and a strengthening of the South African currency (ZAR), which was partially offset, however, by declining volumes in all major markets.

Market

Pipe tobacco is consumed mainly in North America and Europe. Consumption has been declining steadily for the past several years, however, due to the high average age of consumers and the limited number of new consumers.

Swedish Match is one of the world's largest distributors of pipe tobacco. The Group has substantial market shares in the US and Europe, and is the market leader in South Africa, which is the most important market for Swedish Match pipe tobacco. Market cultivation is characterized by product

development and launches as well as brand care. The Group's largest brands include Borkum Riff, Boxer, Half and Half, Paladin and Velvet. Most brands are local, with the exception of Borkum Riff, which is marketed globally.

The market is dominated by large companies with other tobacco products in their ranges. Nine producers account for approximately 75 percent of the world market. Since the market is declining, the strategy is often defensive, with measures to streamline production

and reduce costs. Swedish Match produces pipe tobacco for the American market at the same plant in Owensboro, Kentucky, that is used to produce chewing tobacco and snuff. In the European market, the Group has outsourced a large segment of its production to the Danish company MacBaren. Key competitors include Middleton, MacBaren, Lane, Imperial and Altadis.

Europe

Volume sales in the European pipe tobacco market declined by an estimated 6–8 percent in 2004, in line with the trend during recent years. Pipe tobacco is sold in a wide variety of distinctive tastes mainly through tobacco shops, convenience stores and supermarkets. Borkum Riff, for example, the Swedish Match brand, is available in Cherry, Whisky, Champagne and Cavendish varieties. Swedish Match markets its products throughout all of Europe and



Key data, MSEK	2004	2003	2002
Net sales	901	909	843
Operating income	220	201	164
Operating margin, %	24	22	19
Investments in tangible assets	28	15	20
Average operating capital	1,026	1,107*	1,052*
Average number of employees	527	553	558

* Average operating capital for 2002 and 2003 is computed in accordance with the definition used prior to 2004.

Production units

USA and South Africa. During 2002, sub-contracted production of pipe tobacco for some of the Group's brands was also initiated at the Danish company MacBaren.

Main brands

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

Share of Group

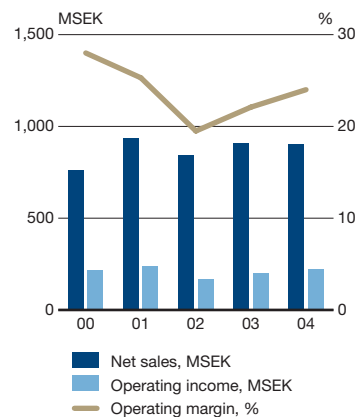


Net sales
7%



Operating income
9%

Net sales and operating income



has particularly strong positions in Sweden, Finland, Switzerland and Spain. The market is also cultivated by a large number of midsize and smaller niche companies, such as Pöschl and Planta.

North America

As in Europe, and for the same reasons, pipe tobacco consumption reflects a declining trend. The volume decline in 2004 was estimated at nearly 12 percent, according to AC Nielsen, which also estimated that Swedish Match volumes declined by 13 percent.

About half of the market volume is sold through drugstores. Other important sales channels are supermarkets, convenience stores and low-price shops specializing in tobacco products. Swedish Match's market share declined marginally to 16 percent, according to AC Nielsen, and the best selling brands were Half and Half and Borkum Riff. Major competitors are Middleton, Lane and Altadis. The market also includes a

relatively large segment of private labels supplied by many producers.

South Africa

Swedish Match is the largest pipe tobacco player in South Africa, with popular brands such as Boxer, Nineteen O'Four, Black and White and Giraffe. Market volume declined by about 8 percent in 2004, in line with the trend during 2003.

Other markets

Demand has increased in other markets, particularly in Asia. In Hong Kong, the Group noted sales success during 2004.

Outlook

A continued decline is expected in volume consumption of pipe tobacco, based on trends in the preceding years. The product area has good potential to generate continued strong profitability, however, with a positive cash flow.





Increased volumes but intense price competition

Sales and operating income in 2004

Sales declined by 3 percent to 582 MSEK (599). Denominated in local currencies, sales increased marginally. Operating income fell to 7 MSEK (14) due to lower average prices, costs for personnel cutbacks in European production operations and currency effects arising from translations of foreign subsidiary results.

Market

The world market for disposable lighters is relatively stable, but volumes are increasing in developing countries, with particular emphasis on many countries in Asia, Eastern Europe and in Russia. In many countries where cigarette smoking is declining, such as Western Europe and the North America, lighter volumes are stagnating or declining.

In the market segment for brand lighters, Swedish Match competes with Bic and Tokai. There is also intense com-

petition from many producers in low-cost countries, particularly China, as well as other parts of Asia. The main markets for Swedish Match are Russia, Europe and parts of Asia.

Swedish Match manufactures lighters in Assen, the Netherlands, Manila in the Philippines, and Manaus, in Brazil. Production is automated with high production quality and strict cost control. Output from the Brazilian product plant is sold in Brazil and neighboring countries, while production in the Netherlands and the Philippines is



sold in all parts of the world. A significant percentage of production at the Dutch plant is sold in USD. The sharp decline in USD against EUR, accordingly, had a negative effect on profitability. Measures to reduce costs were implemented in both 2003 and 2004. Some lighter products and components are produced by subcontractors, most notably in Asian countries.

Europe

Swedish Match has a strong market position in Eastern Europe, with Russia as the single-most important market for the Group's lighters. Cricket is the leading brand and very well-known in the country. Sales volumes continued to grow in Russia during 2004.

Western Europe is a mature market characterized by declining cigarette smoking and growing competition from manufacturers of low-cost lighters in Asia, which has led to declining volumes



Key data, MSEK	2004	2003	2002
Net sales	582	599	700
Operating income	7	14	56
Operating margin, %	1	2	8
Investments in tangible assets	17	11	21
Average operating capital	301	381*	468*
Average number of employees	460	470	533

* Average operating capital for 2002 and 2003 is computed in accordance with the definition used prior to 2004.

Production units

Netherlands, Philippines and Brazil.

Main brands

Cricket, Feudor and Poppell.

Share of Group

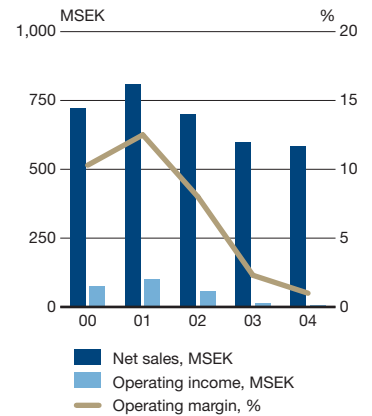


Net sales
4%



Operating income
1%

Net sales and operating income



During 2004, Swedish Match increased its volumes and distribution of utility lighters.

for quality lighters. Swedish Match has noted declining volumes in most Western European countries during recent years.

The Group distributes its lighters in Western Europe through its wholly owned sales and distribution network. In 2004, Swedish Match expanded its distribution and increased its volumes of gas lighters for household use.

Asia

Swedish Match has a low share of the Asian market for lighters, which is dynamic and growing with increased competition from lighters manufactured in China and other parts of Asia. The

competition is intense, but the region offers future opportunities for business growth based on market growth and increased consumer purchasing power.

Latin America and North America

The largest markets in the two regions are Brazil and the US. The Cricket brand is well known in Brazil. The market share was down marginally in 2004. The total market in the US declined as a result of lower cigarette consumption. Volume sales by Swedish Match continued to decline in growing competition from Asian and other low-cost manufacturers.

Outlook

Swedish Match will continue to reduce its costs to meet the competition from Asian manufacturers and strengthen its offering of products with higher margins. Market volumes are expected to be stable, with continued growth in developing countries, Russia and other parts of Eastern Europe.



Restructuring and efficiency improvements

Sales and operating income in 2004

Sales in 2004 amounted to 1,378 MSEK (1,395), a decline of 1 percent. Volume sales were down in all significant markets.

Operating income declined to a loss of 57 MSEK (profit: 83), which included charges for restructuring costs totaling 125 MSEK during the year for match operations in Europe.

Market

The world market for matches varies sharply from one region to another. The products are used to light cigarettes and for other tobacco smoking, and in homes and households to light stoves, candles, grills and firelogs. Variations in consumption follow economic trends in that consumption declines as purchasing power increases.

Most producers are small players with regional or local operations. The brands are often local, while Swedish Match has some of the best known, such as Solstickan in Sweden, Swan in the UK, Three Stars in Spain and many African nations, and Feudor in France.

Swedish Match sells matches in more than 100 countries in volumes and quality segments, with its main markets comprising Western Europe, Brazil, Indonesia, India and parts of Africa. Other products in the segment include grill-bags, fire-lighters and firelogs. The products are sold

through shops and stores in most retail sales sectors.

Volumes are declining in most markets and, in parallel, low-price competition is increasing with cheap imports. To maintain profitability, Swedish Match must work with continuous and substantial structural changes and production efficiency improvements.

Swedish Match continued to reduce and restructure its production capacity during 2004, mainly in Europe.

The workforce was reduced by 800 employees, down 10 percent compared with year-end 2003.



Key data, MSEK	2004	2003	2002
Net sales	1,378	1,395	1,648
Operating income	-57	83	221
Operating margin, %	-4	6	13
Investments in tangible assets	36	81	58
Average operating capital	969	1,207*	1,394*
Average number of employees	4,746	5,388	5,743

* Average operating capital for 2002 and 2003 is computed in accordance with the definition used prior to 2004.

Production units

Brazil, Bulgaria, India, Indonesia*, China, Spain, Sweden, Turkey and Hungary.

* Through the jointly-owned company Jamafac.

Main brands

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

Share of Group

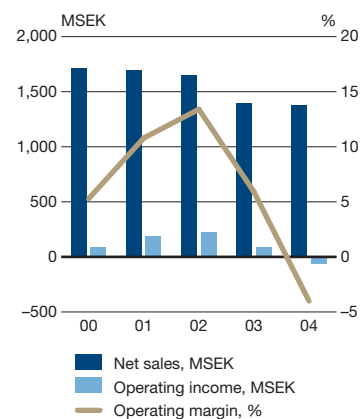


Net sales
11%



Operating income
-2%

Net sales and operating income



Swedish Match also owns Arenco, which manufactures machines for match production and packaging machines, with production units in Kalmar and Halmstad, in Sweden, and Shanghai in China.

Outlook

The world market trend for matches continues to decline. Swedish Match, accordingly, will continue to restructure its production units and prioritize more profitable products and markets.



Social Responsibility and Human Resources

Swedish Match strives to conduct its business activities in a profitable, effective, ethical and competitive manner, with respect for human rights and the environment. Awareness of social issues and environmental considerations has always been an integral part of the Group's culture. Motivated employees and highly functional work environments represent key factors that enable the Group to maintain and further strengthen its position and create a solid platform for long-term growth.

Social responsibility

A Code of Conduct relating to Social and Environmental Issues was adopted in the beginning of the year. It forms the foundation for decision-making in questions related to human rights, child and forced labor, business ethics, health and safety. The Code of Conduct was published at the Group's web site in the spring of 2004. The fundamental requirements are that:

- The Group does not accept forced labor or any form of discrimination on the grounds of ethnic background, religion, age or gender, and maintains that all employees are entitled to voluntarily join associations, in accordance with local legislation and rules.

In accordance with the UN Convention on the Rights of the Child, Swedish Match does not tolerate child labor.

- Swedish Match endeavors to create a good work environment that safeguards health and safety in the workplace and provides opportunities for personal development and job satisfaction.
- Remuneration to and recruitment of employees must always be based on objective criteria such as skills, qualifications and experience. Ethnic background, language, religion, skin color, gender, financial position or other forms of social status are not permitted to exert an influence.



A follow-up process called Social Review was introduced during the year to ensure that Group units comply with the requirements and guidelines in the Code of Conduct. The review includes supervision of the Group's own companies. Swedish Match also works actively to ensure that suppliers and subcontractors follow these requirements and guidelines.

Several projects related to the assumption of social responsibility were initiated during the year. One example is the involvement of Swedish Match in efforts to reduce the spread of HIV/AIDS in South Africa. All employees of Group companies in South Africa have been offered HIV-screening tests and advisory services. The response from employees was overwhelmingly positive, and virtually every employee accepted the offer. In addition, a program designed to teach all employees to read and write under management by an independent consulting company was also offered to employees of Group companies in South Africa.

The catastrophe created by the tsunami in Southeast Asia on December 26, 2004 afflicted areas already characterized by extreme poverty with unimaginable destruction. Swedish Match has extensive operations in the affected countries, with production plants in both Indonesia and India. Fortunately, no Group employees, their homes nor workplaces, were damaged. In view of the Group's operations in the area, among other factors, a donation amounting to 250,000 SEK was made to the Red Cross for its disaster relief program. In addition, a fund was established to accept donations by Group employees to help victims of the disaster and the Group has undertaken to match this contribution in a maximum amount of 250,000 SEK.

Personnel and organization

Swedish Match is an international Group with operations focused on high-turnover consumer products. Swedish Match has sales in more than 150 coun-



tries and production operations in 16 countries.

Swedish Match corporate management consists of the President and CEO, Senior Vice Presidents of the corporate staff functions and Division Presidents. The organization is decentralized and divided into four geographical divisions: North Europe, Continental Europe, North America and Overseas. The Division Presidents have direct business responsibility for operations in their respective markets and report to the CEO.

The attraction value of Swedish Match as a workplace is reflected in employee surveys that are conducted on a regular basis, in which employees express their opinions of working conditions and the Group's performance as an employer. The surveys are intended to identify areas where improvements are needed to create even better work environments and supervision.

During the autumn, 330 managers took part in a survey to clarify the extent to which the Group's personnel work and leadership development efforts support its business operations.

Management supply and skills development

Swedish Match personnel and professional development programs are designed to ensure that the company's strategic requirements in terms of highly skilled managers and employees are met, thus enabling the Group to achieve its overall objectives.

It is a prerequisite for maintaining the Group's competitiveness in the marketplace. An important mission is to support a result-oriented culture based on the Swedish Match Group's fundamental values: Communications, Teamwork, Trust, Innovation, Recognition and Growth.

Annual evaluations of the company's upper management and key personnel are conducted to ensure planning and development of the Group's key positions.

A Performance Management project completed during 2004 was designed to strengthen the correlation between the company's business objectives and personal development for increased growth and profitability. One concrete result of these efforts is a web-based system designed to serve as a support tool that can be used by management personnel and employees to plan and monitor operational goals. With the help of this tool, Swedish Match is able to encourage career planning and offer the employees various development opportunities. Development discussions between employees and their immediate supervisors provide the foundation for personal development of Group employees.

Guidelines for employee development within the Group were established at year-end 2004. They provide guidance for the divisions in continued implementation of Performance Management at the local level.

Remuneration and benefits

Employment terms and conditions, salary and wage levels and benefits in Swedish Match are structured to attract, retain and motivate employees.

Decisions regarding compensation issues are attested by a manager at least two levels above the individual concerned by the decision (grandfather principle). This means that decisions on remuneration issues for the President are resolved by the Group's Board of Directors, based on proposals submitted by the Compensation Committee. Group management's remuneration structure is proposed by the President and approved by the Compensation Committee. The remuneration structure for division management personnel is proposed by the Division Presidents and approved by the CEO.

Golf is one of the fastest-growing sports in the world. Swedish Match has initiated cooperation with Sweden's best male golfer, Fredrik Jacobson, who is ranked among the best in the world.

The Group conducts regularly scheduled comparisons with salary structures and remuneration systems in the local markets in order to offer its employees competitive levels of remuneration.

Profit-sharing scheme for Swedish employees

A profit-sharing scheme is offered for Group employees in Sweden. The scheme is based on a profit-sharing foundation with a fund to which the Swedish companies make allocations in line with the increase in the Group's

earnings per share. The fund's assets are invested mainly in Swedish Match shares. No disbursements are made until three calendar years after such allocations are made, at the earliest. During 2004, 11.7 MSEK was allocated to this foundation, based on income for 2003.

Meeting forums

Human Resources Council
Management representatives of HR-functions in the different divisions meet every year to coordinate, plan and evaluate Groupwide activities within



Human Resources. The meetings also serve as forums for exchanges of knowledge and experience.

Cooperation with the unions

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

the Board's agenda, especially items that may lead to negotiations under the terms of MBL. In addition, a reference group consisting of local representatives of the Swedish Trade Union Confederation (LO) and the Negotiation Cartel for Salaried Employees in the Private Business Sector (PTK) meets prior to each Board meeting.

European Works Council

The European Works Council (EWC) was established in compliance with an EU-directive (94/45/EG) to improve

information provided to employees in companies with more than 1,000 employees and operations in several countries. The Group's EWC consists of 14 employee representatives from seven countries. In 2003, the agreement was extended for a period of two more years. During 2004, two EWC meetings were held.



Since 1994, Swedish Match is the main sponsor of the Swedish Match Cup. The competition usually attracts the entire international sailing elite within match racing. Swedish Match Cup is arranged in cooperation with the Royal Göteborg Yacht Club (GKSS) and is held in the beautiful Göteborg archipelago the first week in July each year. This popular event attracts more than 100,000 spectators.

Environment

Vision

Swedish Match's environmental vision is to achieve a balance in which the company meets shareholder-oriented business goals, customer goals and other stakeholder goals in a sustainable manner. Swedish Match integrates its operations and its products into the natural ecocycle system, thus interlinking the results of the Group's commercial and environmental endeavors so that they reinforce each other.

Policy

To implement this vision, Swedish Match has adopted an environmental policy that covers all aspects of its operations. The main points are:

- Swedish Match shall comply with all relevant legislation, regulations and other requirements, wherever the Group has operations.
- Swedish Match shall apply appropriate environmental management systems at all locations, designed to prevent pollution and reduce the risk of negative environmental consequences.
- Swedish Match shall evaluate all commercial initiatives on the basis of both financial and environmental criteria.

- Swedish Match shall identify and progressively implement changes in each phase of the lifecycle for products, processes and services in order to reduce negative environmental consequences that may adversely affect the conditions for a sustainable society.

Climate issue crucial

The importance of environmental issues is increasing constantly, as reflected in growing awareness and stronger demands from consumers, customers, suppliers and public authorities. As one example, the customers of large retail food chains where Swedish Match products are sold are placing greater demands on environmentally compatible products. Increasingly stringent legislation and other norms for production plants and processes are also being introduced.

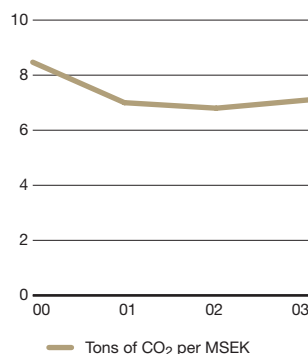
Swedish Match is well prepared to meet, and meets, these requirements. About 80 percent of the Group's raw materials are renewable and production involves limited use of substances that could harm the environment. Swedish Match continuously upgrades its systems for cleaning and reducing emissions. Environmental management systems have been introduced at most of the Group's production plants. The most important plants from a financial viewpoint now

have environmental certification. The aim is that all plants will have ISO 14001 certification within the near future.

According to the international research corps, the greenhouse effect and global warming are considered the most serious global environmental problems. Swedish Match, accordingly, has made determined efforts to implement actions that are evaluated in Swedish insurance company Folksam's Climate Index, which covers a number of major Swedish companies. Measures implemented by the Group have included efforts to increase its percentage of bio fuel, which amounted to 57 percent in 2003. In the Nordic operations, 85 percent of all electricity carries the Good Environmental Choice label, corresponding to 19 percent of the Group's global consumption. Overall, Swedish Match has implemented measures that have reduced carbon dioxide emissions by about 6,450 tons. CO2 emissions are one of the main sources of the greenhouse effect. The reductions correspond to about 7 percent of the Group's total emissions. As a result of its climate-related programs, Swedish Match received an Excellent rating from Folksam. The Group also received a Very Good rating for the information it released on all categories of emissions,

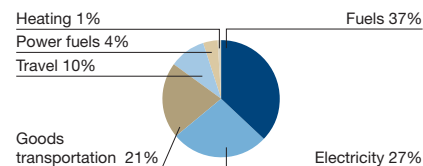
Climate indicator*

The diagram shows Swedish Match's emissions in relation to sales. Emissions increased by 6 percent in 2003. In absolute values, emissions declined by about 1 percent, or by 890 tons during the year.



Carbon dioxide emissions

The diagram shows Swedish Match's carbon dioxide emissions distributed by emission source.



* The data for 2004 will be compiled and published by Folksam at mid-year 2005.

and the high quality of the data that was reported. The Group received a rating of four stars out of a possible five.

Environmental management systems

The progressive introduction of environmental management systems for plants and operations is continuing. The cigar production plants in Pandaan in Indonesia, Dothan, Alabama, in the US and Santiago in the Dominican Republic were certified in 2004.

Permits and notification obligations

All plants complied with their permits during 2004. The snus plants in Gothenburg and Kungälv in Sweden are subject to notification obligations under the Swedish Environmental Code.

The Vetlanda plant in Sweden manufactures matchsticks and matchbox materials, including striking surfaces that are used in other parts of the world. The operations are subject to a reporting obligation under the Environment Protection Act and the permit applies until further notice. Noise levels, timber storage and solvent emissions are regulated.

The Tidaholm plant in Sweden manufactures matches, firelighters and match heads for local production and export. Operations are subject to a reporting obligation under the Environment Protection Act. The permit entitles Swedish Match to increase production of matches and match heads to a maximum of 90 billion matches per year and a maximum 2,000 tons of match heads per year. The permit specifies limits for wastewater discharged into the sewage system, the dust content in ventilation outflows, and noise levels.

The Kalmar plant in Sweden produces machinery for match production. Operations are subject to a reporting obligation under the Environment Protection Act.

The Group has permits for Swedish Match's production in other countries in accordance with the legislation in each of the countries concerned.



Swedish Match North Europe Division uses Good Environmental Choice electricity. All electricity comes from renewable energy sources and 20 percent comes from wind power. The new snus production plant in Kungälv is shown above.



Consolidated Income Statement

(MSEK)	Note	2004	2003	2002
Net sales, including tobacco tax		21,705	21,841	22,599
Less tobacco tax		-8,698	-8,805	-8,956
Net sales		13,007	13,036	13,643
Cost of goods sold		-7,262	-7,103	-7,451
Gross profit		5,745	5,933	6,192
Selling expenses	2	-2,238	-2,258	-2,362
Administrative expenses	2	-1,678	-1,475	-1,520
Other operating income	3	24	23	52
Other operating expenses	3	-5	-19	-13
Share in earnings of associated companies		1	20	22
Settlement income, UST	4	1,521	-	-
Operating income		3,370	2,224	2,371
Interest income		103	229	108
Interest expenses		-266	-283	-337
Exchange rate differences and other financial items	5	-1	4	-16
Income after financial items		3,206	2,174	2,126
Taxes	6	-1,314	-572	-648
Minority interests		-64	-44	-49
Net income for the year		1,828	1,558	1,429
Average number of shares (millions), basic		325.7	332.7	348.3
Average number of shares (millions), diluted*		327.0	334.2	350.9
Earnings per share, basic, SEK		5.61	4.68	4.10
Earnings per share, diluted, SEK		5.59	4.66	4.07
Dividend**		1.90	1.70	1.60

* Dilution attributable to the effect of options issued.

** For 2004, the proposed dividend.

Consolidated Balance Sheet

(MSEK)	Note	Dec. 31, 2004	Dec. 31, 2003
ASSETS			
Fixed assets			
Intangible fixed assets	7	3,285	3,648
Tangible fixed assets	8	2,690	2,862
Financial fixed assets			
Shares and participations	9	135	145
Deferred tax receivables	6, 10	397	245
Long-term receivables	11	228	226
Total fixed assets		6,735	7,126
Current assets			
Inventories	12	2,476	2,676
Current operating receivables			
Trade receivables	13	1,662	1,880
Other receivables		561	562
Prepaid expenses and accrued income		185	192
Liquid funds			
Short-term investments	14	1,815	1,169
Cash and bank		1,187	1,497
Total liquid funds		3,002	2,666
Total current assets		7,886	7,976
TOTAL ASSETS		14,621	15,102
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital		808	844
Restricted reserves		2,053	2,006
Unrestricted equity			
Unrestricted reserves		-331	-398
Net income for the year		1,828	1,558
Total shareholders' equity		4,358	4,010
Minority interests		473	597
Provisions			
Provisions for pensions and similar commitments	16	739	372
Provisions for taxation	6	1,195	1,083
Other provisions	17	1,177	664
Total provisions		3,111	2,119
Long-term liabilities			
Interest-bearing bond loans	18	2,557	4,508
Interest-bearing liabilities to credit institutions	18	2	27
Other long-term liabilities		21	66
Total long-term liabilities		2,580	4,601
Current liabilities			
Interest-bearing liabilities to credit institutions	18	970	846
Accounts payable		708	719
Tax liability		168	91
Other current liabilities	19	1,408	1,329
Accrued expenses and pre-paid income	20	845	790
Total current liabilities		4,099	3,775
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		14,621	15,102
Pledged assets	21	143	154
Contingent liabilities	22	411	441

Changes in consolidated statement of shareholders' equity

(MSEK)	Note	Share capital	Restricted reserves	Unrestricted equity	Total equity
Shareholders' equity at Dec. 31, 2002		868	1,575	1,564	4,007
Allocation to unrestricted reserves through cancellation of shares		-24		24	-
Transfers between restricted and unrestricted equity			431	-431	-
Dividend paid				-535	-535
Repurchase of own shares				-959	-959
Sale of treasury shares				55	55
Translation differences for the year				-116	-116
Net income for the year				1,558	1,558
Shareholders' equity at Dec. 31, 2003		844	2,006	1,160	4,010
Effect due to changes in accounting principles				-257	-257
Allocation to unrestricted reserves through cancellation of shares		-36		36	-
Transfers between restricted and unrestricted equity			47	-47	-
Dividend paid				-558	-558
Repurchase of own shares				-658	-658
Sale of treasury shares				82	82
Translation differences for the year				-89	-89
Net income for the year				1,828	1,828
Shareholders' equity at Dec. 31, 2004	15	808	2,053	1,497	4,358

Consolidated Cash-Flow Statement

(MSEK)	Note	2004	2003	2002
Operations				
Income after financial items		3,206	2,174	2,126
Depreciation/amortization and write-downs		932	665	651
Other		-31	49	-53
		4,107	2,888	2,724
Taxes paid		-819	-515	-241
Cash flow from operations before changes in working capital		3,288	2,373	2,483
Cash flow from changes in working capital				
Trade receivables		151	-34	56
Inventories		54	169	86
Other assets		-15	-32	1
Accounts payable		6	38	0
Accrued expenses and other current liabilities		142	124	-41
Cash flow from operations		3,626	2,638	2,585
Investment activities				
Investments in property, plant and equipment		-486	-551	-751
Sales of property, plant and equipment		42	26	106
Acquisitions of subsidiaries and associated companies	23	-53	-78	-53
Investments in intangible assets		-34	-27	-18
Investments in business-related shares		-10	-	-
Divestment of business operations	23	117	-	-
Change in financial receivables		-47	5	-1
Cash flow from investment activities		-471	-625	-717
Financing activities				
Change in short-term loans		118	-35	-339
Increase of long-term loans		-	635	670
Amortization of long-term loans		-1,937	-731	-832
Dividends paid		-558	-535	-508
Dividend to minority in subsidiaries		-121	-	-
Repurchase of shares		-658	-1,012	-499
Sale of treasury shares		82	55	-
Hedge of foreign exchange rates		295	296	264
Other		-	-	-122
Cash flow from financing activities		-2,779	-1,327	-1,366
Cash flow for the year		376	686	502
Liquid funds at the beginning of the year		2,666	2,016	1,606
Translation differences in liquid funds		-40	-36	-92
Liquid funds at the end of the year	14	3,002	2,666	2,016
Supplementary information, see Note	23			

The Annual Report has been prepared in accordance with Sweden's Annual Accounts Act and recommendations and statements of the Swedish Financial Accounting Standards Council.

As of January 1, 2004, Swedish Match changed the principles for reporting pensions, etc. to conform to the Financial Accounting Standards Council's recommendation RR 29 Employee Benefits. One implication of this recommendation is that all deficits or surpluses in funded defined-benefit pension plans are to be reported in the consolidated balance sheet as liabilities or assets. The transition to RR 29 as during the first quarter of 2004 resulted in an increased liability in the consolidated balance sheet of 257 MSEK, net after adjustment for deferred taxes, with a corresponding reduction in shareholders' equity. In accordance with the transition rules of the recommendation, previous years have not been recalculated.

1. Significant accounting principles

Consolidated financial statements

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

All acquisitions of companies are reported in accordance with the purchase method. Companies divested during the year are included in the consolidated financial statements up to the date of sale. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition.

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

Other shareholdings are reported at acquisition value; dividends received are reported as income.

Foreign currencies

Translation of the accounts of foreign subsidiaries

The accounts of foreign subsidiaries are translated to Swedish kronor using the current method. Balance sheets, accordingly, are translated at year-end exchange rates and income statements are translated at average exchange rates for the year. Exchange rate differences arising from translations of income statements and balance sheets are entered directly under equity. The exchange rates used for the Group's most significant currencies are shown in the table below.

Country	Currency	Average exchange rate Jan.–Dec.			Exchange rate at Dec. 31		
		2004	2003	2002	2004	2003	2002
USA	USD	7.35	8.09	9.72	6.61	7.25	8.78
Euro	EUR	9.13	9.12	9.16	9.00	9.07	9.15
Brazil	BRL	2.51	2.64	3.47	2.48	2.52	2.46
South Africa	ZAR	1.14	1.07	0.92	1.17	1.10	1.02

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are translated at the closing day rate, with the exception of hedged items, which are translated at the respective rate of the associated forward contract. Exchange gains and losses are reported in operating income to the extent they amount to operating balance dealings and otherwise in net financial items.

Derivative instruments

Currency forward contracts

The Group enters forward contracts mainly to hedge its currency risks with regard to certain financial liabilities and expected, but not yet contracted, sales and purchases in foreign currencies. Forward contracts entered for the purpose of hedging future transactions are not booked until the transactions actually take place. Balances in foreign currency that have been hedged, are translated using the relevant rate according to the forward contract, and realized and unrealized exchange gains and losses are reported in the income statement.

To some extent, Swedish Match hedges investments in foreign net assets, including goodwill. Hedging is implemented by arranging forward contracts valued at the closing day rate. Exchange-rate differences in hedging operations are eliminated from the income statement and, in common with differences from the translation of net assets, are transferred directly to shareholders' equity in the balance sheet.

Interest swaps

The Company uses interest-rate swaps to adjust the relationship between borrowing at fixed and variable interest rates. An interest swap involves the exchange of fixed interest rates on a loan or investment for variable interest, or vice versa. Since interest swaps are linked to the underlying loan or investment in terms of the amount and maturity period, interest swaps are reported at amounts corresponding to the accrued interest.

Currency swaps

The Company conducts currency swaps to hedge currency risks from loans in currencies other than the domestic currency. A currency swap involves the exchange of interest and amortization payments in one currency for interest and amortization payments in another currency. Since currency swaps are linked to the underlying loan in terms of the currency, amount and maturity period, currency swaps are reported at amounts corresponding to accrued interest and unrealized exchange-rate differences.

Revenue reporting

Revenue from the sale of goods is recognized when an agreement exists with the customer, delivery has taken place and all significant risks have been transferred to the customer.

Income taxes

Reported income taxes include tax to be paid or refunded with regard to the current year, adjustments concerning prior years' taxes, changes in deferred taxes, and shares in the taxes of associated companies.

Valuation of all tax liabilities/receivables takes place in nominal amounts, and is performed in accordance with the tax rules and tax rates that have been enacted.

In the case of items reported in the income statement, related tax effects are also reported within the income statement. Tax effects of items that are entered directly against shareholders' equity are recorded against shareholders' equity.

Deferred taxes are calculated according to the liability method on all temporary differences that arise between the reported and taxation values of assets and liabilities.

Deferred tax assets with regard to loss carryforwards or other future tax-related deductions are reported to the extent that it is likely that the deduction can be offset against any surplus at time of future taxation.

Due to the relationship between reporting and taxation, the Parent Company reports the deferred tax liability on untaxed reserves as a part of the untaxed reserves.

Intangible fixed assets

Intangible fixed assets are amortized on a straight-line basis over 5–20 years. Goodwill in major subsidiaries with long-term documented operations, strong brands and good market positions, is amortized over 20 years. Acquired brands are amortized over 20 years if similar conditions prevail.

If the book value of an asset is higher than the expected recoverable value, the asset is written down to the latter value.

Tangible fixed assets

Tangible assets are reported after deduction for accumulated depreciation according to plan and after any accumulated write-downs. Depreciation of property, machinery and equipment is based on the acquisition cost of the asset and its estimated economic life. Plant buildings and related land improvements are generally depreciated over periods of 20–50 years, while office properties are generally depreciated over 40–50 years. The estimated economic life for vehicles is normally 5 years and 5–15 years for machinery and equipment.

New acquisitions and replacements are capitalized, while repair and maintenance costs are expensed as incurred. When assets are sold or discarded, the acquisition cost is written off, and the associated accumulated depreciation and any gain or loss is entered in the income statement. Any interest expenses are not added to the acquisition cost of the asset but are expensed as they arise. The straight-line depreciation method is used for all types of assets.

If the book value of an asset is higher than the expected recoverable value, the asset is written down to the latter value.

Inventories

Inventories are reported at the lower of cost or market and in all significant respects in accordance with the FIFO (first-in, first-out) method after deductions for obsolescence. Unrealized inter-company gains are eliminated in their entirety.

Pensions

Pension liabilities are calculated in accordance with recommendation RR29, Employee Benefits, of the Swedish Financial Accounting Standards Council, which is obligatory as of 2004. This complies with the prevailing international accounting recommendation (IAS 19, Employee benefits). This means that the pension liability is calculated on the basis of such factors as the expected future pay increase and inflation.

Within the Group there are a number of defined-contribution and defined-benefit pension plans, some of them with managed assets in special foundations or similar institutions. The pension plans are financed primarily by payments from the particular Group company and the employees. Independent actuaries compute the magnitude of the commitments attached to each plan and reevaluate the pension plan assumptions each year.

As regards defined-benefit plans, the pension expense is calculated using the Projected Unit Credit Method in a manner that distributes the cost over the employee's active working life. These assumptions are valued to their present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. In the Swedish Match consolidated balance sheet, for funded plans, the pension commitments are reported in net form, after deductions for the plans' managed assets. Funded plans with net assets, that is, assets in excess of commitments, are reported as financial fixed assets. Actuarial gains and losses, outside a 10-percent corridor, are distributed over the employees' estimated average remaining employment period.

The Group's payments for defined-contribution plans are reported as a cost during the period during which employees perform the services covered by the fees.

Leasing

Leasing of fixed assets, whereby the Group is essentially subject to the same risks and benefits as with direct ownership, is classified as financial leasing. However, the Group has entered into certain financial leasing agreements relating to company cars, photocopiers, etc. that, based on materiality criteria, are reported as operational leasing. Leasing of assets where the lessor essentially retains ownership of the assets is classified as operational leasing. Leasing charges are expensed linearly over the leasing period.

Provisions

Provisions are defined as obligations that pertain to the fiscal year or previous fiscal years, and which, on the closing day, are deemed certain or likely to occur, but for which the amounts or the time when they will be fulfilled are uncertain. In the balance sheet, pensions, deferred tax liabilities, restructuring reserves, guarantee commitments and similar items are reported as provisions.

Research and development

The Group has ongoing costs for product development. These costs are expensed against operating income as they occur. The applicable recommendation imposes stringent requirements as to when a product development project can be reported as an intangible asset in the balance sheet. In practice, these requirements resulted in all product development costs being expensed as they occurred. Research costs are expensed continuously as they occur.

Reporting by segment

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

Use of estimates

The preparation of annual reports in accordance with generally accepted accounting principles requires the Board and President to make estimates and assumptions that affect the amounts of reported assets and liabilities, disclosures regarding uncertain conditions and possible future events and their financial effects on closing day and upon reported income and expenses during the accounting period. The actual outcome may differ from such estimates.

2. Selling and administrative expenses

Selling expenses include expenses for research and development and similar expenses totaling 113 (100, 99) MSEK.

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

	2004	2003	2002
Auditing	13	13	14
Other	0	7	8
Total*	13	20	22
Other accountants (auditing assignments)	3	1	1

* Swedish Match's auditors during 2004 were KPMG, and in 2003 and 2002 PriceWaterhouse-Coopers.

3. Other operating income and other operating expenses

Other operating income includes exchange rate gains amounting to 6 (12, 12) MSEK. Other operating expenses includes exchange rate losses amounting to 5 (19, 13) MSEK.

4. Settlement income, UST

The amount pertains to income following settlement with UST, through which Swedish Match received 200 MUSD and UST transferred its cigar operations to Swedish Match.

5. Exchange rate differences and other financial items

	2004	2003	2002
Exchange rate differences	3	1	4
Other financial items	-4	3	-20
Total	-1	4	-16

6. Taxes

Income taxes in 2004, 2003, and 2002 were distributed as follows:

	2004	2003	2002
Current income taxes	-1,196	-524	-453
Deferred income taxes	-45	-30	-190
Other taxes	-73	-18	-5
Total	-1,314	-572	-648

The tax effects of temporary differences that resulted in assets and liabilities in the form of deferred tax at December 31, 2004, December 31, 2003 and December 31, 2002 are summarized below:

	2004	2003	2002
Loss carryforwards	96	268	255
Reserve for bad debts	11	6	-
Restructuring reserve	13	34	36
Pension and healthcare benefits	247	79	95
Tax allocation reserve	-421	-397	-378
Depreciation in excess of plan	-417	-417	-358
Inventory reserve	-36	-60	-63
Other	-167	-215	-218
Valuation reserve	-125	-136	-194
Net deferred income tax liabilities	-799	-838	-825
<i>Classified per balance sheet category</i>			
Deferred tax assets	397	245	206
Less tax provisions	-1,196	-1,083	-1,031
Net deferred income tax liabilities	-799	-838	-825

The valuation reserve amounting to 125 MSEK pertains to loss carryforwards not assigned value in the amount of 82 MSEK, and other temporary deductible differences not assigned value in the amount of 43 MSEK.

At December 31, 2004, the Group had deductible loss carryforwards corresponding to 362 MSEK. The Group's deductible tax-loss carryforwards expire as follows:

Year	Amount
2005	75
2006	23
2007	14
2008	26
2009	18
2010	10
Thereafter	196
Total deductible tax loss carryforwards	362

In 2004, 2003 and 2002, the Group's net income was charged with tax of 41.0, 26.4, and 30.5 percent, respectively. The difference between the Group's tax expense and application of the statutory tax rate in Sweden of 28.0 percent is attributable to the items shown in the following table:

	2004	2003	2002
Swedish tax rate	28.0	28.0	28.0
Adjustments for foreign tax rates	8.2	1.1	2.2
Losses that could not be utilized	0.8	1.4	0.7
Non-taxable items	-1.9	-2.3	-2.4
Non-deductible amortization of goodwill	1.3	2.1	2.0
Adjustments for taxes in prior years	0.1	-3.6	-1.2
Non-deductible expenses	4.3	0.7	2.3
Other items	0.2	-1.0	-1.1
Total	41.0	26.4	30.5

The tax rate for 2004 was adversely affected by major one time items, while major one time items had a positive effect on the tax rate for 2003.

7. Intangible assets

Intangible fixed assets at December 31 are as follows:

	Goodwill		Trademarks		Other intangible assets		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition value brought forward	3,447	3,783	2,026	2,053	120	79	5,593	5,915
Purchases/investments	–	–	–	–	34	27	34	27
Companies acquired	44	54	4	–	–	–	48	54
Sales/disposals	–	–	–	–	–1	–	–1	–
Reclassifications	4	–	–	–	–3	18	1	18
Exchange differences, etc.	–145	–390	1	–27	–1	–4	–145	–421
Accumulated acquisition value carried forward	3,350	3,447	2,031	2,026	149	120	5,530	5,593
Amortization brought forward	–1,401	–1,338	–495	–405	–49	–27	–1,945	–1,770
Amortization for the year	–175	–212	–136	–100	–11	–7	–322	–319
Sales/disposals	–	–	–	–	1	–	1	–
Reclassifications	0	–	–	–	–1	–	–1	–
Exchange differences	71	149	4	10	1	–15	76	144
Accumulated amortization carried forward	–1,505	–1,401	–627	–495	–59	–49	–2,191	–1,945
Write-downs brought forward	–	–	–	–	–	–	–	–
Write-downs for the year	–9	–	–	–	–46	–	–55	–
Reclassifications	–2	–	–	–	2	–	–	–
Exchange differences	–	–	–	–	1	–	1	–
Write-downs carried forward	–11	–	–	–	–43	–	–54	–
Book value carried forward	1,834	2,046	1,404	1,531	47	71	3,285	3,648

Write-downs of intangible fixed assets were charged against administrative expenses in the income statement.

As a result of restructuring and based on the earnings trend in certain areas, asset values were reviewed during 2004. Values in use were computed using a pre-tax discount rate of between 10–16 percent, depending on local risk and interest-rate levels, among other factors. Total write-downs of intangible assets of 55 MSEK were taken in 2004. These write-downs were charged to cost of goods sold in the income statement. The write-downs are not expected to be deductible for tax purposes.

8. Tangible fixed assets

Tangible assets at December 31 include the following:

	Buildings and land*		Machinery		Equipment, tools and fixtures		New construction		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Acquisition value brought forward	1,920	1,815	3,174	3,011	524	439	143	599	5,761	5,864
Purchases/Investments	91	62	111	274	95	53	189	162	486	551
Companies acquired	18	3	3	-	-	2	-	-	21	5
Sales/disposals	-42	-17	-63	-56	-29	-27	-2	-	-136	-100
Reclassifications	3	284	119	225	-36	62	-87	-589	-1	-18
Exchange differences	-98	-227	-100	-280	-16	-5	-20	-29	-234	-541
Accumulated acquisition value carried forward	1,892	1,920	3,244	3,174	538	524	223	143	5,897	5,761
Depreciation brought forward	-673	-690	-1,941	-1,960	-279	-253	11	-3	-2,882	-2,906
Depreciation for the year	-46	-77	-228	-214	-58	-55	-	-	-332	-346
Companies acquired	-	-	-	-	-	-1	-	-	-	-1
Sales/disposals	24	6	60	55	26	25	-	-	110	86
Reclassifications	-	-1	-25	-	26	-	-	-	1	-1
Exchange differences	41	89	61	178	7	5	12	14	121	286
Accumulated depreciation carried forward	-654	-673	-2,073	-1,941	-278	-279	23	11	-2,982	-2,882
Write-downs brought forward	-11	-13	-6	-7	-	-	-	-	-17	-20
Write-downs for the year	-131	-	-84	-	-4	-	-1	-	-219	-
Sales/disposals	-	-	-6	-	-	-	-	-	-6	-
Exchange differences	11	2	6	1	-	-	-	-	17	3
Accumulated write-downs carried forward	-131	-11	-90	-6	-4	-	-1	0	-225	-17
Book value carried forward	1,107	1,236	1,081	1,227	256	245	246	154	2,690	2,862

* Buildings and land include land at a book value of 329 (361) MSEK.

As of the closing date, the company has an obligation to acquire tangible fixed assets with a value of 4 MSEK.

Based on the earnings trend in certain areas, asset values were reviewed during 2004. Values in use were computed using a pre-tax discount rate of between 10-16 percent, depending on local risk and interest-rate levels, among other factors. Write-downs of tangible assets of 219 MSEK were taken in 2004. These write-downs were charged to cost of goods sold in the income statement. The write-downs are not expected to be deductible for tax purposes.

The tax assessment value at December 31 for property in Sweden is shown below:

	2004	2003
Buildings	274	302
Land	20	16
Total assessed tax value for property in Sweden	294	318

Depreciation of tangible assets was distributed under the following headings in the income statement:

	2004	2003	2002
Cost of goods sold	-224	-233	-208
Selling expenses	-38	-35	-32
Administrative expenses	-70	-78	-84
Total depreciation	-332	-346	-324

9. Shares and participations

Participations in associated companies and other shares included in financial assets at December 31:

	2004		2003	
	Owner-ship %	Book value	Owner-ship %	Book value
Arnold André GmbH & Co. KG	40	75	40	79
P.T. Jamafac	40	42	40	48
Other associated companies		8		7
Total shares in associated companies		125		134
Other shares and participations		10		11
Total shares and participations		135		145

Within the framework of normal business, Swedish Match conducts various transactions with associated companies. Receivables from these companies totaled 24 MSEK at December 31, 2004, and 30 MSEK at December 31, 2003 and 54 MSEK at December 31, 2002. Total sales to associated companies amounted to 141 MSEK in 2004, 147 MSEK in 2003, and 133 MSEK in 2002.

Participations in associated companies and other shareholdings changed during 2004 and 2003 as shown in the table below:

	2004	2003
Opening balance from preceding year	145	148
Write-downs of shares in other companies	0	-2
Income from associated companies net after tax	3	18
Dividends from associated companies	-12	-16
Exchange rate differences	-1	-3
Closing balance	135	145

10. Deferred tax receivables

Deferred tax receivables changed during 2004 and 2003 as shown in the table below:

	2004	2003
Opening balance from preceding year	245	206
Changes in deferred tax receivables	165	69
Exchange rate differences	-13	-30
Closing balance	397	245

11. Long-term receivables

Long-term receivables changed during 2004 and 2003 as shown in the table below:

	2004	2003
Opening balance from preceding year	226	252
Changes in long-term receivables	-36	12
Change in pension receivables	53	-
Exchange rate differences	-15	-38
Closing balance	228	226

12. Inventories

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

	2004	2003
Finished goods	766	800
Work in progress	144	124
Leaf tobacco	1 399	1 610
Other input and consumable materials	245	254
Reserve for obsolescence	-78	-112
Total inventories	2 476	2 676
Of which, reported at net sales value	78	

The reserve for obsolescence changed during the year as shown below:

	2004	2003
Reserve for obsolescence		
Balance brought forward	-112	-108
Provision during the year	-41	-50
Withdrawal during the year	52	25
Write-off and other	23	21
Closing balance	-78	-112

13. Reserve for bad debts

Reserve for bad debts at December 31, consists of the following:

	2004	2003
Balance brought forward	-111	-111
Provision during the year	-29	-42
Recovery during the year	19	24
Write-off during the year	19	10
Exchange rate differences	3	8
Closing balance	-99	-111

14. Liquid funds

Liquid funds consist of short-term investments in the form of interest-bearing securities, cash and bank balances in accordance with the following:

	2004	2003
Short-term investments		
Treasury bills	392	616
Bank certificates	429	149
Mortgages certificates	755	398
Mortgages bonds	166	-
Government bonds	61	-
Other financial investments	12	6
	1,815	1,169
Cash and bank		
Bank accounts and cash	1,102	1,412
Investment loans in banks	85	85
Total liquid funds	3,002	2,666

The Group includes in liquid funds short-term financial investments that are traded in the open market and for which the risk of fluctuations in value is insignificant.

15. Shareholders' equity

Swedish Match's share capital is distributed among 336,596,181 shares with a par value of SEK 2.40 per share. Each share carries one vote. Through repurchases, sales and after share cancellations, the Company holds 15,079,288 shares, and the net total of shares outstanding, accordingly, amounts to 321,516,893.

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of 1.90 SEK (1.70) be distributed to shareholders, which corresponds to a total of 611 MSEK (558) based on the number of shares outstanding at year-end.

Shareholders' equity includes accumulated translation differences as follows:

Accumulated translation differences	2004	2003
Opening balance	-861	-745
Translation differences for the year	-89	-116
Closing balance	-950	-861

The translation difference for the year was reduced by currency hedging of shareholders' equity amounting to 22 MSEK (neg: 61).

16. Pensions and similar obligations

Obligations relating to employee benefits after the termination of employment as of December 31, 2004 in the balance sheet consist of the following:

Net liabilities

Defined-benefit plans	313
Post-employment medical benefits	327
Other long-term benefits	99
Provisions for pensions and similar obligations	739

The Group has defined-benefit pension plans in a number of subsidiaries through which the employees are entitled to benefits following the termination of employment based on their pensionable income and the number of service years. The largest plans are in the U.S., U.K., Netherlands, Belgium, Ireland and Sweden. The Group's plans represent a supplement to each country's social security system. Healthcare plans primarily cover salaried employees and workers covered by collective agreement in the U.S. These plans provide certain healthcare and life insurance benefits for pensioned personnel.

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

	Defined-benefit pension plans	Post-employment medical benefits
Present value of funded obligations	2,087	-
Fair value of plan assets	-1,858	-
Deficit, net	229	-
Present value of unfunded obligations	47	339
Unrecognized actuarial losses, net	-12	-16
Unrecognized service cost	0	4
Net liability in the balance sheet	264	327
Amounts in the balance sheet		
Liabilities	313	327
Assets	-49	-
Net liability in the balance sheet	264	327

The amounts reported in the income statement or in notes as of December 31, 2004, consist of the following:

	Defined-benefit pension plans	Post-employment medical benefits
Current service costs	57	12
Interest on obligation	113	17
Expected return on plan assets	-128	-
Past service costs	-1	-1
Losses (+) or gains (-) on curtailments and settlements	4	-
Net expense reported in the income statement	45	28

The expenses for defined benefit plans are reported as of December 31, 2004 under the following headings in the income statement:

	Defined-benefit pension plans	Post-employment medical benefits
Cost of goods sold	14	8
Administrative expenses	18	13
Selling expenses	13	7
Net expense reported in the income statement	45	28

The changes in the net liability reported in the balance sheet as of December 31, 2004, consist of the following:

	Defined-benefit pension plans	Post-employment medical benefits
Net liability, Jan 1	-75	276
Effects of changes in accounting principle	325	68
Net liability, Jan 1 restated	250	344
Net expense reported in Income statement	45	28
Payment of benefits to employees	-4	-4
Employer contributions to plans	-19	-11
Employee contributions to plans	-1	-
Translation differences	-7	-30
Net liability, Dec. 31	264	327

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

	Defined-benefit pension plans	Post-employment medical benefits
Discount rate, %	5.6	6.2
Expected return on plan assets under management, %	7.3	-
Future annual pay increases, %	4.5	5.0
Future annual pension increases, %	2.5	-
Annual increase in medical care expenses, %	-	9.0

The actual return on plan assets in 2004 was 162 MSEK.

Note 16, cont.

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

Obligations for retirement pension and family pension for salaried personnel and workers covered by a collective agreement in Sweden is secured through insurance in two superannuation funds, PSF and PSA. These funds also cover other employers outside the Swedish Match Group. For the 2004 fiscal year, the company has not had access to the requisite information to report these plans as defined-benefit plans. Thus, the pension plans secured in superannuation funds are reported as defined-contribution plans. As of December 31, both funds reported a minor surplus.

17. Other provisions

Other provisions at December 31, 2004 consist of the following:

	Total provisions	Restructuring provisions	Income tax provisions	Other provisions
Opening balance	664	18	453	193
Provisions	619	4	565	80
Utilization	-75	-7	-4	-68
Reversals for the year	-4	-3	-	-1
Reclassifications	79	-	-	53
Translation differences	-106	-	-94	-12
Closing balance	1,177	12	920	245

The restructuring reserves pertain mainly to the non-performing part of the past two years' restructuring of the Group's cigar operations in regard to severance pay, etc. Most of these provisions will be paid during the next two years.

The tax-related provisions mainly pertain to reserves for taxes in foreign subsidiaries. The timing of outflows of resources is difficult to predict.

Other provisions include allocations for issued discount coupons and for tobacco tax disputes in Sweden.

18. Interest-bearing bond loans/liabilities to credit institutions

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

Year	Amount
2006	1,456
2007	300
2008	713
2009	-
2010 and later	90
Total	2,559

Current interest-bearing liabilities	2004	2003
Next year's amortization of long-term loans	879	601
Bank overdraft facility utilized	40	36
Other current liabilities	51	209
Total	970	846

19. Other current liabilities

Other current liabilities at December 31 consist of the following:

	2004	2003
Tobacco taxes	827	840
Value Added Tax liability	249	263
Other	332	226
Total	1,408	1,329

20. Accrued expenses and deferred income

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

	2004	2003
Accrued wage/salary-related expenses	139	183
Accrued vacation pay	69	72
Accrued social security charges	77	66
Other	560	469
Total	845	790

21. Pledged assets

	2004	2003
For the Group's own long-term liabilities		
Property mortgages	1	1
Inventories	33	35
Receivables	22	25
Total own long-term liabilities	56	61
Other collateral pledged		
Liquid funds	87	93
Total other collateral pledged	87	93

22. Commitments and contingent liabilities

Operating lease agreements

Future annual minimum charges under the terms of irrevocable operating lease agreements with initial or remaining terms of one year or more consisted of the following at December 31, 2004:

Within one year	98
More than one year but less than five years	802
More than five years	48
Total minimum lease charges	948

The Group's leasing expenses for operating lease agreements amounted to 111 MSEK (117, 118) for 2004, 2003 and 2002, respectively.

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

Within one year	35
More than one year but less than five years	53
More than five years	0
Total minimum lease income	88

Note 22, cont.

Rental revenues, own properties

Within the Group are properties that in part are rented externally. At year-end, the properties being rented externally consist of the following:

Accumulated acquisition value, closing balance	373
Accumulated depreciation, closing balance	-136
Book value, carried forward	237

Depreciation for the year amounts to 13 MSEK.

Future irrevocable minimum lease income for own properties that are leased externally is distributed in accordance with expiration dates as follows:

Within one year	33
More than one year but less than five years	115
More than five years	131
Total minimum lease income	279

The Group's rental revenues from own properties in 2004 amounted to 36 MSEK.

Contingent liabilities

	2004	2003
Guarantees to subsidiaries	224	158
Guarantees to external companies	2	3
Other guarantees and contingent liabilities	185	280
Total contingent liabilities	411	441

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

Option on minority shares in General Cigar

There is an agreement with the minority shareholders of General Cigar concerning put and call options on the minority's holdings. The options can be exercised over the period 2004–2006. Valuation of the shares in connection with the exercise of put options is determined on the basis of the company's earnings, at certain minimum levels.

Leaf tobacco purchases

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

Legal disputes

The Company is involved in a number of legal proceedings of a routine character. Although the outcomes of these proceedings cannot be anticipated with any certainty, and accordingly no guarantees can be made, the view of management is that liabilities attributable to these disputes, if any, should not have any significant negative impact on the earnings or financial position of Swedish Match.

During the year, a final decision was served in favor of Pinkerton Tobacco Company and other defendants in legal proceedings in Minnesota, in which the plaintiff claimed that chewing tobacco caused the death of her husband. In addition, subsidiaries in Swedish Match in the U.S. are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been initiated in state courts in West Virginia. Pinkerton, however, has been severed out of the consolidated process in these cases and it is unclear whether any of the plaintiffs intends to pursue their claims separately against Pinkerton. Swedish Match North America Inc. and Pinkerton Tobacco Company are named as defendants in a class-action suit filed in Florida in November 2002 against several different companies active in the American market for smokeless tobacco and their joint interest association. Swedish Match has been granted an unlimited time extension for its reply. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any ongoing or anticipated disputes, it holds the view that there are good defenses against all the claims and each case will be defended vigorously.

The Supreme Court in India has ordered Swedish Match AB and certain of its subsidiaries to make a public offer to acquire 20 percent of the shares outstanding in Wimco Ltd. In accordance with the ruling, the price per share shall be not less than 35 INR plus annual interest from January 27, 2001. Swedish Match has requested the Supreme Court to clarify the rate of interest to be applied and which shareholders are entitled to interest. Swedish Match has made provision of 90 MSEK to cover a write-down of the value of the shares that will be acquired according to the order and expenses in connection with the acquisition.

23. Supplementary information to Cash-Flow Statement

The cash-flow statement is prepared using the indirect method. The cash flow reported only covers transactions involving payments received or made. For foreign subsidiaries, all transactions are translated at the average exchange rate for the year. Acquisitions or divestments by subsidiaries are included net under investment activities and do not affect cash flow in operations. Liquid assets comprise cash and bank balances and short-term investments. See Note 14.

Acquisitions of subsidiaries in 2004

During 2004, subsidiaries were acquired for a total of 53 MSEK, including minority shares in already partly owned subsidiaries. For these companies taken as a whole, the total value of acquired assets and liabilities, purchase sums, and the impact on the Group's liquid funds were as follows:

Tangible fixed assets	1
Intangible fixed assets	44
Inventories	7
Trade receivables	1
Change in liability to minorities	17
Accounts payable	-3
Loans in acquired operations	-5
Other assets/liabilities, net	-9
Purchase price paid	53
Cash and bank balances in acquired companies	0
Effect on the Group's liquid funds	53

Note 23, cont.

Divestment of subsidiaries in 2004

During 2004, subsidiaries were divested for a total of 117 MSEK and the effect on Group liquid funds was as follows:

Tangible fixed assets	6
Intangible fixed assets	0
Inventories	80
Trade receivables	36
Change in liability to minorities	0
Accounts payable	-9
Loans in acquired operations	0
Other assets/liabilities, net	4
Purchase price received	117
Cash and bank balances in divested companies	0
Effect on the Group's liquid funds	117

Interest paid and dividends

Interest payments during the year amounted to 283 MSEK (283, 330).

Interest received during the year amounted to 85 MSEK (249, 95).

Dividends received from associated companies during the year amounted to 12 MSEK (16, 8).

24. Financial instruments

Operations

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

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

Financial instruments

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

Currency risks

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

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

Transaction exposure

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

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

The anticipated commercial currency flow after net calculation of the reverse flows in the same currencies (transaction exposure) amounts to approximately 391 MSEK on an annualized basis.

Swedish Match's policy for managing the Group's transaction exposure is to hedge inward and outward flows in foreign currency within certain frameworks. The hedging transactions are initiated via currency forward contracts with durations of up to 12 months and related to projected currency flows. On December 31, 2004, approximately 15 percent of net exposure for 2005 was currency hedged as follows:

Bought/sold	Amount*	Currency	Countervalue in SEK
Sold	4	EUR	40
Sold	1	GBP	13
		Total	53

* Currency in millions

Translation exposure

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

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are entered directly under shareholders' equity. Swedish Match does not, as a rule, hedge shareholders' equity in foreign subsidiaries. During the year, however, most of the shareholders' equity in one of the Group's US units was hedged.

Interest-rate risk

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

Swedish Match's policy is that the average maturity period should not exceed 12 months. The major portion of the Group's borrowing was originally assumed at a fixed interest rate but subsequently converted to a floating rate by means of interest rate swaps. How rapidly a permanent change of interest rate impacts on net interest expense depends on the interest maturity periods of the loans. On December 31, 2004, the average interest maturity period for Group loans was 2.4 months, with interest rate swaps taken into account.

Refinancing risk and liquidity

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

Swedish Match has a syndicated bank credit facility of 250 MEUR, with final maturity in 2008. This was unutilized at year-end. The credit facility includes a borrowing restriction – or covenant – that operating income

Note 24, cont.

after financial items plus interest expense, divided by interest expense (interest coverage ratio) must amount to at least 3.0. At December 31, 2004, the interest coverage ratio was 13.1.

At year-end 2004, available cash funds and committed credits amounted to 5,253 MSEK. Of this amount, confirmed credit lines amounted to 2,251 MSEK and the remaining 3,002 MSEK consisted of liquid funds.

Most of Swedish Match's medium-term financing consists of a Swedish medium term note program with a limit of 4,000 MSEK, and a global medium-term note program with a limit amount of 1,000 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2004, a total of 1,423 MSEK of the Swedish program and 1,763 MSEK of the global program had been utilized.

The average maturity structure of the Group's borrowing at December 31, 2004 amounted to 1.9 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

	Swedish MTN	Global MTN	Other loans	Total
2005	500	129	341	970
2006	0	1,454	2	1,456
2007	300	0	0	300
2008	623	90	0	713
2009	0	0	0	0
2010–	0	90	0	90
Total	1,423	1,763	343	3,529

Under the Swedish bond program, Swedish Match issued bonds in SEK, and under the global program, in EUR. During 2004, Swedish Match repurchased bonds for 120 MEUR under the global bond program. Borrowing in EUR is currency hedged through currency swaps and currency interest rate swaps. The average interest rates for outstanding borrowing (including derivative instruments) on December 31, 2004 amounted to:

Percent	2004	2003
Swedish MTN	3.2	3.9
Global MTN	5.4	4.9
Other loans*	5.1	7.3

* Apart from loans in the Parent Company, relates mainly to loans mainly in India and Turkey.

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties who have high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in government bonds, treasury bills and bank and mortgages certificates, as well as in certain approved securities with approved counterparties. At December 31, 2004, the average fixed-interest term for Group investments was approximately 2.6 months.

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

To reduce the credit risk in receivables that arise at banks via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2004, credit exposure in derivative instruments amounted to 199 MSEK.

Swedish Match has no concentration of credit risks in accounts receivable.

Credit ratings

At December 31, 2004, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service

	Standard & Poor's	Moody's
Long-term rating:	A-	A3
Outlook:	Stable	Stable

Fair value

The table below shows book value (incl. accrued interest) and fair value for each type of interest-bearing financial instrument at December 31, 2004.

Trade receivables and accounts payable are reported at fair value and have not been included in the table. The estimated fair value is based on market prices on the closing date. Loans have a market value based on the current interest on remaining time to maturity, original credit spread and present value computation of future cash flow. The values presented are indicative and may not necessarily be realized.

	2004		2003	
	Book value	Estimated fair value	Book value	Estimated fair value
Short-term investments				
Treasury bills	394	394	621	622
Bank certificates	429	429	150	150
Mortgages certificates	759	759	399	399
Mortgages bonds	170	169	–	–
Government bonds	62	62	–	–
Other financial investments	12	12	6	6
Total	1,826	1,825	1,176	1,177
Long-term loans				
Fixed interest	–2,327	–2,471	–3,763	–3,984
Floating interest	–438	–439	–1,022	–1,021
Total	–2,765	–2,910	–4,785	–5,005
Current loans				
Fixed interest	–309	–314	–560	–565
Floating interest	–672	–672	–308	–307
Total	–981	–986	–868	–872
Derivative instruments				
Currency forwards	1	0	4	5
Currency swaps	–15	–16	239	263
Interest rate swaps	198	225	234	252
Total	184	209	477	520

25. Reporting of segments

Primary segments – product areas

The Group is organized in seven main product areas. Other operations include distribution of tobacco products in the Swedish market, sales of advertising products, Groupwide costs and costs for business development and legal fees.

The product area assets consist primarily of tangible and intangible fixed assets, inventories and operating receivables. Product area liabilities comprise operating liabilities. Non-allocated assets and liabilities are mainly assigned to financial items and taxes.

Investments consist of the purchase of tangible and intangible assets, including increases resulting from acquisitions.

No sales are transacted between the different product areas.

The tables below summarize selected information by product area:

External sales	2004	2003	2002
Snuff	3,081	2,995	2,788
Chewing tobacco	1,058	1,146	1,333
Cigars	3,171	3,008	3,318
Pipe tobacco and accessories	901	909	843
Matches	1,378	1,395	1,648
Lighters	582	599	700
Other operations	2,836	2,984	3,013
Total	13,007	13,036	13,643
Income	2004	2003	2002
Snuff	1,373	1,386	1,233
Chewing tobacco	304	336	406
Cigars	466	393	472
Pipe tobacco and accessories	220	201	164
Matches	-57	83	203
Lighters	7	14	74
Other operations	-224	-189	-181
Subtotal	2,089	2,224	2,371
Settlement income*	1,521	-	-
Match impairment charges**	-150	-	-
Provision for acquisition of shares in Wimco Ltd**	-90	-	-
Operating income	3,370	2,224	2,371
Non-allocated costs and revenues			
Interest income	103	229	108
Interest expense	-266	-283	-337
Other financial items	-1	4	-16
Taxes	-1,314	-572	-648
Minority interests	-64	-44	-49
Net income for the year	1,828	1,558	1,429

* In 2004, the Group's operating income was affected by settlement income from UST of 1,521 MSEK.

** In 2004, operating income for Matches was affected by the impairment charges of 150 MSEK and provision for the acquisition of shares in Wimco Ltd of 90 MSEK.

Shares in earnings of associated companies for the year totaled 1 MSEK (0,0) for Snuff, -3 MSEK (7, 11) for Cigars and 2 MSEK (13,11) for Matches and 1 MSEK for Lighters (0,0).

Assets and liabilities	Assets		Liabilities	
	2004	2003	2004	2003
Snuff	1,642	1,558	513	401
Chewing tobacco	396	398	235	88
Cigars	5,045	5,391	927	560
Pipe tobacco and accessories	1,227	1,244	281	139
Matches	1,197	1,466	410	294
Lighters	459	483	202	137
Other operations	823	1,116	1,167	1,219
Non-allocated assets/liabilities	3,832	3,446	6,055	7,657
Minority interests and shareholders' equity	-	-	4,831	4,607
Total	14,621	15,102	14,621	15,102

Equity shares in associated companies for the year amounted to 75MSEK (79) for cigars, 42 MSEK (48) for matches and 7 MSEK (7) for lighters.

Investments	Tangible fixed assets			Intangible fixed assets		
	2004	2003	2002	2004	2003	2002
Snuff	242	219	424	-	3	1
Chewing tobacco	18	23	42	-	-	-
Cigars	128	193	169	45	49	13
Pipe tobacco and accessories	28	15	20	-	20	-
Matches	36	81	58	18	3	10
Lighters	17	11	21	14	-	-
Other operations	18	9	17	1	6	8
Total	487	551	751	78	81	32

Depreciation/ amortization	Tangible fixed assets			Intangible fixed assets		
	2004	2003	2002	2004	2003	2002
Snuff	95	71	56	46	18	17
Chewing tobacco	24	29	41	-	-	-
Cigars	113	111	111	169	177	203
Pipe tobacco and accessories	15	13	9	58	58	53
Matches	51	80	60	35	39	34
Lighters	26	29	35	7	11	6
Other operations	8	13	12	7	16	14
Total	332	346	324	322	319	327

Secondary segments – geographic areas

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

External sales	2004	2003	2002
Nordic region	5,087	4,874	4,683
Europe excluding Nordic region	1,912	2,076	2,214
North America	4,036	4,135	4,688
Other areas	1,972	1,951	2,058
Total	13,007	13,036	13,643

Note 25, cont.

Assets	2004	2003
Nordic region	3,282	3,321
Europe excluding Nordic region	1,844	2,065
North America	3,878	4,224
Other areas	1,785	2,046
Non-allocated assets	3,832	3,446
Total assets	14,621	15,102

Investments	Tangible fixed assets			Intangible fixed assets		
	2004	2003	2002	2004	2003	2002
Nordic region	245	253	420	19	5	17
Europe excluding Nordic region	84	68	124	58	42	2
North America	112	172	136	–	–	–
Other areas	46	58	71	1	34	13
Total investments	487	551	751	78	81	32

26. Net income and shareholders' equity in accordance with US GAAP

The accounts of Swedish Match are prepared in accordance with Swedish accounting principles ("Swedish GAAP"). Swedish Match issues certain financial information prepared in accordance with American accounting principles (US GAAP) and files a report each year (Form 20-F) with the US Securities and Exchange Commission (SEC), which includes additional information about Swedish Match's business activities in accordance with established rules.

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

	Note	2004	2003	2002
Reconciliation of net income				
Income for the year in accordance with Swedish GAAP		1,828	1,558	1,429
Items that increase or reduce income				
Reporting of goodwill, etc.	a	174	211	191
Restructuring expenses	b	–	–	–29
Sale-leaseback of properties	c	7	6	–24
Derivative instruments	d	–2	–99	126
Pensions	e	–36	–25	–9
Other	f	2	22	21
Tax effects of above US GAAP adjustments		–8	7	–38
Net income in accordance with US GAAP before cumulative effect of revised accounting principle		1,965	1,680	1,667
Cumulative effect of revised accounting principle	a	–	–	–206
Net income in accordance with US GAAP		1,965	1,680	1,461

	Note	2004	2003	2002
Earnings per share in acc. with US GAAP before cumulative effect of revised accounting principle				
– basic		6.03	5.05	4.79
– diluted		6.01	5.03	4.75

Cumulative effect per share of revised accounting principle				
– basic		–	–	0.60
– diluted		–	–	0.59

Earnings per share, in accordance with US GAAP, basic		6.03	5.05	4.19
Earnings per share, in accordance with US GAAP, diluted		6.01	5.03	4.16

Reconciliation of shareholders' equity

Reported equity in accordance with Swedish GAAP		4,358	4,010	4,007
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Items that increase/reduce shareholders' equity

Reporting of goodwill, etc.	a	1,929	1,776	1,587
Restructuring expenses	b	–31	–34	–41
Sale-leaseback of properties	c	–277	–284	–290
Derivative instruments	d	25	27	126
Pensions	e	231	–81	–81
Other	f	62	64	43
Tax effects of above US GAAP adjustments		–66	43	40

Shareholders' equity in accordance with US GAAP		6,231	5,521	5,391
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a) Reporting of goodwill, etc.

At December 31, 1995, Swedish Match was owned by the Volvo Group, which acquired Swedish Match AB in two stages, November 1993 and June 1994, whereby the purchase method was applied in reporting the transactions. US GAAP requires that "push down" accounting be applied for independent annual reports of wholly owned subsidiaries if the ownership share is 95 percent or more, which was the case in Volvo's acquisition in 1994. Consequently, the adjustments made in accordance with the purchase method by Volvo, pertaining to Swedish Match, began being reported for US GAAP purposes by Swedish Match in June 1994. Total gross value of goodwill which, according to the above, was transferred to Swedish Match in 1994 amounted to 6,158 MSEK. Adjustments for property, machinery and equipment amounted to 119 MSEK. In 1999, Swedish Match divested its cigarette operations. This has resulted in a reduction in the goodwill value that was transferred from Volvo to the extent it was applicable to cigarette operations. The original gross value attributable to the cigarette operations totaled 3,605 MSEK. The planned residual value of this goodwill entry, consequently, has been settled against the capital gains that arose in the sale of the cigarette operations. The remaining acquisition value for goodwill pertaining to the remaining operations within Swedish Match amounts to 2,553 MSEK. The corresponding amount for properties, machinery and equipment is 49 MSEK. Amortization of the above goodwill amounted to 128 MSEK in 2001.

Note 26, cont.

According to Swedish GAAP, goodwill is to be amortized in a systematic manner over its useful life. The useful life for goodwill is always limited. In accordance with the U.S. accounting recommendation FAS 142, "Goodwill and Other Intangible Assets," which applies from January 1, 2002, goodwill and intangible fixed assets with an indeterminate useful life may no longer be subject to amortization. Instead, an impairment test shall be made in connection with the transition to FAS 142, and then on an annual basis. Trademarks and other intangible assets in the company have thereby been deemed to have a fixed useful life. As a consequence, the goodwill amortizations made since 2002 in accordance with Swedish GAAP, amounting to 175, 212 and 208 MSEK, were reversed for US GAAP purposes. According to FAS 142, write-down requirements arise if the book value of a "reporting unit" exceeds its estimated fair value. With the transition to FAS 142, an impairment test of goodwill was made January 1, 2002. This resulted in a goodwill write-down in accordance with US GAAP of 206 MSEK in pipe tobacco operations in northern Europe. The fair value of the operations was calculated as the present value of the estimated future cash flow that the operations could be expected to generate. This write-down was, in accordance with US GAAP, reported as the cumulative effect of revised accounting principles, and was therefore charged to income for 2002. Examinations during the year of the possible need for a write-down did not result in any further adjustment.

A performance based supplement to the purchase price for a company has, in accordance with Swedish GAAP, increased the reported value for goodwill. According to US GAAP, the conditional purchase price in certain cases is to be reported as a cost for services rendered. The conditional purchase price of 16 MSEK was expensed in 2002.

b) Restructuring costs

Prior to December 31, 2002, in accordance with US GAAP specified in EITF 94-3, restructuring costs are reported only when an informal undertaking has arisen. An informal undertaking is deemed to have arisen when management at the appropriate decision-making level bound the company to a restructuring plan, identified all significant measures, including methods and time schedule for implementation and, in cases in which employees are to be made redundant, specified the severance conditions and communicated them to employees. Prior to 2002, Swedish GAAP were less restrictive and permitted in certain cases earlier reporting. In addition, Swedish GAAP were not as restrictive as regards the type of costs that could be included, which could result in differences in income. Beginning in 2002, Swedish GAAP are essentially in agreement with EITF 94-3.

According to US GAAP in EITF 94-3, expenses for restructuring measures are reported only on conditions that a sufficiently detailed plan for the implementation of the measures is available at the close of the reporting period, and that these are announced and the terms and conditions known to the employees affected at the closing date. Beginning in 2002, Swedish GAAP are essentially in agreement with US GAAP.

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

In January 2003, SFAS 146 was issued within US GAAP. SFAS 146 requires that a liability in conjunction with a closure or divestment shall be reported when the liability formally arises, rather than on the day when the company has decided upon, communicated and thereby entered into an informal undertaking. The exact point in time for reporting and for the related determination of the liability for severance pay for employees who must leave the company involuntarily depends on whether the employees must provide services until the termination of their employment in order to

receive severance pay, and if this is the case, whether the employees will be remaining at the company for a longer period than the shortest possible period of notice as defined in local laws and agreements.

SFAS 146 invalidates EITF 94-3 and must be applied in the case of closures or divestments initiated after December 31, 2002. All restructuring measures begun prior to January 2003 will continue to be reported in accordance with EITF 94-3 in conformity with US GAAP. The company undertook no new restructuring measures during 2003 and 2004.

c) Sale and leaseback of properties

In 1998 and 2002, the Group sold properties and is now leasing them back under leasing agreements, which, according to Swedish GAAP, are classified as operational leasing. Since Swedish Match has an option to repurchase these properties, the sales are regarded in terms of US GAAP as financing arrangements, with the result that income recognition is postponed and the sale proceeds are booked as a liability. The capital gain that arose in 2002 amounted to 27 MSEK, and the corresponding capital gain in 1998 amounted to 266 MSEK. The value of the properties has thus been recovered and normal depreciation according to plan is being applied.

d) Derivative instruments

In connection with valuation of derivatives, the Company has applied hedge accounting under Swedish GAAP. Since the Company does not meet the requirements stipulated by US GAAP for qualifying to apply hedge accounting, changes in the actual value of derivatives are reported in the income statement.

e) Provisions for post-employment benefits

Effective January 1, 2004, pensions and post-retirement benefits are accounted for by the Group in accordance with RR 29, Employee benefits which in all material respects is similar to International Accounting Standard 19. Prior to 2004, the Group calculated periodic pension cost and liability and post-retirement cost and liability using the local laws and accounting principles of each country. Under US GAAP, pensions and post-retirement benefits are accounted for in accordance with SFAS 87, Employers Accounting for Pensions and SFAS 106 Employers Accounting for Post-retirement Benefits Other than Pensions. Under RR 29, defined benefit post-employment obligations and expenses are actuarially determined in the same manner as US GAAP SFAS 87 and SFAS 106, using the projected unit credit method. However, some significant differences exist between Swedish and US GAAP:

- Swedish GAAP, RR 29, was implemented effective January 1, 2004 with a transition amount taken directly to equity in accordance with Swedish accounting principles. SFAS 87 and SFAS 106 was implemented much earlier. The difference in implementation dates causes a significant difference in accumulated actuarial gains and losses, where the accumulated actuarial gains and losses under Swedish GAAP were set to zero as of the implementation date of RR 29, whereas under US GAAP the accumulated actuarial gains and losses have been accumulating since the implementation dates for those standards.
- Under US GAAP an additional liability (minimum liability) should be recognized and charged to other comprehensive income when the accumulated benefit obligation exceeds the fair value of the plan assets, and this excess is not covered by the liability recognized in the balance sheet. If a minimum pension commitment is reported, a corresponding amount must be reported as intangible assets under the condition that the amount does not exceed the unreported costs pertaining to employment in prior years. Any excess amount is charged to "Comprehensive Income." Such "minimum liability" is not required under Swedish GAAP.

Note 26, cont.

- Under Swedish GAAP, the past service costs resulting from plan amendments are recognized immediately if vested or amortized until vested. Under US GAAP, past service costs are generally recognized over the average remaining service life of the plan participants.
- Under Swedish GAAP the expected return on plan assets is based on actual market values while the US GAAP allows an expected return on assets based on market-related values.
- Alecta, the Swedish insurance company, announced its decision in 2000 to repay pension contributions to its policyholders, including Swedish Match. In accordance with Swedish GAAP, the cash payments and discounted present values of future premium reductions were booked as income during 2000. In accordance with US GAAP, only cash payments are recorded as income, while future premium reductions will be recorded as income when they are utilised.

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

f) Other

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

The Board of Directors decided in 1999 to introduce an options program for Senior Management. In accordance with Swedish GAAP, the Company makes provisions for social fees and withholding tax on the options. In accordance with US GAAP, these costs are not reported until the tax liability arises, which normally occurs when the options are issued to employees.

Short-term investments are reported according to Swedish GAAP, at the lower of cost or market value. In accordance with US GAAP, Swedish Match's short-term investments can be classified as "available for sale." According to US GAAP, such assets must be valued at market value in the balance sheet. Accrued interest is thus reported in the income statement, while the difference between market value and accrued acquisition value, after due consideration of taxes, is entered directly as equity. Reversal from equity to income statement takes place when a capital gain or loss is realized.

g) Deconsolidation of General Cigar

Swedish Match acquired 64 percent of the American company General Cigar in May 2000. The Cullman family holds the remaining 36 percent. According to the shareholder agreement between Swedish Match and the Cullman family the minority shareholder has the opportunity to actively participate in significant issues pertaining to daily operations in General Cigar, known as "substantive participating rights." Accordingly, General Cigar should not be consolidated by Swedish Match. Therefore, the investment in General Cigar is reported applying the equity method according to US GAAP. This does not result in any effect on reconciliation of net income for the year or shareholders' equity in accordance with Swedish GAAP or US GAAP. However, the balance sheet is affected by this difference. The table presents a condensed consolidated balance sheet in accordance with Swedish GAAP and US GAAP, whereby all US GAAP adjustments described in this section are considered.

Consolidated balance sheet, point g	Reported in accordance with Swedish GAAP		Reported in accordance with US GAAP	
	2004	2003	2004	2003
Fixed assets	6,735	7,126	9,297	9,660
Current assets	7,886	7,976	6,515	6,531
Total assets	14,621	15,102	15,812	16,191
Shareholders' equity	4,358	4,010	6,231	5,521
Minority interests	473	597	7	27
Provisions	3,111	2,119	2,397	1,745
Long-term liabilities	2,580	4,601	3,213	5,207
Current liabilities	4,099	3,775	3,964	3,691
Total liabilities and shareholders' equity	14,621	15,102	15,812	16,191

h) Cash-Flow Statement

According to SFAS 95, "cash and cash equivalents" only cover funds with terms of three months or less. Some of Swedish Match's liquid funds (see Note 14) do not meet this requirement. As a result, changes in this segment of liquid funds are reported as investments, as defined by SFAS 95.

Also, in accordance with Swedish GAAP, changes in short-term borrowing, where the term is twelve months or less, are reported net. In accordance with SFAS 95, there is a three-month limit for such net reporting.

27. Personnel

The average number of employees in the Parent Company during 2004 was 47, and in the Group it was 15,039. The corresponding numbers in 2003 were 45 and 15,115, respectively.

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

	2004			2003		
	Salaries and other compensation	Social costs (of which pension costs)		Salaries and other compensation	Social costs (of which pension costs)	
Parent Company	55	34 (13)		46	25 (8)	
Subsidiaries	1,671	583 (104)		1,725	620 (104)	
Group	1,726	617 (117)		1,771	645 (112)	

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

	2004			2003		
	Board and CEO (of which bonuses, etc.)	Other employees		Board and CEO (of which bonuses, etc.)	Other employees	
Parent Company						
Sweden	22 (4)	33		14 (2)	32	
Subsidiaries						
Australia	–	17		3 (0)	15	
Belgium	–	84		1	91	
Brazil	4 (1)	32		3 (1)	32	
Bulgaria	–	3		–	3	
Dominican Republic	–	99		–	121	
Philippines	–	7		–	7	
France	–	30		–	29	
Honduras	–	43		–	33	
India	1	53		1	55	
Indonesia	–	14		–	13	
Ireland	1	13		1	12	
China	1	13		–	13	
Netherlands	4	150		4	172	
Portugal	–	5		–	5	
Switzerland	5 (1)	2		2	3	
South Africa	–	65		–	62	
Spain	–	36		–	47	
United Kingdom	–	38		3	43	
Sweden	4 (0)	361		4 (1)	357	
Turkey	–	20		–	22	
Germany	1	17		1	20	
Hungary	–	12		–	14	
United States	11 (5)	497		11 (4)	504	
Other countries	2 (0)	26		3 (0)	15	
Total in subsidiaries	34 (7)	1 637		37 (6)	1 688	
Group total	56 (11)	1 670		51 (8)	1 720	

During 2004, 11.7(14.6) MSEK was paid into the profit-sharing fund for Group employees in Sweden.

Employees by country are detailed below:

Average number of employees	2004	of whom men, %	2003
Parent Company			
Sweden	47	49	45
Other			
Australia	49	57	50
Belgium	317	29	378
Brazil	741	71	800
Bulgaria	107	43	115
Dominican Republic	3,339	41	3,270
Philippines	128	51	129
France	66	56	66
Honduras	1,623	41	1,087
India	2,877	99	3,364
Indonesia	1,512	15	1,466
Ireland	37	73	38
China	265	65	292
Netherlands	419	80	414
Norway	27	63	10
Poland	17	71	–
Portugal	22	73	30
Switzerland	6	67	6
Slovenia	14	93	10
Spain	123	78	167
United Kingdom	59	61	72
Sweden	1,050	59	996
South Africa	493	91	553
Turkey	180	87	208
Germany	40	63	60
Hungary	172	36	188
United States	1,273	59	1,264
Austria	15	67	15
Other countries	21	71	22
Group total	15,039	58	15,115

Leading executives, gender distribution:

	2004		2003	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	9	78	10	80
CEO and other management	10	100	11	100
Group				
Board members	136	93	130	95
CEO and other management	126	94	137	96

Compensation to senior executives

Compensation to Swedish Match AB's Board members

Fees are paid to the Chairman of the Board and Board members in accordance with decisions of the Annual General Meeting. No Board fee is paid to the President. A study fee in an amount of 42,250 SEK was paid to each of the three employee representatives on the Board, and in an amount of 31,689 SEK to each of the three deputy members. The fees paid to Board members elected by the Annual General Meeting for Board work during 2004 are shown in the table below:

Note 27, cont.

Board fees to Board members elected by AGM in 2004

(SEK)	Board fee	Compensation Committee	Audit Committee	Total fees for Board work
Bernt Magnusson	687,500	80,000		767,500
Jan Blomberg	293,750	50,625	86,250	430,625
Tuve Johannesson	293,750			293,750
Arne Jurbrant	293,750	36,667	17,083	347,500
Meg Tivéus	293,750		53,750	347,500
Klaus Unger	93,750	13,958		107,708
Karsten Slotte	200,000		36,667	236,667
Total	2,156,250	181,250	193,750	2,531,250

In 2003, The Annual General Meeting decided that remuneration to the Board Chairman up until the end of the 2004 Annual General Meeting would be 650,000 SEK and 275,000 SEK each to the other Board members elected by the AGM and to give the Board 300,000 SEK as compensation for committee work, to be distributed within the Board as it decides.

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

Compensation and other benefits to Group management during 2004

(SEK 000s)		Base salary	Bonus	Options	Other benefits	Pension costs*	Total
President	2004	5,452	1,855	700	209	2,256	10,471
	2003	5,300	1,610	924	319	463	8,616
	2002	4,600	1,400	1,300	371	398	8,069
Other senior executives	2004	20,464	6,879	3,850	1,781	5,031	38,005
	2003	22,435	5,482	4,158	1,391	6,936	40,402
	2002	20,730	6,842	5,850	1,564	5,844	40,830
Total	2004	25,915	8,734	4,550	1,990	7,287	48,476
	2003	27,735	7,092	5,082	1,710	7,399	49,018
	2002	25,330	8,242	7,150	1,935	6,242	48,899

* Pertains to expensed pensions

Comments on the table

- The compensation paid to the President in 2004 relates to remuneration for Lennart Sundén for the period through March 19, 2004, when he resigned, and to Sven Hindrikes for the subsequent period.
- The terms and conditions for Sven Hindrikes compensation as President in 2004 were as follows: Fixed annual salary of 5,500,000 SEK; a maximum bonus of 35 percent and a pension on salary income up to 30 income base amounts according to the ITP plan and on income above 30 income base amounts a provision of 40 percent is paid to a defined-contribution pension plan. Pension according to the ITP plan is to be fully paid at the age of 60.
- Bonus pertains to incentive payments made during the year.
- Options are gross amounts disposable for allocation of options.
- Other benefits pertain to company car and other benefits.
- The reported pension costs are cost that affects the result for defined-contribution pensions and service cost according to IAS for defined-benefit pensions. These accounting principles apply to pension costs as of 2004.

Bonus

Group management is covered by an annual incentive program (bonus), which in 2004 could provide a maximum 35 percent of the base salary. The outcome of the incentive program is based on the increase in earnings per share for the President and staff managers. For division Presidents, 50 percent of the incentive program is based on the increase in earnings per share, while the remaining 50 percent is based on the increase in operating income in the division. Maximum payment in the case of the portion based on earnings per share requires that earnings per share increase 20 percent or more compared with the preceding year. For division managers, payment based on the incentive program also requires that operating income improves compared with the preceding year for the particular division, with maximum payment requiring the fulfillment of the set targets.

In addition to the annual incentive program, one Division President in a non-Swedish division are encompassed by a local incentive program. The local program extends over three years and a new program commences every second year. Payment from the local program may thus occur every second year if the set earnings targets are met. The maximum outcome for the Division President is approximately one year's base salary every second year.

Options

The Group has an ongoing options program that may provide an allocation of call options on shares in Swedish Match AB. The options are allotted to participants when certain targets have been fulfilled. The options have a lifetime of five years and may be exercised during the fourth and fifth year. In 2004, the options program covered 58 executives.

The allotment of options in any year is based on the outcome for two criteria:

- The total share return on the Swedish Match share must be positive and superior to the total share return on shares in a selected number of companies in the industry. A maximum allotment is made if the return is 20 percentage points or more than the return on the shares of the other companies.
- Earnings per share must increase and be higher than an average of the past three years. A maximum allotment is made if earnings per share are 20 percent higher than the average over the past three years.

These criteria have the same value. If the conditions for earnings are fulfilled, the particular executive is allotted options at no cost. The allotment of options constitutes a taxable income for participants resident in Sweden. The options are assigned a market value in accordance with the Black & Scholes model. They are irrevocable once allotted. The total value of the allotment may be a maximum 30 percent of the base salary amount for the executives included in the program. The options carry an exercise price of 120 percent of the average share price over a ten-day period after the published year-end report.

Note 27, cont.

Based on the targets attained in 2003, 865,259 options were issued in 2004. Exercise may be made between March 1, 2007 through February 27, 2009. Each option entitles the holder to purchase one share in Swedish Match AB at a price per share of 84.80 SEK. The market value, computed using the Black & Scholes model, is 10.00 SEK per option or a total of 8,652,590. Since Swedish Match AB has issued the options, no expensing is involved. However, preliminary taxes and social security charges are expensed, which in the particular cases occurred directly on issue.

Exercise period	Exercise price	Number of shares	Exercised	Net outstanding
2003-03-13–2005-03-14	34.70	2,847,108	2,426,275	420,833
2004-03-13–2006-03-14	44.50	1,812,309	1,197,112	615,197
2005-03-15–2007-03-15	77.50	1,518,770		1,518,770
2006-03-01–2008-02-28	74.00	1,428,490		1,428,490
2007-03-01–2009-02-27	84.80	865,259		865,259
		8,471,936	3,623,387	4,848,549

Pensions

Introduction

During 2004, new principles were introduced for Group management pensions. This means that Group management executives resident in Sweden are to be recovered by the ITP plan for salary of up to 30 salary base amounts and a defined-contribution pension on salary exceeding this amount. For members of Group management stationed abroad, the new principles primarily entail defined-contribution solutions and the base salary constitutes the pensionable salary.

The retirement age for members of Group management is 62.

President

According to the employment contract, the retirement age for Sven Hindrikes is 62 and he is encompassed by the ITP plan for salary up to 30 salary base amounts. Pension according to the ITP plan is to be fully paid at the age of 60. In addition, the company pays a pension premium of 40 percent of the fixed salary exceeding 30 salary base amounts.

Other members of Group management

Other members of Group management are eight persons who are subject to the following pension terms and conditions.

In the case of the four members of Group management resident in Sweden, two of them have terms and conditions in accordance with the previously named new pension principles. For the other two, the terms and conditions have been renegotiated with the result that the defined-benefit pension remains in place, but that the pensionable salary has been locked at the 2005 level. For both of these the retirement age is 60.

In the case of the four members of Group management resident abroad, two of them are encompassed by defined-benefit pension solutions with a retirement age of 60 and 65, respectively. The other two are covered by contribution-based pension solutions with a retirement age of 65 according to the employment contract.

Funding of pension commitments

In Sweden, pensions on salary portions of up to 30 salary base amounts are funded in PSF, Swedish Match Pensionskassa. The commitment for defined-benefit pensions for salary portions exceeding 30 salary base amounts is funded in Swedish Match Pensionstiftelse (pension foundation). For members of Group management resident outside Sweden, defined-benefit pension commitments are funded in local pension foundations.

All pension benefits are irrevocable.

Other employment terms

Severance pay, etc.

For the President, a joint six-month period of notice applies. A maximum severance payment of 18 months' salary is payable if the company terminates the employment contract. Severance pay will be reduced by a maximum of 50 percent of any other income, but not to less than half of the contracted severance pay.

A six-month mutual notice of intent to terminate employment applies for other members of Group management. If the Company terminates employment, severance pay is payable in an amount equivalent to 18 months of cash salary.

Preparation and decision-making process

Swedish Match AB's Board has appointed a Compensation Committee. The Committee's task is to prepare decisions for the Board in issues involving the principles underlying management salaries and other employment terms, pension benefits and bonus systems as well as other issues of a principle significance or of major importance for the company.

As of 2004, the Board of Directors acting in corpore will determine the President's salary, bonus and other terms of employment. The Compensation Committee approved the 2004 salary, bonus and other employment terms for other members of group management following proposals from the president. The Compensation Committee decided on criteria for the incentive programs encompassing Group management. In addition, the Compensation Committee presented proposals to the Board regarding the group's options program and profit-sharing system, following which the Board has made decisions based on the recommendation of the Compensation Committee.

Parent Company Income Statement

(MSEK)	Note	2004	2003
Net sales	1	12	15
Cost of goods sold		-6	-8
Gross profit		6	7
Selling expenses	1	-42	-11
Administrative expenses	1	-262	-220
Other operating income	2	53	29
Other operating expenses	2	-2	-1
Operating income		-247	-196
Income from participations in Group companies	3	1,405	1,390
Interest income, Group companies		215	261
Other interest income		63	195
Interest expenses, Group companies		-65	-64
Other interest expenses		-219	-205
Exchange rate differences and other financial items	4	24	-90
Income after financial items		1,176	1,291
Appropriations			
Accelerated amortization, trademarks		23	-5
Appropriations to tax equalization reserve		-310	-230
Reversal of tax equalization reserve		231	168
Income before tax		1,120	1,224
Taxes	5	-248	-253
Net income for the year		872	971

Parent Company Balance Sheet

(MSEK)	Note	Dec. 31, 2004	Dec. 31, 2003
ASSETS			
Fixed assets			
Intangible fixed assets	6	49	88
Tangible fixed assets	7	3	1
Financial fixed assets	8		
Shares and participations in Group companies		6,798	6,821
Deferred tax receivables		5	–
Other long-term securities		10	10
Other long-term receivables in Group companies		2,418	2,791
Total fixed assets		9,283	9,711
Current assets			
Trade receivables		3	–
Receivables in Group companies		1,410	1,938
Other receivables		6	10
Prepaid expenses and accrued income		83	286
Liquid funds			
Short-term investments	9	1,803	1,164
Cash and bank	9	527	812
Total liquid funds		2,330	1,976
Total current assets		3,832	4,210
TOTAL ASSETS		13,115	13,921
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity	10		
Share capital		808	844
Statutory reserve		194	194
Unrestricted equity			
Profit brought forward		1,507	1,662
Net income for the year		872	971
		3,381	3,671
Untaxed reserves	11	1,474	1,419
Long-term liabilities			
Interest-bearing bond loans	12	2,557	4,508
Liabilities to Group companies		57	63
		2,614	4,571
Current liabilities			
Interest-bearing liabilities to credit institutions	12	879	686
Liabilities to Group companies		4,534	3,528
Accounts payable		19	12
Income tax liabilities		47	12
Other current liabilities		110	2
Accrued expenses and prepaid income		57	20
		5,646	4,260
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		13,115	13,921
Pledged assets	13	87	93
Contingent liabilities	13	310	420

Changes in Parent Company Equity

(MSEK)	Note	Share capital	Reserve fund	Unrestricted equity	Total equity
Shareholders' equity at Dec. 31, 2002		868	194	3,147	4,209
Allocation to unrestricted reserves through cancellation of shares		-24		24	-
Dividend paid				-535	-535
Repurchase of own shares				-959	-959
Sale of treasury shares				55	55
Group contribution paid				-96	-96
Tax effect of Group contribution				26	26
Net income for the year				971	971
Shareholders' equity at Dec. 31, 2003		844	194	2,633	3,671
Allocation to unrestricted reserves through cancellation of shares		-36		36	-
Dividend paid				-558	-558
Repurchase of own shares				-658	-658
Sale of treasury shares				82	82
Group contribution paid				-38	-38
Tax effect of Group contribution				11	11
Net income for the year				872	872
Shareholders' equity at Dec. 31, 2004	10	808	194	2,380	3,382

Parent Company Cash-Flow Statement

(MSEK)	Note	2004	2003
Operations			
Income after financial items		1,176	1,291
Depreciation/amortization according to plan		41	13
Other items not affecting cash flow		-101	23
		1,116	1,327
Income tax paid		-208	-202
Cash flow from operations before changes in working capital		908	1,125
Cash flow from changes in working capital			
Accounts receivable		-3	3
Other assets		3	-8
Accounts payable		7	-1
Accrued expenses and other current liabilities		38	-10
Cash flow from operations		953	1,109
Investment activities			
Investments in machinery and equipment		-3	-1
Acquisition of intangible assets		-1	-2
Cash flow from investment activities		-4	-3
Financing activities			
Change in short-term loans		-1	1
Increase in long-term loans		-	635
Amortization of long-term loans		-1,626	-730
Changes in corporate transactions		1,871	658
Dividends paid		-558	-535
Repurchase of own shares		-658	-1,012
Sale of treasury shares		82	55
Other		295	296
Cash flow from financing activities		-595	-632
Cash flow for the year		354	474
Liquid funds at the beginning of the year		1,976	1,502
Liquid funds at the end of the year	9	2,330	1,976
Supplementary information, see Note	14		

Notes, Parent Company

(All amounts in MSEK unless stated otherwise.)

The Parent Company's accounting principles correspond, where applicable, with those applied in the Group.

1. Net sales, selling and administrative expenses

In addition to management functions, Parent Company operations comprise sales of nasal snuff in Germany, Switzerland and France. During 2004, sales to Group companies amounted to 2 MSEK (15). Purchases from Group companies amounted to 0 MSEK (0).

Administrative expenses include costs for auditing fees as shown below:

	2004	2003
KPMG		
Auditing assignments	3	-
Other auditors		
Auditing assignments	-	2
Other assignments	-	3
Total	3	5

2. Other operating income and operating expenses

Other operating income mainly pertains to the portion of joint administration costs charged to Group companies.

Other operating income includes exchange gains in an amount of 1 MSEK (1). Other operating expenses include exchange losses in an amount of 1 MSEK (1).

3. Income from participations in Group companies

	2004	2003
Dividends	264	389
Group contributions	1,164	1,001
Write-down of shares in Group companies	-23	-
Total	1,405	1,390

4. Exchange rate differences and other financial items

Net exchange rate differences amounted to 35 MSEK in fiscal 2004 and to a loss of 80 MSEK in fiscal 2003.

5. Taxes

Income taxes in 2004 and 2003 were as follows:

	2004	2003
Current income taxes	-253	-253
Deferred income taxes	5	-
Total	-248	-253

Difference between tax expense and tax expense based on current tax rate:

	2004	2003
Reported income before tax	1,120	1,224
Tax based on current tax rate of 28%	-314	-343
Tax effect of nondeductible expenses	-10	-1
Tax effect of non-taxable revenues	75	109
Tax pertaining to earlier fiscal years	1	2
Foreign withholding tax on dividends received	-	-19
Foreign coupon tax	-	-1
Tax on income for the year in accordance with the Income Statement	-248	-253

6. Intangible fixed assets

Intangible fixed assets at December 31 consist of the following:

	2004	2003
Trademarks and other intangible fixed assets		
Acquisition value, brought forward	116	114
Investments	1	2
Closing balance accumulated acquisition value	117	116
Amortization brought forward	-28	-16
Amortization for the year	-40	-12
Closing balance accumulated amortization	-68	-28
Closing balance, book value	49	88

7. Tangible fixed assets

Tangible fixed assets at December 31 include equipment as follows:

	2004	2003
Acquisition value brought forward	6	7
Investments	3	1
Taken over from Group companies	1	-
Sales/disposals	-1	-2
Closing balance accumulated acquisition value	9	6
Depreciation brought forward	-5	-6
Depreciation for the year	-1	-1
Sales/disposals	0	2
Closing balance accumulated depreciation	-6	-5
Closing balance, book value	3	1

8. Financial fixed assets

Financial fixed assets changed as follows:

	2004	2003
Opening amount brought forward from preceding year	9,622	10,311
Write-down of Group companies	-23	-
Change in deferred tax assets	5	-
Change in other long-term receivables in Group companies	-373	-687
Change in other long-term receivables	-	-2
Total	9,231	9,622

Note 8, cont.

Shares and participations in subsidiaries at December 31, 2004:

	Number of shares or participations	Value	Par value*	Book value MSEK	Parent Company holding %	Corp. reg. no.	Domicile
Swedish Match Arenco AB	305,500	SEK	30,550	31	100	556040-2157	Kalmar
Swedish Match Industries AB	30,853	SEK	30,853	195	100	556005-0253	Tidaholm
Swedish Match United Brands AB	200,000	SEK	20,000	104	100	556345-7737	Stockholm
Intermatch Sweden AB	710,000	SEK	71,000	85	100	556018-0423	Stockholm
Svenska Tändsticks AB	1,000	SEK	100	0	100	556105-2506	Stockholm
Treab Plus AB	96,000	SEK	4,800	8	100	556013-4412	Stockholm
Svenska Tobaks AB	8,000	SEK	800	1	100	556337-4833	Stockholm
Tobak Fastighets AB	2,000	SEK	2,000	146	100	556367-1253	Stockholm
Svenskt Snus AB	1,000	SEK	1,000	47	100	556367-1261	Stockholm
Swedish Match North America Inc	100	USD	100	849	100		
Swedish Match Group BV	20,900,000	EUR	948	5,331	100		
Nitedals Taendstiker A/S	500	NOK	500	1	100		
SA Allumetti�re Caussemille ¹⁾	10,000	EUR	152	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, shares				6,798			

* Local currency in 000s

¹⁾ Nationalized in November 1963

²⁾ Nationalized in December 1968

³⁾ Nationalized in January 1969

In addition, shares are owned in:

– Union Allumetti re Marocaine S.A.

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

Other shares at December 31, 2004

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

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

9. Liquid funds

Liquid funds comprise short-term investments in the form of interest-bearing securities and cash and bank deposits as follows:

	2004	2003
Short-term investments		
Treasury bills	392	616
Bank certificates	429	149
Mortgages certificates	755	398
Mortgages bonds	166	–
Government bonds	61	–
Other financial investments	–	1
	1,803	1,164
Cash and bank		
Bank accounts and cash	442	727
Investment loans in banks	85	85
	527	812
Total liquid funds	2,331	1,976

10. Shareholders' equity

The Parent Company's share capital at December 31, 2004 consisted of 336,596,181 shares with a par value of SEK 2.40 per share. All shares carry one vote each. Through buybacks, sales and after cancellation, the company has 15,079,288 shares, and the total number of shares outstanding, accordingly, is 321,516,893.

11. Untaxed reserves

	2004	2003
Accumulated difference between booked depreciation and depreciation according to plan	24	48
Tax allocation reserve	1,450	1,371
Total	1,474	1,419

12. Interest-bearing bonds/liabilities to credit institutions

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

Year	Amount
2006	1,455
2007	299
2008	713
2009	–
2010 and later	90
Total	2,557

Current interest-bearing liabilities	2004	2003
Next year's amortization of long-term loans	879	601
Other current loans	–	85
Total	879	686

13. Pledged assets and contingent liabilities

Pledged assets	2004	2003
Liquid assets	87	93
Total	87	93

Of the above, 85 (85) was pledged for the benefit of subsidiaries.

Contingent liabilities	2004	2003
Guarantees for subsidiaries	310	418
Other guarantees and contingent liabilities	-	2
Total	310	420

14. Supplementary information to Cash-Flow Statement

Taxes paid, interest paid, etc.

Net taxes paid in 2004 amounted to 208 MSEK (2003: tax paid 202 MSEK). Interest payments amounted to 236 MSEK (206). Interest received amounted to 45 MSEK (216). Dividends received during the year amounted to 264 MSEK (389).

15. Sick leave data

(percent)	July 1, 2004 – Dec. 31, 2004
Total sick leave	2.65
Long-term sick leave	70.88
Sick leave for men	4.60
Sick leave for women	0.73
Sick leave for employees under 29	*
Sick leave for employees age 30–49	3.92
Sick leave for employees age 50+	0.12

* No data provided if number in the group is less than 10 persons

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

Proposed distribution of earnings

According to the Consolidated Balance Sheet, the Company's unrestricted shareholders' equity amounts to 1,497 MSEK, of which 1,828 MSEK is the net profit for the fiscal year. It is proposed that no allocations be made to restricted reserves.

As shown in the Parent Company's Balance Sheet, 2,379 MSEK in retained earnings is at the disposal of the Annual General Meeting, of which 36 MSEK comprises unrestricted reserves, after the reduction in share capital, and 872 MSEK comprises net income for the year.

The Board of Directors propose that the 2,379 MSEK at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 1.90 SEK per share,

amounting to a total of 611 MSEK, based on the number of shares outstanding at year-end, and that the remaining earnings be carried forward. It is proposed that the dividend for the year be first charged against unrestricted reserves after write-down of share capital, and the balance against retained earnings.

The income statement and balance sheet will be presented to the Annual General Meeting on April 27, 2005 for adoption.

The Board of Directors also proposes May 2, 2005 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

Stockholm, February 11, 2005

Bernt Magnusson
Chairman of the Board

Jan Blomberg

Kenneth Ek

Tuve Johannesson

Arne Jurbrant

Eva Larsson

Joakim Lindström

Karsten Slotte

Meg Tivéus

Our audit report was submitted on March 3, 2005

KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

To the Annual General Meeting of Swedish Match AB (publ)

We have audited the annual report, the consolidated financial statements, the accounts and the administration by the Board of Directors and the President of Swedish Match AB (publ) for year 2004. The Board of Directors and the President are responsible for the accounts and administration of the Company and for ensuring that the annual report and consolidated accounting are prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the annual report, the consolidated financial statements and the administration of the Company based on our audit.

The audit was conducted in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain reasonable assurance that the annual report and the financial statements are free of material misstatement. An audit includes examining, on a random basis, evidence supporting the amounts and other disclosures in the financial records. An audit also includes assessments of the accounting principles applied and their application by the Board of Directors and President, as well as an appraisal of significant evaluations that the Board and President made when they prepared the annual report and consolidated financial statements, and to review the overall information in the annual report and consolidated financial statements. As a basis for our statement of discharge from liability, we have examined important decisions, measures and circumstances in the company in order to determine the possible liability to the Company of any Board member or the President. We have also examined or whether any Board member or the President has in some other manner acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

In our opinion, the annual report and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act and, consequently, provide a fair presentation of the Company's and the Group's earnings and financial position in accordance with generally accepted auditing principles in Sweden. The Board of Directors' Report is compatible with the other sections of the annual report and consolidated accounting.

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

Stockholm, March 3, 2005

KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

Five-year summary

Consolidated income statements in summary

(MSEK)	2000	2001	2002	2003	2004
Net sales	11,533	13,635	13,643	13,036	13,007
Gross profit	4,886	5,928	6,124	5,933	5,745
Settlement income, UST	–	–	–	–	1,521
Operating income	1,886	2,113	2,371	2,224	3,370
Net financial items, net	–176	–273	–245	–50	–164
Income after financial items	1,710	1,840	2,126	2,174	3,206
Net income	1,144	1,228	1,429	1,558	1,828
Operating income before depreciation/amortization	2,429	2,783	3,022	2,889	4,024

Consolidated balance sheets in summary

(MSEK)	2000	2001	2002	2003	2004
Assets					
Intangible fixed assets	4,288	4,769	4,145	3,648	3,285
Tangible fixed assets	2,576	2,970	2,938	2,862	2,690
Financial fixed assets	727	691	606	616	760
Inventories	3,270	3,753	3,154	2,676	2,476
Current receivables	2,460	2,834	2,588	2,634	2,408
Liquid funds	2,960	1,606	2,016	2,666	3,002
Total assets	16,281	16,623	15,447	15,102	14,621
Equity and liabilities					
Equity	4,584	4,105	4,007	4,010	4,358
Minority interests	620	767	686	597	473
Provisions	1,918	2,311	2,293	2,119	3,111
Long-term liabilities	4,845	5,150	4,603	4,601	2,580
Current liabilities	4,314	4,290	3,858	3,775	4,099
Total equity and liabilities	16,281	16,623	15,447	15,102	14,621

Cash flow

(MSEK)	2000	2001	2002	2003	2004
Cash flow from operations	945	1,609	2,585	2,638	3,626
Cash flow from investing activities	–1,967	–1,520	–717	–625	–471
Cash flow from financing activities	–3,273	–1,453	–1,366	–1,327	–2,779
Cash flow for the year	–4,295	–1,364	502	686	376
Liquid funds at beginning of the year	7,296	2,960	1,606	2,016	2,666
Translation difference in liquid funds	–41	10	–92	–36	–40
Liquid funds at year-end	2,960	1,606	2,016	2,666	3,002

Key data

	2000	2001	2002	2003	2004
Operating capital at year end, MSEK*	9,284	10,548	9,477	8,377	7,054
Net debt, MSEK	2,739	4,410	3,492	2,715	527
Investments in tangible fixed assets, MSEK	331	633	751	551	486
Operating margin, %	16.4	15.5	17.4	17.1	16.1
Return on operating capital, %	25.3	21.3	23.7	24.9	27.1
Return on shareholders equity, %	21.8	28.3	35.2	38.9	43.7
Net debt/equity ratio, %	52.6	90.5	74.4	58.9	10.9
Equity/assets ratio, %	32.0	29.3	30.4	30.5	33.0
Share capital, MSEK	969	892	868	844	808
Dividend per share, MSEK	1.35	1.45	1.60	1.70	1.90**

Earnings per share basic, SEK

Excluding major one time items	2.76	3.40	4.10	4.68	3.64***
Including major one time items	2.76	3.40	4.10	4.68	5.61

* In conjunction with changes in accounting principles governing pensions, the company has decided to adjust the internal definition of operating capital. As of January 1, 2004, pension liabilities and pension receivables are included in operating capital. The comparative figures have been changed in line with the same principle.

** Board proposal

*** Excluding the settlement income from UST, and write-downs and provisions in Matches operations in a net amount of 1,281 MSEK.

Net sales by product area

(MSEK)	2000	2001	2002	2003	2004
Snuff	2,071	2,457	2,788	2,995	3,081
Chewing Tobacco	1,227	1,377	1,333	1,146	1,058
Cigars	2,690	3,481	3,318	3,008	3,171
Pipe Tobacco and Accessories	762	933	843	909	901
Matches	1,712	1,690	1,648	1,395	1,378
Lighters	720	809	700	599	582
Other operations	2,351	2,888	3,013	2,984	2,836
Total	11,533	13,635	13,643	13,036	13,007

Operating income by product area

(MSEK)	2000	2001	2002	2003	2004
Snuff	954	950	1,233	1,386	1,373
Chewing Tobacco	331	372	406	336	304
Cigars	347	420	472	393	466
Pipe Tobacco and Accessories	213	236	164	201	220
Matches	90	183	221	83	-57
Lighters	74	101	56	14	7
Other operations	-123	-149	-181	-189	-224
Subtotal	1,886	2,113	2,371	2,224	2,089
Settlement income, UST	-	-	-	-	1,521
Impairment charge in Matches operations	-	-	-	-	-150
Provision for acquisition of shares in Wimco Ltd	-	-	-	-	-90
Total	1,886	2,113	2,371	2,224	3,370

Operating margin by product area

(Percent)	2000	2001	2002	2003	2004
Snuff	46.1	38.7	44.2	46.3	44.6
Chewing Tobacco	27.0	27.0	30.5	29.3	28.7
Cigars	12.9	12.1	14.2	13.1	14.7
Pipe Tobacco and Accessories	28.0	25.3	19.5	22.1	24.4
Matches	5.3	10.8	13.4	5.9	-4.1
Lighters	10.3	12.5	8.0	2.3	1.2
Group	16.4	15.5	17.4	17.1	16.1

Quarterly data

Income statements in summary

(MSEK)	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	3,317	3,533	3,467	3,326	3,006	3,274	3,412	3,344	3,002	3,375	3,420	3,210
Gross profit	1,552	1,612	1,460	1,500	1,389	1,505	1,579	1,460	1,414	1,505	1,607	1,369
Income from settlement, UST	-	-	-	-	-	-	-	-	1,417	104	-	-
Impairment charge in Matches operations	-	-	-	-	-	-	-	-	-	-	-150	-
Provision for acquisition of shares in Wimco Ltd	-	-	-	-	-	-	-	-	-	-	-90	-
Operating income	605	640	552	574	516	553	624	531	1,877	632	400	461
Net financial items	-71	-71	-60	-43	-19	69	-55	-45	-46	-27	-24	-67
Income after financial items	534	569	492	531	497	622	569	486	1,831	605	376	394
Net income	361	369	320	379	337	513	378	330	1,091	349	156	232
Operating income excluding depreciation/amortization	776	814	712	720	674	711	786	718	2,035	803	572	614
Operating income before major one time items and depreciation/amortization	776	814	712	720	674	711	786	718	618*	699*	812*	614

* Excluding the settlement income from UST, and write-downs and provisions in Matches operations in a net amount of 1,281 MSEK.

Key figures

	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating margin, %	18.2	18.1	15.9	17.3	17.2	16.9	18.3	15.9	15.3	15.6	18.7	14.4
Net debt/equity ratio, %	80.4	100.0	78.0	74.4	84.7	89.5	75.1	58.9	14.6	28.0	25.1	10.9
Equity/assets ratio, %	30.6	27.9	29.4	30.4	28.9	27.6	29.1	30.5	33.8	33.1	30.9	33.0
Investments in tangible fixed assets, MSEK	167	231	178	175	169	115	100	167	93	127	129	137

Earnings per share, basic, SEK

Excluding major one time items	1.03	1.06	0.92	1.09	0.99	1.53	1.16	1.00	0.82*	0.88*	1.21*	0.73
Including major one time items	1.03	1.06	0.92	1.09	0.99	1.53	1.16	1.00	3.32	1.07	0.49	0.73

* Excluding the settlement income from UST, and write-downs and provisions in Matches operations in a net amount of 1,281 MSEK.

Net sales by product area

(MSEK)	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	672	711	707	698	689	758	776	772	751	814	791	725
Chewing Tobacco	344	367	312	310	295	294	291	266	254	282	285	237
Cigars	778	871	864	805	644	751	826	787	687	846	848	790
Pipe Tobacco and Accessories	190	211	217	225	214	214	228	253	211	214	234	242
Matches	460	421	387	380	348	343	340	364	324	340	348	366
Lighters	186	184	165	165	151	154	149	145	147	145	148	142
Other operations	687	768	815	743	665	760	802	757	628	734	766	708
Total	3,317	3,533	3,467	3,326	3,006	3,274	3,412	3,344	3,002	3,375	3,420	3,210

Operating income by product area

(MSEK)	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	290	313	320	310	305	350	372	359	353	364	370	286
Chewing Tobacco	106	105	100	95	84	86	94	72	73	81	83	67
Cigars	122	149	90	111	80	87	129	97	104	131	148	83
Pipe Tobacco and Accessories	42	36	41	45	46	45	54	56	52	44	60	64
Matches	65	59	53	44	38	31	9	5	-30	-51	13	11
Lighters	20	23	-1	14	9	0	6	-1	7	7	5	-12
Other operations	-40	-45	-51	-45	-46	-46	-40	-57	-99	-48	-39	-38
Subtotal	605	640	552	574	516	553	624	531	460	528	640	461
Settlement income, UST	-	-	-	-	-	-	-	-	1,417	104	-	-
Impairment charges in Matches operations	-	-	-	-	-	-	-	-	-	-	-150	-
Provision for acquisition of shares in Wimco Ltd	-	-	-	-	-	-	-	-	-	-	-90	-
Total	605	640	552	574	516	553	624	531	1,877	632	400	461

Operating margin by product area

(Percent)	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	43.2	44.0	45.3	44.4	44.3	46.2	47.9	46.5	47.0	44.7	46.8	39.4
Chewing Tobacco	30.8	28.6	32.1	30.6	28.5	29.3	32.3	27.1	28.7	28.7	29.1	28.3
Cigars	15.7	17.1	10.4	13.8	12.4	11.6	15.6	12.3	15.1	15.5	17.5	10.5
Pipe Tobacco and Accessories	22.1	17.1	18.9	20.0	21.5	21.0	23.7	22.1	24.6	20.6	25.6	26.4
Matches	14.1	14.0	13.7	11.6	10.9	9.0	2.6	1.4	-9.3	-15.0	3.7	3.0
Lighters	10.8	12.5	-0.6	8.5	6.0	0.0	4.0	-0.7	4.8	4.8	3.4	-8.5
Group	18.2	18.1	15.9	17.3	17.2	16.9	18.3	15.9	15.3	15.6	18.7	14.4

Definitions

<i>Return on shareholders' equity (%)</i>	100 x	$\frac{\text{Net income for the year}}{\text{Average shareholders' equity}}$
<i>Return on operating capital (%)</i>	100 x	$\frac{\text{Operating income before major one time items}}{\text{Average operating capital}}$
<i>Direct return (%)</i>	100 x	$\frac{\text{Dividend}}{\text{Share price at year-end}}$
<i>EBIT multiple</i>		$\frac{\text{Market value + net debt + minority interests}}{\text{Operating income before major one time items}}$
<i>Equity per share</i>		$\frac{\text{Shareholders' equity}}{\text{Number of shares outstanding at year-end}}$
<i>Average shareholders' equity</i>		$\frac{\text{Opening + closing shareholders' equity}}{2}$
<i>Average operating capital</i>		$\frac{\text{Opening + closing operating capital}}{2}$
<i>Net debt</i>		Interest-bearing liabilities ¹⁾ – liquid funds
<i>Debt/equity ratio</i>	100 x	$\frac{\text{Net debt}}{\text{Shareholders' equity + minority interests}}$
<i>Operating capital ²⁾</i>		Current operating assets + intangible assets, property, plant and equipment + other long-term operating assets – current operating liabilities – long-term operating liabilities
<i>P/E ratio after tax</i>		$\frac{\text{Share price at year-end}}{\text{Earnings per share after major one time items}}$
<i>Operating margin (%)</i>	100 x	$\frac{\text{Operating income before major one time items}}{\text{Net sales}}$
<i>Equity/assets ratio (%)</i>	100 x	$\frac{\text{Shareholders' equity + minority interests}}{\text{Total assets}}$
<i>Total return (%)</i>	100 x	$\frac{(\text{Share price at year-end} - \text{share price at preceding year-end}) + (\text{dividend paid} + \text{return on reinvested dividend})}{\text{Share price at preceding year-end}}$
<i>Earnings per share after tax</i>		$\frac{\text{Net income for the year (where appropriate, adjusted for major one time items, net after tax)}}{\text{Average number of shares after buybacks}}$

¹⁾ Pension liabilities are not included in interest-bearing liabilities

²⁾ Certain long-term liabilities have been redefined and, as of 2004, are included in operating capital. The figures for operating capital in the product sections have not been recalculated for 2002 and 2003.

Corporate governance

Management and control of the Swedish Match Group is apportioned between the shareholders at the Annual General Meeting, the Board of Directors and the President, pursuant to the Swedish Companies Act and the Articles of Association.

Annual General Meeting

Under the supervision of Ingemar Mundebo, the Annual General Meeting of 2004 elected the Board of Directors proposed by the Nominating Committee. Board members Bernt Magnusson, Jan Blomberg, Tuve Johannesson, Arne Jurbrant and Meg Tivéus were reelected by the Annual General Meeting. Karsten Slotte was elected to the Board as a new member. In other business, the Meeting approved resolutions regarding the dividend, the reduction in share capital and the options program. KPMG Bohlins AB was elected as the new auditors, with Thomas Thiel, Authorized Public Accountant, as senior auditor.

The employee organizations appointed Kenneth Ek, Eva Larsson and Joakim Lindström as representatives, and Eeva Kazemi-Vala, Stig Karlsson and Håkan Johansson as deputies.

Nominating Committee

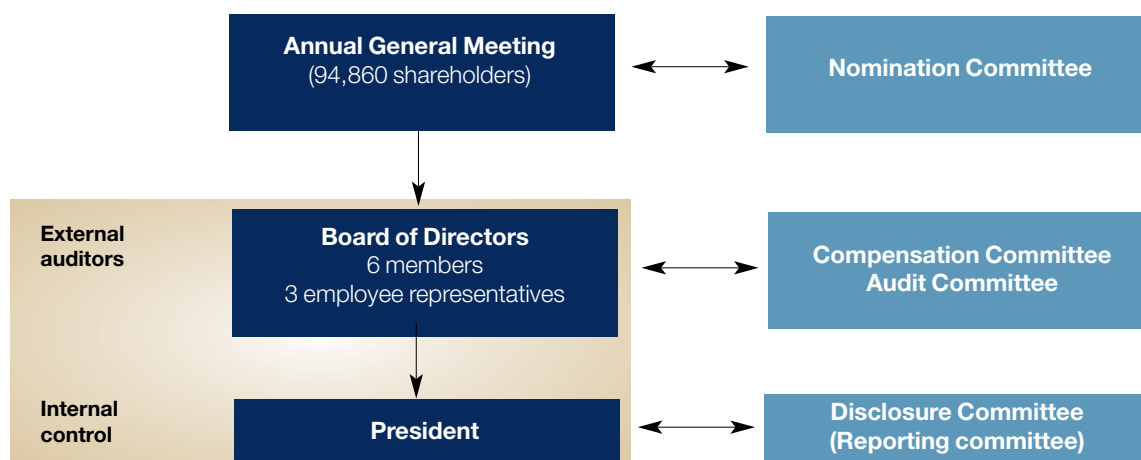
The Annual General Meeting also annually elects members of the Nominating Committee, whose task is to prepare and submit proposals to the Annual General Meeting for the election of Board members and the fees paid to Board members. The Committee meets as often as necessary, but at least once each year. In 2004, the Annual General Meeting nominated the following members to the committee: Björn Franzon (The National Pension Insurance Fund, Fourth Fund Board), Staffan Grefbäck (Alecta Asset Management), Bernt Magnusson (Convener), and Marianne Nilsson (Robur). All of whom were reelected. Internally, the Committee appointed Marianne Nilsson as Chairperson. During the year, Joakim Spetz (Handelsbaken Funds) was coopted to

the Committee. The Committee convened three meetings during 2004.

Board of Directors

All members of the Board of Directors of Swedish Match AB, except the President, are independent of the company. The Board of Directors of Swedish Match AB has established an agenda that includes instructions for the allocation of duties between the Board and the President, as well as instructions for financial reporting. The Board convenes annually for the statutory meeting and five ordinary meetings. Three of the ordinary meetings are scheduled to coincide with the publication dates for the first and third quarter interim reports and the year-end report. In addition, the Board holds meetings in August and December when the short-term budget as well as the long-term plan for operations are reviewed. The company's auditors attend the meeting at which the year-end financial report is presented in order to inform the Board of points noted during the audit. In addition to

Governance of the Swedish Match Group



the ordinary meetings, the Board is called to other meetings when the situation requires.

The Board of Directors monitors the President's performance of his obligations, is responsible for ensuring that the company's organization fulfills its purpose, and conducts continuous evaluations of the company's procedures and guidelines for management and investment of the company's funds. The Board also approves the strategic plan, the budget and the year-end financial report for the company and the Group, and continuously monitors the development of operations during the year. The Board of Directors makes decisions on major investments and divestments.

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

The Board of Directors held its statutory meeting for 2004 on the same day as the Annual General Meeting. The statutory meeting passed its ordinary resolutions concerning election of the Chairman (Bernt Magnusson), the secretary (Bo Aulin) and signatory rights. Two members of the Board may sign jointly on behalf of the company, as well as a limited number of senior company employees, two of whom may sign jointly. The President is always authorized to sign on behalf of the company in matters related to day-to-day management of the company's operations.

The number of Board meetings held during 2004 was 13, including six by

telephone and two per capsulam. In addition to monitoring business operations in relation to budget and strategic plans, and strengthening the company's systems for management and control, the Board also devoted a significant amount of time to consideration of the company's incentive and benefits structure, strategic orientation, structural issues, social and market issues, follow-up of acquisitions and distribution of surplus funds.

During 2004, the Board approved the Code of Business Conduct and Ethics, and Group Treasury Policy and Policy on Related Party Transactions.

Chairman

The Chairman leads the work of the Board and ensures that other Board members at all times receive all the information required to ensure that the quality of Board work is maintained and that the Board is exercising its duties as stipulated in the Swedish Companies Act. The Chairman represents the company in matters regarding ownership.

Compensation Committee

The Compensation Committee of the Board of Directors is appointed from within the Board and is charged with discussing and resolving issues concerning salaries and other terms of employment, pension benefits and bonus systems for Group management, excluding the President, whose terms are set by the Board based on the proposal from the

Compensation Committee, and other remuneration issues that involve matters of principle. The Board decides in corporate (excluding the President) on committee proposals concerning remuneration for the President, as well as certain other remuneration issues that involve matters of principle or are otherwise especially important, for example option programs and profit-sharing systems. The Committee meets as often as required, but at least twice a year. 16 meetings were held during 2004. The Chairman of the Compensation Committee is Board Chairman, Bernt Magnusson. Other members during the year were Jan Blomberg, Klaus Unger (through April 26) and Arne Jurbrandt (from April 26). It is incumbent on the Chairman of the Compensation Committee to periodically update the Board of Directors on the progress of its work and the decisions taken. The Committee carried out its tasks with the support of external expertise regarding the issue of remuneration levels and structures.

Control and audit

The Board of Directors has overall responsibility for the company's internal control system, the purpose of which is to secure shareholders' investments and Group assets, and ensure that proper accounts are prepared and that financial information used for internal purposes and for publication is reliable. The system is designed to make sure that operations run efficiently and that laws and

regulations are upheld. However, the internal control system cannot totally guarantee against significant nonconformances or losses.

The company uses several methods to continuously supervise and control risks associated with its operations. Identification and evaluation of the greatest risks affecting the Group's operations is an ongoing process. Furthermore, the Board of Directors also performs assessments and ensures that the operative agenda is focused on the most decisive risks.

External auditors proposed by the Audit Committee are elected for a term of four years by the Annual General Meeting. KPMG, with Thomas Thiel as senior auditor, was elected external auditors until the Annual General Meeting in 2008.

Audit Committee

The duty of the Board's Audit Committee is to supervise the routines for accounting, financial reporting and audit within the Group. The Audit Committee scrutinizes the quality and accuracy of the Group's financial accounts and related reports, the procedures for internal financial controls within the Group, the work, qualifications and independence of the auditors, and – should the occasion arise – transactions between the Group and related parties. The Committee also discusses other significant issues related to the company's financial reporting, and sub-

mits its observations to the Board of Directors. The Committee is required to meet at least six times a year. Seven meetings were held during 2004, of which one was per capsulam. Audit Committee members during 2004 were Jan Blomberg (Chairman), Meg Tivéus, Arne Jurbrant (through April 26, 2004) and Karsten Slotte (from April 26).

President

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

Group Management

The President leads Group management's work and, after consultations with its members, makes decisions regarding business operations. Group management consists of all Division Presidents and heads of Group staffs, a total of 9 members.

Executive management meetings are held during one or two days each month. Many of the meetings are scheduled to coincide with visits to various

Group units. The President also conducts business review meetings with all divisions of Swedish Match, two to three times per year with each division, in accordance with a rolling schedule.

Disclosure Committee

Pursuant to the requirements set by the US Sarbanes-Oxley Act, the President has appointed a Disclosure Committee, whose primary task is to examine and verify all external reports, including year-end financial statements and annual reports, in both the Swedish version and the English-language version as stipulated in Form 20-F in the US, as well as corporate press releases. The heads of Investor Relations, Internal Control, Corporate Communications and Group Corporate Affairs, with the last mentioned (Bo Aulin) as Chairman.

The Disclosure Controls and Procedures document sets forth the Group's structure and systems for reporting, follow-up and control.

Board of Directors



Bernt Magnusson



Jan Blomberg



Tuve Johannesson



Arne Jurbrant



Karsten Slotte



Meg Tivéus

Bernt Magnusson

Born 1941. MSc., MA. (Econ & Pol. Science). Chairman since 1995. Board member since 1993. Chairman of the Compensation Committee and member of the Nomination Committee. Other Board assignments: Chairman of Försäkringsaktiebolaget Skandia, and Dyno Nobel ASA. Board member of Volvo Car Corp, Höganäs AB, Pharmadule AB and Net Insight AB. Advisor to the European Bank for Reconstruction and Development.
Shares: 15,858

Jan Blomberg

Born 1939. MBA. Board member since 1996. Chairman of the Audit Committee and member of the Compensation Committee. Other Board assignments: Chairman of Handelsbanken Regionbank City, Stockholm. Board member of Skandia Investment and Svenska Spel AB.
Shares: 3,638

Tuve Johannesson

Born 1943. MBA. Board member since 2002. Other Board assignments: Chairman of Arctic Island Ltd, EcoLean International A/S, Findus AB, Ainax AB. Board member of SEB, Cardo and Chumak. Advisor to J.C. Bamford Excavators Ltd.
Shares: 6,000

Arne Jurbrant

Born 1942. MBA. Board member since 2002. Member of the Compensation Committee. Other Board assignments: Board member of IFL/MTC Foundation.
Shares: 1,500

Karsten Slotte

Born 1953. MBA. Board member since 2004. President and CEO of Cloetta Fazer. Member of the Audit Committee. Other Board assignments: Board member of Oy Onninen, Finnish Association of Convenience Goods Suppliers, Finnish-Swedish Chamber of Commerce in Stockholm.
Shares 3,000

Meg Tivéus

Born 1943. MBA. Board member since 1999. Member of the Audit Committee. Other Board assignments: Board member of Cloetta Fazer AB, The Royal Swedish Opera AB, Billerud AB, Danderyd Hospital AB, Nordea Fonder AB, SNS and Orrefors Kosta Boda AB.
Shares: 500

Employee representatives

Kenneth Ek

Born 1953. Board member since 1999. Appointed by the Federation of Salaried Employees in Industry and Services (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus plant in Gothenburg, Sweden.
Shares: 210

Holdings of shares and options as of December 31, 2004.



Kenneth Ek



Eva Larsson



Joakim Lindström



Håkan Johansson



Stig Karlsson



Eeva Kazemi Vala

Eva Larsson

Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries AB. Chairman of the trade union association at the match plant in Tidaholm, Sweden.

Shares: 0

Joakim Lindström

Born 1965. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match AB. Chairman of the Swedish Food Workers' (Livs) trade union association in Solna, Stockholm, Sweden.

Shares: 0

Employee representatives (deputies)

Håkan Johansson

Born 1963. Deputy member since 2004. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match AB. Chairman of the Swedish Food Workers' Association (Livs) trade union association in Malmö.

Shares: 0

Stig Karlsson

Born 1941. Deputy member since 1999. Appointed by the Federation of Salaried Employees in Industry and Service (PTK) within Swedish Match Industries AB. Shop Steward for the Swedish Industrial Salaried Employees Association (SIF) at Swedish Match Arenco AB in Kalmar, Sweden.

Shares: 249

Eeva Kazemi Vala

Born 1949, Deputy member since 2004. Appointed by the Federation of Salaried Employees in Industry and Service (PTK) within Swedish Match.

Shares: 500

Auditors

KPMG Bohlins AB

Senior Auditor

Thomas Thiel

Born 1947. Authorized Public Accountant
Swedish Match Auditor since 2004.



Thomas Thiel

Group Management, December 31, 2004



Sven Hindrikes



Bo Aulin

Sven Hindrikes

President and CEO of Swedish Match AB since March, 2004.
Employed and member of Group management since 1998.
Born 1950, MBA.
Board assignments: Board member of General Cigar and Arnold André GmbH & Co KG.
Shareholding in Swedish Match: 5,000
Call options 66,373



Lars Dahlgren



Lennart Freeman

Bo Aulin

Senior Vice President, Corporate Affairs.
Secretary to the Board. Chairman of the Disclosure Committee.
Joined Swedish Match in 1990.
Member of Group management since 1996.
Born 1948, Graduate of Uppsala University, Law School.
Board assignment: Board member of General Cigar.
Shareholding in Swedish Match: 4,200
Call options: 66,373



Peter Hedlund



Graham Jones

Lars Dahlgren

Senior Vice President, Group Finance and IS/IT.
Joined Swedish Match in 1996. Member of Group management since 2004.
Born 1970, MBA.
Shareholding: 1,000
Call options: 0



Lars-Olof Löfman



Göran Streiffert



Jarl Ugglå

Lennart Freeman

President, North America Division.
Joined Swedish Match in 1975.
Member of Group management since 1999.
Born 1951, MBA.
Board assignment: Board member of General Cigar.
Shareholding in Swedish Match: 300
Call options: 154,356

Peter Hedlund

President of Overseas Division.
Joined Swedish Match in 1981. Member of Group management since September 2004.
Born 1954, MBA.
Shareholding: 0
Call options: 88,763

Graham Jones

Senior Vice President, Mergers and Acquisitions.
Joined Swedish Match in 1987.
Member of Group management since 1999.
Born 1949, MBA.
Shareholding in Swedish Match: 6,000
Call options: 227,527

Lars-Olof Löfman

President for North Europe Division.
Joined Swedish Match in 1987. Member of Group Management since 2004.
Born 1956. MSc Eng, controller DIHM.
Shareholding in Swedish Match: 0
Call options: 33, 186

Göran Streiffert

Senior Vice President, Group Human Resources.
Joined Swedish Match and Group management in 1997.
Born 1946, BA.
Shareholding in Swedish Match: 30,400
Call options: 66,373

Jarl Ugglå

President, Continental Europe Division.
Joined Swedish Match in 2002. Member of Group management since October 2004.
Born 1955, MSc. (Engineering).
Shareholding in Swedish Match: 3,000
Call options: 45,000



Holdings of shares and options as of December 31, 2004.

Information to shareholders

Annual General Meeting

The Annual General Meeting will be held at 4.30 p.m. on Wednesday, April 27, 2005 in Hall K1, Stockholm International Fairs (Stockholmsmässan), Älvsjö in Stockholm. Registration for the Meeting will open at 3.00 p.m. Shareholders who are listed in a printout of the Shareholders' Register compiled on April 17, 2005 and have notified Swedish Match of their intention to attend are entitled to participate in the Annual General Meeting.

Listing in shareholders' register

The Swedish Match Shareholders' Register is maintained by VPC AB (the Swedish Securities Register Center). Listings are restricted to shares registered in the owner's name. Shareholders whose shares are held in trust must ensure that their shares are re-registered in their own names not later than April 15, 2005 so that the shares are owner-registered in the printout of the Shareholders' Register compiled on April 17, 2005.

Notification of intention to attend Annual General Meeting

Notification of intention to participate in the Annual General Meeting will be accepted as of Tuesday, March 22, 2005.

Applications may be submitted by:

- Telephone +46 20-61 00 10 (1.30 p.m. to 4.30 p.m.)
- Fax +46 8-720 76 56
- www.swedishmatch.se/stamman
- Mail:
Swedish Match AB
Legal Affairs
SE-118 85 Stockholm
Sweden

When notifying the company, please state your: name, personal identification number (corporate registration number), address and telephone number (day-time).

Shareholders who wish to participate in the Annual General Meeting must notify the Company not later than 4.00 p.m. on Thursday, April 21, 2005, which is the expiration date for receipt of notification by Swedish Match. The Board of Directors has proposed May 2, 2005 as the record date for dividend entitlement. Dividends are expected to be paid by VPC on May 6, 2005.

Financial reports schedule

Interim report for Jan 1–Mar 31, 2005	.....	April 20, 2005
Form 20-F 2004	.....	June 2005
Interim report for Jan 1–Jun 30, 2005	.....	July 21, 2005
Interim report for Jan 1–Sep 30, 2005	.....	October 25, 2005
Year-end report on operations in 2005	.....	February 2006
Annual Report 2005	.....	March 2006

The financial reports may be ordered from:
Swedish Match AB
Investor Relations
SE-118 85 Stockholm
Telephone: +46 8-658 01 45
Fax: +46 8-658 02 62
E-mail: investorrelations@swedishmatch.com

The financial information is also accessible at www.swedishmatch.com



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SE-118 85 Stockholm, Sweden

Visiting address:
Rosenlundsgatan 36
Tel. +46 8-658 02 00
Fax +46 8-658 62 63

www.swedishmatch.com