MINUTES
kept at the Annual General Meeting of Shareholders of Swedish Match AB, Swedish company reg. no. 556015-0756, on 23rd April 2007 in Stockholm

§ 1
Sven Unger was elected as Chairman of the Meeting.
It was duly noted that Fredrik Peyron was requested to keep the minutes at the Meeting.

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

§ 3
Joachim Spetz and Ingemar Syrehn were appointed to check the minutes together with the Chairman of the Meeting.

§ 4
The Meeting was declared to have been duly convened.
The Notice to attend the Meeting was appended to the minutes, Appendix 2.

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

§ 5
The Agenda was approved as set out in Appendix 3.

§ 6
The President gave a presentation of the Company's operations, Appendix 4.

The Chairman of the Board reported on the work of the Board of Directors and the Compensation Committee's work and function.

The Chairman of the Audit Committee, Meg Tivéus, reported on the work and function of the Audit Committee and presented the consulting costs and other expenses paid to Swedish Match's auditors in 2006.

The Annual Report and the Audit Report as well as the Consolidated Accounts and the Consolidated Audit Report for the period 1st January – 31st December 2006 were submitted.

The auditor, Thomas Thiel, reported on the auditing work.

Questions from the shareholders were answered by the board of director’s chairman and the president.

§ 7
It was resolved to adopt the income statement and balance sheet, along with the consolidated income statement and consolidated balance sheet, presented in the Annual Report, Appendix 5.

§ 8
Pursuant to the Board of Directors’ proposal Appendix 6, it was resolved

that the funds at the disposal of the Annual General Meeting, i.e. SEK 7,863,816,016.14, shall be appropriated as follows: a dividend of SEK 2.50 per share to be paid to the shareholders for each share in Swedish Match AB and the remaining profits to be carried forward to a new account;

and that the record date for determining who is entitled to receive a cash dividend shall be 26th April 2007.

§ 9
a) Pursuant to the Board of Directors’ proposal according to Appendix 7, it was resolved

that the Company’s share capital shall be reduced by SEK 18,084,644.37 by means of the withdrawal of 13,000,000 shares in the Company without any refund to the shareholders;

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

It was duly noted that the resolution under item a) had been passed unanimously.

b) Pursuant to the Board of Directors’ proposal, Appendix 7, it was resolved that the Company’s share capital shall be increased by SEK 18,084,644.37 through a transfer from non-restricted shareholders’ equity to the share capital (bonus issue), whereby the share capital shall be increased without issuing new shares.

§ 10
Pursuant to the Board of Directors’ proposal according to Appendix 8, it was resolved

to authorise the Board of Directors to decide to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company’s holding at any time exceeding 10 per cent of all shares in the Company for a maximum of SEK 3,000 million;

that the shares shall be acquired on the Stockholm Stock Exchange at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest offer price);

and that repurchase may not take place during the period when an estimate of an average price for the Swedish Match share on the Stockholm Stock Exchange is being carried out in order to establish the terms of any stock option programme for the senior company officials of Swedish Match.

It was duly noted that the resolution had been passed unanimously.

§ 11
Pursuant to the Board of Directors' proposal according to Appendix 9, it was resolved to adopt the principles for determination of salary and other remuneration payable to the President and other members of the Company management.

§ 12
Pursuant to the Board of Directors' proposal according to Appendix 10, it was resolved

that the Company shall issue a maximum of 1,315,577 call options to cover the Company's stock option programme for 2006;

and that the Company, in a deviation from the preferential rights of shareholders, shall be permitted to transfer a maximum of 1,315,577 shares in the Company at a selling price of SEK 145.50 per share in conjunction with a demand for the redemption of the call options, whereby the number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure, in accordance with the "Terms and conditions for call options 2007/2012", Appendix 11.

It was duly noted that the resolution had been passed unanimously.

§ 13
It was resolved to discharge the members of the Board of Directors and the President responsible during the relevant period from liability for the period 1st January – 31st December 2006.

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

§ 14
The Chairman of the Nominating Committee, Mads Eg Gensmann, reported on how the work of the Nominating Committee has been performed.

Pursuant to the Nominating Committee's proposal, it was resolved that the Board of Directors shall, for the period lasting until the end of the next Annual General Meeting, consist of eight ordinary Board members.

§ 15
It was duly noted that the Nominating Committee had issued statements of principle regarding the Members' of the Board shareholding in the Company, as outlined in Appendix 12.

Applying the above-mentioned principles with regard to Directors' fees, pursuant to the Nominating Committee's proposal according to Appendix 12, it was resolved that the Board of Directors in total, for the period up to and including the date when the next Annual General Meeting is held, shall receive the following:

- the Chairman shall receive a fee of SEK 1,500,000 and other Members of the Board elected by the General Meeting of Shareholders shall each receive a fee of SEK 600,000;
- compensation for committee work shall amount to a maximum of SEK 875,000 in total, of which the Chairman of the Compensation Committee and the Audit Committee shall receive SEK 210,000 respectively and the other members of these committees shall each receive SEK 110,000; and that
- Members of the Board employed by the Swedish Match Group shall not receive any Directors' fees.

§ 16
Pursuant to the Nominating Committee's proposal according to Appendix 13, it was resolved

that, for the period lasting until the end of the next Annual General Meeting, the following people shall be re-elected as ordinary Board members: Andrew Cripps, Sven Hindrikes, Arne Jurbrant, Conny Karlsson, Kersti Strandqvist and Meg Tivéus;

that, for the period lasting until the end of the next Annual General Meeting, Charles A. Blixt and John P. Bridendall shall be elected as new ordinary Board members;

and that Conny Carlsson shall be elected Chairman of the Board of Directors.

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

It was also duly noted that Sven Hindrikes expressed the Board of Directors' and the Company's acknowledgement to Bernt Magnusson and Karsten Slotte, who resigned from the Board of Directors, for their effort as members of the Board.

§ 17
Pursuant to the Nominating Committee's proposal according to Appendix 14, it was resolved

that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2008 Annual General Meeting. The four largest shareholders are identified on the basis of their known numbers of votes immediately prior to publication;

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

§ 18
Pursuant to the Nominating Committee's proposal according to Appendix 15, it was resolved to adopt the revised Instructions for Swedish Match AB's Nominating Committee.

§ 19
Pursuant to the Board of Directors' proposal according to Appendix 16, it was resolved

to amend the Company's Articles of Association so that they, after the decision has been implemented, has the wording set out in Appendix 17;

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

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

§ 20
Pursuant to the Board of Directors' proposal according to Appendix 18, to afford the Company the maximum possible flexibility in its efforts to optimise the terms and conditions in conjunction with loan financing, it was resolved to authorise the Board of Directors to decide, no later than until the next Annual General Meeting and on one or more occasions, to raise participating loans (i.e. loans where the interest rate is wholly or partially dependent on the dividends to the shareholders, the price trend for the Company's shares, the Company's profits or the Company's financial position)in the event that the Company, in conjunction with any loan-based financing of the ongoing commercial activities, should deem this loan type to be most advantageous for the Company in the instance in question.

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

Minutes checked by:

Sven Unger
Chairman

Joachim Spetz

Ingemar Syrehn

Minutes kept by:

Fredrik Peyron

Annual General Meeting of Swedish Match AB (publ)

The shareholders of Swedish Match AB are hereby notified of the Annual General Meeting of Shareholders to be held on Monday 23 April 2007 at 16:30 (CET) in Hall K1 at Stockholm International Trade Fairs in Älvsjö ("Stockholmsmässan"), Stockholm, Sweden. Entry via the main entrance at Mässvägen 1.

Agenda

1. Election of the Chairman of the Meeting.
2. Preparation and approval of the voting list.
3. Election of one or two persons who, in addition to the Chairman, shall verify the Minutes.
4. Determination of whether the Meeting has been duly convened and issues relating to attendance at the meeting.
5. Approval of the Agenda.
6. Presentation of the Annual Report and the Auditors' Report and of the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2006.
In connection therewith, the President's speech and the Board of Directors' report regarding its work and the work and function of the Compensation Committee and the Audit Committee.
7. Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
8. Allocation of the company's profit as shown in the Balance Sheet adopted by the Meeting.
9. a) The Board of Directors' proposal that the Company's share capital shall be reduced by way of a recall of repurchased shares, and that the reduced amount shall be transferred to a fund for use in repurchasing the Company's own shares; and **b)** the Board of Directors' proposal regarding a decision on a bonus issue.
10. The Board of Directors' proposal to authorise the Board of Directors to decide on the acquisition of shares in the Company.
11. Adoption of principles for determination of salary and other remuneration payable to the President and other members of Company's management.
12. The Board of Directors' proposal regarding the issue by the Company of call options on repurchased shares in the Company for the 2006 stock option programme, and the right of the Company to transfer shares in the Company in conjunction with a potential exercise of the call options.
13. The question of discharging the Members of the Board and the President from liability.
14. Determination of the number of Board Members to be elected by the Meeting.
15. Determination of the remuneration to be paid to the Board of Directors, specifying the distribution between the Chairman and other Board Members and compensation for committee work.
16. Election of Members of the Board and the Chairman of the Board.
17. The question of how members of the Nominating Committee shall be appointed and the question of remuneration to the Nominating Committee, if any.
18. Adoption of Instructions for Swedish Match AB's Nominating Committee.
19. The Board of Directors' proposal regarding amendments to the Articles of Association.
20. The Board of Director's proposal to authorise the Board of Directors to decide on raising of participating loans.

The proposals of the Nominating Committee appointed after the Annual General Meeting of Shareholders in 2006:

Item 1: The attorney Sven Unger is proposed as the Chairman of the Meeting.

Item 14: The Board of Directors shall comprise 8 Members.

Item 15: It is proposed that the fees to the Board of Directors be paid as follows for the period until the close of the next Annual General Meeting: the Chairman shall receive MSEK 1.5 and the other Board Members elected by the Meeting shall each receive SEK 600,000. It is furthermore proposed that the Board, as compensation for committee work carried out, be allocated SEK 210,000 to the Chairmen of the Compensation Committee and the Audit Committee respectively and SEK 110,000 respectively to the other members of these committees, however in total no more than SEK 875,000. It is proposed that Members of the Board employed by the Swedish Match Group shall not receive any remuneration.

The Nominating Committee has also issued the following statement of principle:

The Nominating Committee is of the opinion that the Members of the Board should own shares in the Company. The Nominating Committee accordingly wishes that the Board of Directors establishes principles governing the Board Members' ownership of shares in the Company. The following should serve as guidelines for these principles:

- all Members of the Board (including the Chairman) shall acquire shares in the Company for a sum corresponding to the remuneration received, after deductions for income tax, (excluding remuneration for committee work);

- the Members of the Board shall retain these shares for a period of 12 months after the acquisition and shall be permitted to sell a maximum of one half of the shares acquired during the period of 13 to 24 months following the acquisition.

All Members of the Board have notified the Nominating Committee of their acceptance of the Nominating Committee's wishes with regard to share acquisition as specified above.

Item 16: The following Board Members are proposed for re-election: Andrew Cripps, Sven Hindrikes, Arne Jurbrant, Conny Karlsson, Kersti Strandqvist and Meg Tiveus. New election is proposed of Charles A. Blixt and John P. Bridendell. Conny Karlsson is proposed as Chairman of the Board.

Item 17: The Nominating Committee proposes that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2008 Annual General Meeting. The four largest shareholders are identified on the basis of the known numbers of votes immediately prior to publication.

No remuneration shall be payable to the members of the Nominating Committee. Any expenses incurred in the course of the Nominating Committee's work shall be borne by the Company.

Item 18: The Nominating Committee proposes that the Meeting should adopt the Instructions for Swedish Match AB's Nominating Committee with the amendment that the Nominating Committee shall form a quorum if not less than three of the members are present. Further, a decision by the Nominating Committee shall only be valid if more than half of the Committee's members vote in favour of the proposal.

The Board of Directors' proposals:

Item 8: The Board of Directors proposes that a dividend be paid to the shareholders in the amount of SEK 2.50 per share. The Board of Directors proposes that the remaining profits be carried forward, minus the funds that may be utilised for a bonus issue, provided that the 2007 Annual General Meeting passes a resolution in accordance with the Board of Directors' proposal concerning a reduction of the share capital pursuant to item 9 a) below, as well as a resolution concerning a bonus issue in accordance with the Board of Directors' proposal pursuant to item 9 b) below. The proposed record date for entitlement to receive a cash dividend is 26 April 2007. The dividend is expected to be paid through VPC (the Swedish Securities Register Center) on 2 May 2007.

Item 9 a): The Board of Directors proposes a reduction in the Company's share capital of SEK 18,084,644.37 by means of the withdrawal of 13,000,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorisation granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

Item 9 b): Provided that the Meeting passes a resolution in accordance with the Board's proposals under item 9 a) above, the Board of Directors proposes an increase in the Company's share capital of SEK 18,084,644.37 through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's proposals under item 9 a) above, the decision to reduce the share capital can be taken without obtaining the permission of the Swedish Companies' Registration Office (Bolagsverket), or, in disputed cases, the permission of the court.

The effect of the Board of Directors' proposal under item 9 a) entails a reduction in the Company's share capital of SEK 18,084,644.37. The effect of the Board of Directors' proposal under item 9 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

The resolution of the General Meeting in accordance with the Board's proposal under item 9 a) is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Item 10: The Board of Directors proposes that it be authorised to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time more than 10 per cent of all shares in the Company, for a maximum amount of MSEK 3,000. The shares shall be acquired on the Stockholm Stock Exchange at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and the lowest offer price. Repurchase may not take place during the period when an estimate of an average price for the Swedish Match share on the Stockholm Stock Exchange is being carried out in order to establish the terms of any stock option programme for the senior company officials of Swedish Match. The purpose of the repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programme.

The resolution of the General Meeting with regard to the Board proposals under item 10 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Item 11: The Board of Directors proposes that the principles for determination of salary and other remuneration payable to the President and other members of the Company management which were adopted at the Extraordinary General Meeting in December 2006 are adopted by the Annual General Meeting 2007.

Item 12: The Board of Directors has decided on the allocation of stock options for the years 1999-2005 and the Company's shareholders have, at the respective shareholders' meetings, decided to issue call options on the Company's own shares to hedge the Company's undertakings. According to the stock option programme for 2006, certain senior Company officials shall be allocated a minimum of 8,125 stock options and a maximum of 38,693 stock options per person. The options can be exercised for the purchase of shares during the period from 1 March 2010 to 29 February 2012 inclusive, at an exercise price of SEK 145.50 The terms and conditions applying to the options were established on the basis of the average price of the Swedish Match share on the Stockholm Stock Exchange during the period from 14 February to 27 February 2007 inclusive, which was SEK 121.29. The market value of the options, calculated on the basis of conditions prevailing at the time when the terms and conditions applying to the options were established, is deemed by an independent valuation institute to be SEK 19.90 per option, corresponding to a total maximum value of SEK 26,179,982. The Board of Directors proposes that the Meeting resolve that the Company shall issue a maximum of 1,315,577 call options to hedge the stock option programme for 2006. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer a maximum of 1,315,577 shares in the Company at a selling price of SEK 145.50 per share in conjunction with a potential exercise of the call options. The number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure.

The resolution of the General Meeting in accordance with the Board's proposals under item 12 is contingent upon it being supported by shareholders representing at least nine-tenths of both the votes cast and the shares represented at the Meeting.

Item 19: The Board of Directors proposes that the Articles of Association be amended as set out below:

§ 11: Persons who are not shareholders of the company shall, in accordance with terms stipulated by the Board of Directors, be entitled to attend or in some other manner monitor the proceedings of the General Meetings of Shareholders.

Items currently numbered §§ 11, 12 and 13 in the Articles of Association shall be renumbered §§ 12, 13 and 14 after the adoption of the proposed amendment.

The resolution of the General Meeting with regard to the Board's proposals under item 19 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Item 20: The Board of Directors proposes that the Meeting should authorise the Board of Directors to decide, on one or more occasions prior to the next Annual General Meeting, to raise participating loans in the event that the Company, in conjunction with any loan-based financing of the ongoing commercial activities, should deem this loan type to be most advantageous for the Company in the instance in question. The background to the proposed authorisation is that the Board is of the opinion that the Company should have the opportunity to utilise this form of loan in any loan-based financing of the ongoing commercial activities, should this loan type be deemed the most appropriate for the Company in the instance in question. Under the regulations of the new Swedish Companies Act, resolutions concerning loan-based financing where the interest rate is wholly or partially dependent on the dividends to the shareholders, the price trend for the Company's shares, the Company's profits or the Company's financial position must be passed by the General Meeting of Shareholders or by the Board of Directors with the support of authorisation from the General Meeting. To afford the Company the maximum possible flexibility in its efforts to optimise the terms and conditions in conjunction with loan financing, the Board of Directors is thus of the opinion that the Meeting should authorise the Board to make decisions concerning participating loans when and as necessary.

Full details of the resolutions proposed under items 8, 9 a), 9 b), 10, 11, 12 and 18 as well as statements by the Board of Directors pursuant to chap.18 § 4 and chap. 19 § 22 of the Swedish Companies Act and statement by the auditors pursuant to chap. 20 § 14 of the Swedish Companies Act, will be made available at Swedish Match AB's head office (Legal Department) at Rosenlundsgatan 36 in Stockholm, Sweden, as of 5 April 2007. They will also be available on the Company's website, www.swedishmatch.se, on the same date. They can also be ordered from the Company.

The right to participate in the Meeting
Participation in the Meeting is limited to shareholders who both are registered in the register of shareholders maintained by VPC AB (the Swedish Securities Register Center) on 17 April 2007, and notify Swedish Match of their intention to participate no later than at 16:00 (CET) on 17 April 2007, at which time notifications to participate must have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also advise Swedish Match thereof within the appointed period of time.

Notice of participation
Notice of participation may be submitted in writing to Swedish Match AB, Legal Department, SE-118 85 Stockholm, Sweden, by telephone on +46 (0) 8 658 02 06 (13:30 – 16:30 CET), by fax on +46 (0)8 720 76 56, or via the Internet at: www.swedishmatch.se/stamman. When giving notice of participation, the shareholder shall state his or her name, address, telephone

number (daytime), civic ID/corporate registration number and assistants, if any. Receipt of notification will be confirmed by Swedish Match, which will issue an attendance card to be presented at the entrance to the venue at which the Meeting is held.

Share registration
Shareholders whose shares are nominee registered and who wish to participate in the Meeting must temporarily re-register the shares in their own name, known as voting right registration. Requests for re-registration should be submitted to the bank or broker who administers the shares in sufficient time to allow re-registration to take place no later than Tuesday, 17 April 2007.

The entrance to the venue for the Annual General Meeting will opened at 15:00 (CET). Light refreshments will be served before the Meeting.

Stockholm, March 2007
The Board of Directors

AGENDA
OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF SWEDISH MATCH AB
MONDAY, 23 APRIL 2007, AT 4:30 PM

1. Election of Chairman of the Meeting.

    The Nominating Committee's proposal: Attorney Sven Unger.

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

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

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

    Notice to attend the Meeting has been published in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Industri on 19 March 2007 and on the Company's web site.

5. Approval of the Agenda.

6. Presentation of the Annual Report and the Auditors' Report and of the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2006.

    In connection therewith, the President's speech and the Board of Director's report regarding its work and the work and function of the Compensation Committee and the Audit Committee.

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

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

    The Board's proposal: Appendix 1.

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

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

    The Board's proposal: Appendix 2.

10. The Board of Directors' proposal to authorise the Board of Directors to decide on the acquisition of shares in the Company.

    The Board's proposal: Appendix 3.

11. Adoption of principles for determination of salary and other remuneration payable to the President and other members of the Company´s management.

    The Board's proposal: Appendix 4.

12. The Board of Director's proposal regarding the issue by the Company of call options on repurchased shares in the Company for the 2006 stock option programme, and the right of the Company to transfer shares in the Company in conjunction with a potential exercise of the call options.

    The Board's proposal: Appendix 5.

13. The question of discharging the Members of the Board and of the President from liability.

14. Determination of the number of Board Members to be elected by the Meeting.

    The Nominating Committee's proposal:
    The board shall consist of 8 members.

15. Determination of the fees to be paid to the Board of Directors, specifying the distribution between the Chairman and other Board Members and compensation for committee work.

    The Nominating Committee's proposal: Appendix 6.

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

    The Nominating Committee's proposal: Appendix 7.

17. The question of how members of the Nominating Committee shall be appointed and the question of remuneration to the Nominating Committee, if any.

    The Nominating Committee's proposal: Appendix 8.

18. Adoption of Instructions for Swedish Match AB's Nominating Committee.

    The Nominating Committee's proposal: Appendix 9.

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

    The Board's proposal: Appendix 10.

20. The Board of Directors' proposal to authorise the Board to decide on raising of participating loans.

    The Board's proposal: Appendix 11.

AGM address

Apr 23, 2007

Dear shareholders and honored guests

The fiscal year 2006 was a strong one for Swedish Match. We reported the best-ever earnings and retained our position as one of the world's leading companies in niche tobacco products. Profitability improved, sales increased and positions were strengthened in the core areas of snuff and cigars. It was also a positive year for shareholders with a 37-percent increase in the share price. You are owners of a highly profitable company, and I am pleased to announce that we are able to increase the dividend according to the Board of Directors' proposal to SEK 2.50 per share, an increase of 19 percent.

Swedish Match conducts its business in a dynamic environment. In our industry, changes are occurring constantly to which we must adapt. New trends in society influence people's product preferences and their attitudes towards tobacco are changing.

Legislation on tobacco has been tightened significantly in recent years. Bans on smoking in public environments have been introduced in more and more countries, and marketing restrictions are constantly increasing. At the same time as these limitations reduce options for selling and using tobacco, they create new marketing opportunities for us. Swedish Match's smokeless tobacco products offer a better alternative for people who wish to stop smoking. The transition from smoking to snus in Scandinavia is clear, and it is also partially discernable in the US, where there are currently some 50 million smokers or 20 percent of the adult population. This can be compared with Sweden, where slightly less than 15 percent are smokers, which is the lowest figure in Europe.

As a global tobacco player, we respect the requirements and expectations that society places on us with respect to the environment, social responsibility and human rights. In this manner, we also nurture the trust that consumers place in us when they buy our products. This is confidence that our customers have in us as a good partner and that you as shareholders have in the company and its business as a good investment.

As an exchange-listed company, stringent requirement are placed on our corporate governance. This is an area in which Swedish Match sets a high standard. In addition to the requirements placed on us by the Swedish Code of Corporate Governance, there are requirements on corporate governance in Swedish Match from our previous US market listing. Based on these requirements, we have created well-defined routines and systems for management and control and transparent reporting to shareholders and the market.

Today, Swedish Match has about 60,000 shareholders, of which foreign ownership accounts for slightly more than 80 percent. Our larger owners include Wellington Management Company, Parvus Asset Management, Morgan Stanley and Cedar Rock Capital. Most of these owners have been with the company for some time. Among Swedish owners we find Robur, SEB and Handelsbanken Funds.

Since its exchange listing, Swedish Match, along with such companies as Nokia, has had the best price trend among the larger listed companies in Stockholm. The share price has increased sixfold.

In pace with increased interest for the Scandanavian snus market, the rate of product launches has been stepped up. The new market situation places demands on Swedish Match as the market leader to always remain at the forefront. Over the past year, we launched more new products than ever before. Onico and Kronan are two examples. They both belong to segments in which Swedish Match was not previously represented but where we took a leading position during the year.

In the same way that we work hard in Scandinavia to defend our position, we are working hard in North America to increase market share through extensive work with product development and measures to promote product categories. This work included launching Wolf Packs, portion moist snuff under the Timber Wolf brand, and Game, a machine-rolled cigar under the Garcia y Vega brand.

In Europe, a number of new launches in the cigar and cigarillo categories took place, and systematic work was conducted to increase market shares. During the past year, we acquired the Hajennius and Oud Kampen cigar brands, two well-respected brands sold primarily in the Netherlands, Belgium and Germany.

In recent years, we implemented significant rationalization measures in both Swedish and European operations that included divestment of unprofitable units that achieved full effect in 2006.

We are working actively with the balance sheet in order to achieve an optimal capital structure. As part of this effort, shares were repurchased during the preceding year for a total of SEK 3,674 M. During the current year, we will achieve our long-term goals with respect to the balance sheet's structure. Swedish Match's business is characterized by high and stable cash flows, and considering today's low interest rates, our share buy-back strategy has been profitable for you as shareholders.

Significant amounts have been returned over the past five years through dividends and share repurchases. In total, nearly SEK 10 billion was paid to shareholders.

The past year was a successful one for Swedish Match. We delivered the best results ever.

Sales amounted to SEK 12,911 M. Excluding divested operations, sales increased by three percent. Operating profit amounted to SEK 3,236 M, which was an increase of 15 percent.

The operating margin was also strengthened considerably and amounted to a full 23.9 percent for the year, which was 4.2 percentage points better than the preceding year.

Earnings per share amounted to SEK 8.12, which as a 45-percent improvement.

Snus continues to grow, and with an increased number of players in the Swedish market, snus is increasingly in focus. Our ambition is to always stay one step ahead of the competition, which we succeeded in doing since Swedish Match during the second half of the year retained its market share in Sweden of about 90 percent as measured in volume. Today, there are slightly more than 1.1 million Swedish snus users, and the market amounts to about 220 million cans.

These figures can be compared with the US, which is the largest market for moist snuff, amounting to about one billion cans. Swedish Match is number three in that market with a volume share of about 10 percent and has two strong brands in Timber Wolf and Longhorn.

Swedish Match strengthened its positions and increased sales in both Scandinavia and the US. Last year was a strong year for snuff. The Swedish market grew by an estimated 3 percent, while the US market grew by more than 10 percent. A number of new products were launched during the year, including Ettan White, General Mini White and Göteborgs Rapé Lingon. In Norway, Nick & Johnny was launched.

Sales amounted to SEK 3,363 M, an increase of 7 percent, while operating profit amounted to SEK 1,604 M, also an increase of 7 percent. The operating margin amounted to 47.7 percent.

During the year, Swedish Match strengthened its position as the world's second largest cigar company in terms of sales value. We now sell cigars in more than 70 countries. Some of the Group's most well-known brands are Macanudo, La Paz, Willem II, Hoyo de Monterrey and Cohiba.

The total world market amounts to about 15 billion cigars per year, with North America and Western Europe accounting for fully 90 percent of sales. We have a strong position in the US premium cigar market where five of the ten most sold premium cigar brands in the US are owned by Swedish Match.

Sales for the year amounted to SEK 3,407 M, which was an increase of 4 percent. Profit was SEK 747 M, which was a full 22 percent higher than 2005 and resulted in a strengthening of the operating margin to 21.9 percent.

Swedish Match is a leading player in chewing and pipe tobacco. In the North American market, we are number one in chewing tobacco with a market share of 44 percent. Our strongest brands in chewing and pipe tobacco are Red Man and Borkum Riff. Both of these categories are diminishing, but thanks to strong brands, we have been able to compensate much of the volume decline. Both product areas generate favorable profits and cash flows and are an important part of the business.

Sales of chewing tobacco declined 2 percent to SEK 1,063 M, while operating profit declined six percent to SEK 326 M. Sales and operating profit were negatively affected by a weaker USD.

Sales of pipe tobacco declined by 2 percent to SEK 899 M. Operating profit increased by 10 percent to SEK 261 M.

Swedish Match manufactures and distributes lighters and matches in a number of countries with several major and well-know brands. Solstickan is the most well-known brand in Sweden, but Swedish Match also has strong brands outside Sweden, such as Red Heads in Australia. Our disposable lighter Cricket is a strong brand in many markets.

The global market for lighters and matches is relatively stable, with a declining trend in industrialized countries.

Match products had sales of SEK 1,503 M in 2006, a decline of 22 percent, compared with the preceding year. The decline was attributable to divested operations, Operating profit amounted to SEK 247 M, an improvement of nearly SEK 200 M over the preceding year.

After working for a number of years to consolidate operations, we will now continue to focus on organic growth and taking a more aggressive role with respect to acquisitions. The ambition now is to find a number of complementary and profitable acquisitions in the cigar product are and to invest more in snuff operations, particularly in our main markets in the US and Scandinavia. We will also invest further in product development and activities to promote growth. The organization is being strengthened in marketing and sales in a number of countries.

We continue the established financial strategy to create maximum value for you as shareholders. The share repurchasing program will continued and in future result in a dividend of between 30 and 50 percent of net profit.

You are the owners of a unique and profitable company that since its listing on the Stockholm Stock Exchange eleven years ago has generated very favorable returns.

We are now at a point where we are receiving increasing attention relating to snuff and its relative advantages, compared with cigarettes. We have a gigantic US market to further penetrate with moist snuff, and we will continue to expand cigar operations to become more effective and productive in what we do.

Thank you for your attention.

Report of the Board of Directors

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

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

Net sales

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

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

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

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

Operating profit

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

Other operations

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

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

Research and development

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

Net finance cost

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

Taxes

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

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

Earnings per share

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

Liquid funds

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

Financing

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

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

The Group's main financing is effected through a Swedish medium-term note program of 4,000 MSEK and a global medium-term note program with a framework amount of 1,000 MEUR. Utilization of these programs amounted to 7,570 MSEK on December 31, 2006.

Capital expenditure and depreciation

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

Capital structure

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

Distribution of surplus funds

Dividend

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

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

Repurchase of Company shares

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

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

Financial targets

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

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

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

Share structure

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

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

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

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

Personnel

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

Environmental impact

Swedish Match strives to conduct its business in a manner that does not put the environment at risk and in compliance with relevant environmental legislation, regulations and other local requirements.

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

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

Permits and obligatory reporting

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

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

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

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

Risk factors

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

The Company is involved in legal and regulatory proceedings including pending lawsuits related to intellectual property rights and alleged injuries caused by tobacco products. There can be no assurance that the Company's defences will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Company's results of operations.

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

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

Other events

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

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

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

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

Outlook

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

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

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

Net sales and operating profit by product area

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

Summary of consolidated income statement

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

Summary of consolidated balance sheet

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

Summary of consolidated cash flow statement

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

Consolidated Income Statement

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

Consolidated Balance Sheet

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

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

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

Consolidated Statement of Changes in Equity

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

Consolidated Cash Flow Statement

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

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

Notes for the Group

1. Accounting principles

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

Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission for application within the EU. In addition the Swedish Financial Accounting Standards Council's recommendation RR 30:05, Supplementary Accounting Regulations for Groups, has been applied.

The Parent Company applies RR 32:05 Accounting for legal persons, which means that the Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Accounting principles for the Parent Company". The discrepancies that exist between the principles for the Parent Company and for the Group result from limitations on the applicability of IFRS in the Parent Company as a consequence of the Annual Accounts Act and the Pension Security Act, as well as for tax reasons in certain instances.

Basis for the preparation of the financial reports for the Parent Company and the Group

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

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

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

Evaluations made by management on the implementation of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in greater detail in Note 31.

Reporting by segment

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

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

Classification etc.

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

Consolidation principles

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

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

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

Foreign currencies

(i) Transactions in foreign currencies

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

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

(ii) Financial reports of foreign operations

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

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

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

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

1. cont.

Revenues

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

Financial income and expenses

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

Financial instruments

Financial instruments are valued and reported within the Group in accordance with the rules contained in IAS 39 as of January 1, 2005.

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

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

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

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

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

Investments held to maturity

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

Financial assets held for trading

Financial assets in this category which include financial investments reported as other investments or cash equivalents are valued at fair value with changes in value reported in the income statement.

Financial assets available for sale

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

Other financial liabilities

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

Derivatives used for hedge accounting

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

Non-current receivables and other current receivables

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

Trade receivables

Trade receivables are reported at the amount expected to be received after deductions for doubtful receivables assessed individually. Trade receivables have a short anticipated duration and are valued at their amortized costs. Impairments of trade receivables are reported as operating expenses.

Liabilities

Liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans, if hedge accounting is not applied, are valued at amortized cost in accordance with the effective interest method. Non-current liabilities have an anticipated duration of longer than one year, while current liabilities have a duration of less than one year.

Derivatives and hedge accounting

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

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

Receivables and liabilities in foreign currency

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

Hedging of fair value

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

1. cont.

Leased assets

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

Intangible assets

(i) Goodwill

Goodwill comprises the difference between the acquisition value of acquired operations and the fair value of the acquired assets, assumed liabilities and any contingent liabilities.

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

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

(ii) Research and development

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

(iii) Other intangible assets

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

(iv) Amortization

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

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

Tangible assets

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

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

Depreciation

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

Estimated useful life of:

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

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

Biological assets

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

Inventory

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

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

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

Assets held for sale

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

Impairments

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

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

Provisions

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

Share capital

Buybacks of own shares are reported directly in equity.

Employee benefits

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

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

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

1. cont.

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

Share-based payments

Under an option program, certain executives are entitled to purchase shares in the Company. The fair value of the allotted options is reported as a personnel cost with a corresponding amount reported as an increase in equity. The fair value is expensed during the year the options are earned, because the right to receive the options is irrevocable that year assuming that the employee is still employed at the end of the year.

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

Taxes

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

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

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

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

Contingent liabilities

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

Earnings per share

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

Recently issued accounting interpretations by IFRIC

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

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

IFRIC 8 Scope of IFRS 2 Share-based Payment deals with the accounting of share- based payments when the goods or services received by the company cannot be specifically identified. IFRIC 8 shall be applied retrospectively in the financial reports of the Group from 2007. The impact of the accounting interpretation is not expected to be material.

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

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

Parent Company accounting principles

The Annual Report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Council's recommendation RR 32:05 Accounting for Legal Entities. RR 32:05 states that in the Annual Report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS. The differences in the accounting principles between the Parent Company and the Group are described below.

Changed accounting principles

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

Employee benefits

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

Taxes

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

Group and shareholder contributions for legal entities

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

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

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

2. Revenue

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

3. Segment information

Primary segments – product areas

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

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

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

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

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

No sales are transacted between the different product areas.

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

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

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

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

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

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

3. cont.

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

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

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

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

Secondary segments – geographical areas

The Group's operations are primarily conducted in three geographical areas.
The sales figures are based on the geographical location of the customers. Assets and investments are also based on geographical location. Unallocated assets mainly consist of financial items and taxes.

Revenue	External sales 2006	2005
Nordic region	5,412	5,356
North America	4,041	3,974
Rest of the world	3,458	3,981
Total	**12,911**	**13,311**

Assets	2006	2005
Nordic region	4,525	3,590
North America	3,892	5,030
Rest of the world	3,479	3,572
Unallocated assets	3,873	4,613
Total	**15,770**	**16,806**

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

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

4. Other operating income and other operating expenses

Other operating income includes foreign exchange gains of 1 MSEK (23).
Other operating expenses include foreign exchange losses of 16 MSEK (5).

5. Personnel

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

Senior management by gender:

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

Group employees by country are summarized in the table below:

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

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

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

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

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

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

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

5. cont.

Remuneration

Remuneration to Swedish Match AB's Board members

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

Board fees paid to Board members in 2006

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

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

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

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

Remuneration and other benefits to Group management during 2006

Principles adopted by the 2006 Annual General Meeting

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

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

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

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

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

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

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

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

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

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

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

Revised principles adopted by the 2006 Extraordinary General Meeting

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

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

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

5. cont.

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

The total remuneration paid to Group management officials shall comprise the following components: fixed salary, annual variable salary, a long-term incentive program in the form of employee stock options, pension benefits, terms in conjunction with notice of termination and severance pay, and other benefits.

Fixed salary: The fixed salary for Group management officials shall correspond to market rates and shall be based on competence, responsibility and performance. This principle for determining the fixed salary component for Group management officials is already being applied.

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

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

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

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

Employee stock options: Group management officials are covered by an ongoing employee stock option program under which call options in Swedish Match AB may be allocated. The options have a five-year term and can be redeemed during the fourth and fifth years of the term. The value of the options allocated shall be maximized to 65 percent of the fixed salary and the allocation calculated on the basis of two equally weighted criteria: one is a measurement based on the Group's earnings per share and one is a measurement based on the return on adjusted operating capital.

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

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

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

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

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

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

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

5. cont.

Remuneration and other benefits to Group management during 2006

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

Comments to the table

- During 2005, the other members of Group management consisted of eight persons. During 2006, the other members of Group management consisted of six persons
- Variable salary pertains to incentive payments made during the year. These payments were charged to the consolidated income statement in 2005. In 2006 the President accrued 2,065 TSEK based on the achieved results in 2006 this variable salary is paid in 2007 and charged the consolidated income statement 2006. In 2006 Other members of the Company management accrued 5,503 TSEK based on the achieved results in 2006 this variable salary is paid in 2007 and charged the consolidated income statement 2006
- Options relate to the gross amount before tax available for the grant of options. The costs have been charged to the consolidated income statement 2005. In 2006, the President accrued options to the value of 1,540 TSEK to be granted in 2007, subject to approval of the Annual General Meeting in 2007, the costs have been charged the consolidated income statement 2006. In 2006, other members of the Company management accrued options to the value of 4,620 TSEK to be granted in 2007, subject to approval of the Annual General Meeting in 2007, the costs have been charged the consolidated income statement 2006
- Other benefits pertain to company cars and other benefits
- Reported pension costs are charges to income for defined contribution pension plans and the service costs component under IAS for defined benefit pension plans

Variable salary

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

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

Options

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

523,817 options were granted in 2006. These can be exercised between March 2, 2009 and February 28, 2011. Each option entitles the holder to purchase one share in Swedish Match AB at a price of SEK 127.10 per share. The options are valued by an external institution in accordance with the Black & Scholes model. The computed value at the time of grant was SEK 13.20 per option, corresponding to a total of SEK 6,914,384. The valuation was based on the following conditions: the share price at the time of grant is SEK 105.88, expected volatility is 22 percent and the risk-free interest rate is 3.12 percent. The expected volatility is mainly based on historic volatility of the Swedish Match share. An assumption about dividend growth is also made to compute the value of the options.

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

Number and weighted average of exercise prices for shares under options

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

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

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

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2005-03-15—2007-03-15	77.50	1,518,770	970,880	547,890
2006-03-01—2008-02-28	74.00	1,428,490	–	1,428,490
2007-03-01—2009-02-27	84.80	865,259	–	865,259
2008-03-03—2010-03-01	99.75	661,871	–	661,871
2009-03-02—2011-02-28	127.10	523,817	–	523,817
		4,998,207	**970,880**	**4,027,327**

5. cont.

Pensions

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

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

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

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

Funding of pension commitments
For members of Group management resident in Sweden, pensions on salary portions of up to 30 income base amounts (one income base amount is in 2006 SEK 44,500) are funded in PSF, the Swedish Match Superannuation Fund. The commitment for defined benefit pensions for salary portions in excess of 30 income base amounts is funded in the Swedish Match Pension Foundation, or through an external insurance provider. For members of Group management resident abroad, defined benefit pension commitments are funded in local pension foundations.

All pension benefits are vested benefits.

Other employment conditions

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

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

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

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

The President's fixed salary and terms for the variable portions of his salary, as well as other employment conditions for the financial year 2006, were approved by the Board. The President's proposals in regard to the fixed salary and terms for variable portions of salary, as well as other employment conditions for the other members of Group management were approved by the Compensation Committee. The Board approved the Compensation Committee's proposal for the Group's options program and profit-sharing scheme. The Group's options program was subsequently approved by shareholders at the Annual General Meeting.

6. Selling and administrative expenses

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

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

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

7. Operating expenses classified by nature

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

8. Net finance cost

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

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

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

9. Income tax expense

Income taxes in 2006 and 2005 were distributed as follows:

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

9. cont.

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

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

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

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

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

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

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

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

	2006 %	2006 MSEK	2005 %	2005 MSEK
Income before tax		3,167		2,696
Swedish tax rate	28.0	887	28.0	755
Effect of tax rates in foreign jurisdictions	3.3	104	4.7	127
Effect of unrecognized tax losses	0,1	4	0.2	6
Tax exempt items	–2.6	–82	–3.0	–80
Non-deductible amortization of intangible assets	0.2	7	0.3	8
Adjustments of taxes for prior years	–0.5	–15	–0.4	–11
Non-deductible expenses	0.7	23	2.3	62
Other items	–2.9	–91	1.9	51
Reported effective tax	**26.4**	**836**	**34.1**	**919**

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

10. Intangible assets

Intangible assets at December 31 comprised the following:

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

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

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

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

The Group's goodwill is tested for impairment annually and when there is an impairment indication. When testing, the value in use is compared to the carrying value of the Group's cash generating units. If the value in use is less than the carrying value, an impairment exists equal to the amount of the difference. The value in use is based on discounted cash flows. The level at which management monitors the operations is the basis for identifying the groups of cash generating units. The cash flows used are projected considering market conditions and historical experience, and are based on what management consider reasonable assumptions. These assumptions may be subject to change if circumstances arise or facts become available that affect the assumptions. Calculations of value in use are also sensitive to changes in market interest rates, as these form the basis for discount rates. When goodwill was tested for impairment in 2006, the value in use exceeded the carrying values. When performing sensitivity analyses it was concluded that no negative change, of a size which at this moment is considered probable by management, would result in an intangible assets impairment loss for any of the cash generating units. Though, it should be noted that the sensitivity performed on the lighters product group came close to an impairment. If the competitive environment worsen, more than what is considered probable by management at this moment, part of the carrying value of goodwill relating to the lighters product group of 48 MSEK may be impaired.

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

The cash flows underlying the value in use calculation of General Cigar and the pipe operations in the 2006 testing were based on the budget for 2007. Sales growth and cost structure assumptions are in line with historic development. For General Cigar consideration was given to the integration of General Cigar in the Group's North American cigar operations. Cash flows are explicitly forecasted for the coming five years, after which a growth factor of 1.5 percent has been applied for General Cigar to calculate the value of subsequent cash flows. After the coming five years, a decrease of 2 percent has been applied for the pipe operations. The pre-tax discount rate used was 9.2 percent and 16.5 percent for General Cigar and the pipe operations respectively.

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

11. Property, plant and equipment

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

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

* Buildings and land include land at a book value of 143 MSEK (185).
** Reclassifications include property, plant and equipment of 13 MSEK reclassified to assets held for sale during 2006.

Construction in progress primarily relates to investments in production facilities.

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

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

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

12. Biological assets

Biological assets at December 31 comprised the following:

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

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

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

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area. Volume growth during 2006 had a positive effect of 2 MSEK on fair value, while lower market prices for timber had a negative effect of 10 MSEK on fair value.

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

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

13. Investments in associates

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

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

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

2005								
Arnold André GmbH & Co. KG	Germany	184	7	157	72	85	40	85
Malaysian Match Co. SDN. BHD.	Malaysia	11	0	12	6	6	32	8
P.T. Jamafac*	Indonesia	51	9	–	–	–	–	–
Total shares in associated companies		**246**	**16**	**169**	**78**	**91**	**–**	**93**

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

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

14. Non-current receivables and other receivables

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

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

Other current receivables at December 31 comprised the following items:

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

15. Inventories

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

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

Felled timber constitutes an immaterial part of other input materials.

16. Allowance for bad debts

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

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

17. Cash and cash equivalents, and other investments

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

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

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

18. Assets held for sale

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

19. Equity

Details of equity reserves

Translation reserve*	2006	2005
Translation reserve, January 1	611	–96
Translation difference for the year	–878	708
Less translation differences attributable to divested companies	–3	–1
Translation reserve, December 31	**–270**	**611**

Reserve for fair value of available-for-sale financial instruments**	2006	2005
Reserve for fair value of available-for-sale financial instruments, January 1	40	–
Change in accounting principle, IAS 39	–	31
Changes in fair value reported directly in equity	–	9
Sold available-for-sales financial instruments, January 1	–40	–
Reserve for fair value of available-for-sale financial instruments, December 31	**0**	**40**

Total reserves	2006	2005
Reserves, January 1	651	–96
Changes in reserves for the year		
Translation reserve	–881	707
Reserve for fair value of available-for-sale financial instruments	–40	40
Reserves, December 31	**–270**	**651**

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

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

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

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

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

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

19. cont.

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

20. Earnings per share

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

Weighted average number of shares outstanding, basic

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

Weighted average number of shares outstanding, diluted

Number of shares	2006	2005
Weighted average number of shares outstanding, basic	287,062 345	315,128,554
Effect of issued options	1,098,902	1,097,838
Weighted average number of shares outstanding, diluted	**288,161,247**	**316,226,392**

Earnings per share, SEK	2006	2005
Basic	8.12	5.61
Diluted	8.09	5.59

21. Interest-bearing liabilites

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

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

Current interest-bearing liabilities:

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

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

22. Employee benefits

Post-employment employee benefits

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

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

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

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

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

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

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

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

The income/expenses for defined benefit plans are reported under the following headings in the income statement:				
Cost of sales	20	18	11	9
Administrative expenses	–152	–50	33	24
Selling expenses	19	17	9	10
Net income(-)/expense(+) reported in the income statement	**–113**	**–15**	**52**	**43**

22. cont.

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

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

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

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

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

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

Plan assets are comprised as follows:

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

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

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

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

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

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

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

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

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

Defined contribution plans

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

	2006	2005
Costs for defined contribution plans	43	45

23. Provisions

Non-current provisions at December 31 comprised the following:

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

Current provisions at December 31 comprised the following:

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

23. cont.

Movements in provisions during the year were as follows:

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

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

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

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

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

24. Other liabilities

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

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

Other current liabilities at December 31 comprised the following:

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

25. Accrued expenses and deferred income

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

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

26. Financial instruments

Operations
As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit. To manage its financial risks, Swedish Match has a finance policy in place established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and rules governing the management of financial risks and finance operations in general. The central treasury function is responsible for the Group's borrowing, currency and interest rate management and serves as an internal bank for the Group's financial transactions. In addition to ensuring that the Swedish Match Group has secure financing, financial transactions are conducted with the aim of limiting the Group's financial risks. The Group's financial risk management are centralized to capitalize on economy of scale and synergy effects and to minimize operational risks.

Financial instruments
Swedish Match uses various types of financial instruments to hedge the Group's financial exposure that arises in business operations and as a result of the Group's financing and asset and debt management activities. In addition to loans, investments and spot instruments, derivative instruments are also used to reduce Swedish Match's financial exposure. The most frequently used derivative instruments are currency forwards, currency swaps and interest rate swaps. A table showing all the derivatives at fair value that affected the Group's balance sheet and income statement in 2006 is provided below.

Outstanding derivatives

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

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

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

The consolidated income statement includes net exchange rate losses of 16.4 MSEK (17.4) in operating profit and net gains of 1.0 MSEK (–5.3) in net finance cost.

Transaction exposure
For the Group as a whole, there is a balance between inflows and outflows in the major currencies EUR and USD, which limits the Group's transaction exposure. The main transaction exposure arises when certain of the Group's production units in South Africa and Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD.

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 500 MSEK on an annual basis. Swedish Match's policy for managing the Group's transaction exposure is to hedge within certain limits. The hedging transactions are mainly initiated via currency forward contracts with durations of up to 12 months, and relate to forecasted currency flows. At December 31, 2006, no transaction exposure for 2007 had been hedged. A general rise of 1 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by approximately 5.2 MSEK (4.8) for the year ending December 31, 2006. Changes in the fair value of currency forward contracts were included in this calculation.

Translation exposure
The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated at average exchange rates. Significant effects mainly pertain to USD, EUR, the Brazilian real (BRL) and the South African rand (ZAR). The single most important currency is the USD. When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 1 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be positive in an amount of approximately 53 MSEK, based on the exposure at December 31, 2006.

Interest-rate risk
The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash flow from current operations, and borrowing. Interest-bearing loans result in the Group being exposed to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match's policy is that the average interest maturity should not exceed five years. Part of the Group's borrowing was originally obtained on a fixed interest rate basis but was subsequently converted to a floating rate basis by means of interest rate swaps. The time it takes for a permanent change of interest rate to impact net interest expense depends on the interest maturity periods of the loans. At December 31, 2006, the average interest maturity period for Group loans was 2.3 months, then taking into account interest rate swaps. At December 31, 2006, a general rise of 1 percent in interest rates was estimated to reduce consolidated earnings before tax by approximately 36.6 MSEK (2.6) on an annual basis. The assumption is based on the present level of net debt and average interest maturity period. Changes in the fair value of interest-rate swaps were included in this calculation.

Refinancing risk and liquidity
Refinancing risk is defined as the risk of not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. However, subsidiary borrowing can take place in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit it's refinancing risk by having a good distribution and a certain length on its gross borrowing, and not to be dependent on individual sources of financing. Swedish Match has a syndicated bank credit facility of 250 MEUR, which matures in 2010. This was unutilized at year-end and contained no borrowing restrictions. At year-end 2006, available cash funds and committed credit facilities amounted to 5,358 MSEK. Of this amount, confirmed credit lines amounted to 2,260 MSEK and cash and cash equivalents including other investments making up the remaining 3,098 MSEK. Most of Swedish Match's medium-term financing consists of a Swedish medium-term note program (MTN) with a limit of 4,000 MSEK, and a global medium-term note program with a limit amount of 1,000 MEUR. The programs are uncommitted borrowing programs and their availability

26. cont.

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

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

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

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

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

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

Accounting principles and hedge accounting

Financial assets, excluding trade receivables, and derivatives are always measured at fair value and recognized in the balance sheet. Trade receivables are recognized at nominal value. Financial liabilities are mainly measured at the amortized cost. In cases where financial liabilities are included in a hedging relation, they are measured at fair value. Swedish Match applies hedge accounting for borrowing, converting fixed interest rates to floating interest rates by means of interest rate swaps under the accounting rules for fair value hedges.

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in government bonds, treasury bills and bank and mortgage certificates, as well as in certain approved securities with approved counterparties. At December 31, 2006, the average interest maturity for the Group's current investments was approximately 0.3 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least BBB+ from Standard & Poor's or Moody's. To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2006, the total credit exposure in derivative instruments amounted to 161 MSEK and current investments amounted to 854 MSEK. Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable, by dividing accounts receivable among many different customers. At the reporting date, there were no significant concentration of credit risk in the Group's accounts receivable.

Credit ratings

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

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

Carrying value and fair value

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

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

27. Pledged assets

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

28. Commitments and contingent liabilities

Operating lease agreements

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

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

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

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

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

Contingent liabilities

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

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

Leaf tobacco purchases

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

Legal disputes

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

Swedish Match subsidiaries in the US are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (a subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been brought before state courts in West Virginia. However, the cases against Pinkerton have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in theses cases intend to pursue their claims separately against Pinkerton. Swedish Match North America, Inc. and Pinkerton Tobacco Company are named as defendants in a lawsuit filed in Florida in November 2002 against several companies active in the American market for smokeless tobacco and their joint interest association. The claim was originally instituted as a class-action suit, but was changed during 2005 to an individual claim. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

29. Group companies

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

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

30. Supplementary information to cash flow statement

Interest paid and dividends received

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

Adjustments for items that do not require the use of cash

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

Acquisitions of subsidiaries and other business units

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

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

30. cont.

Divestments of subsidiaries and other business units

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

31. Critical estimates and judgements

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

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

As explained in Note 28 Swedish Match is involved in a number of legal processes. Although the Company is convinced that it has a strong position in these disputes, an unfavourable outcome cannot be ruled out, and this could have a significant effect on the Company's earning capacity.

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

32. Information about the Parent Company

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

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

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

Parent Company Income Statement

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

Parent Company Balance Sheet

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

Summary of Changes in Parent Company Equity

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

Cash Flow Statement for the Parent Company

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

Notes for the Parent Company Financial Statements

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

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

1. Revenue

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

2. Fees and compensation for incurred costs to auditors

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

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

Audit assignments refer to the examination of the annual report and bookkeepings, the Board of Director's and the President's management, other work assignments which are incumbent on the Company's auditor to conduct, and advising or other support justified by observations in the course of examination or performance of other such work assignments. All else is other assignments.

3. Other income

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

4. Sick leave within the Parent Company

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

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

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

5. Net finance cost/income

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

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

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

6. Appropriations

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

7. Taxes

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

7. cont.

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

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

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

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

8. Intangible assets

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

Amortization is included in the following lines of the Income Statement

	2006	2005
Administrative expenses	–1	–1
Selling expenses	–11	–11
Total	**–12**	**–12**

All intangible assets are acquired.

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

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

9. Property, plant and equipment

Equipment, tools and fixtures

Acquisition value	
Opening balance, January 1, 2005	9
Investments	2
Sales/disposals	–4
Closing balance, December 31, 2005	7
Opening balance, January 1, 2006	7
Investments	1
Sales/disposals	–2
Closing balance, December 31, 2006	**6**
Depreciation	
Opening balance January 1, 2005	–6
Depreciation for the year	–1
Sales and disposals	3
Closing balance December 31, 2005	–4
Opening balance January 1, 2006	–4
Depreciation for the year	–2
Sales and disposals	1
Closing balance December 31, 2006	**–5**
Reported values	
At January 1, 2005	3
At December 31, 2005	3
At January 1, 2006	3
At December 31, 2006	1

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

10. Receivables from Group companies

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

11. Other non-current investments

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

12. Other receivables

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

13. Prepaid expenses and accrued income

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

14. Equity

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

Number of registered shares in the Parent Company

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

Buy-back of shares

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

Dividend

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

15. Untaxed reserves

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

16. Liabilities to credit institutions/bond loans

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

17. Liabilities to Group companies

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

18. Other liabilities

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

19. Accrued expenses and prepaid income

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

20. Pledged assets and contingent liabilities

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

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

21. Related parties

Summary of transactions with related parties

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

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

22. Group companies

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

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

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

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

Shares in subsidiaries, directly owned

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

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

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

Other shares at December 31, 2006

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

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

23. Cash Flow Statement

Cash and cash equivalents

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

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

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

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

Interest paid and received and dividend received

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

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

Adjustments for items that do not require the use of cash

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

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

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

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

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

25. Employee benefits

Post-employment employee benefits

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

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

The amounts reported in the income statement consist of the following:	2006	2005
Current service costs	1	1
Interest on obligation	3	3
Expected return on plan assets	–5	–5
Net expense reported in the income statement	**0**	**0**

The movements in the defined benefit obligation over the year, were as follows:	2006	2005
Defined benefit obligation, January 1	76	67
Current service cost	1	1
Interest cost	3	3
Actuarial losses/(gains)	–1	8
Benefits paid	–4	–4
Defined benefit obligation, December 31	**75**	**76**

The movements in the fair value of plan assets of the year, were as follows:	2006	2005
Fair value of plan assets, January 1	91	81
Expected return on plan assets	5	5
Actuarial (losses)/gains	–2	5
Fair value of plan assets, December 31	**94**	**91**

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

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

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

Significant actuarial assumptions at the balance sheet date	2006	2005
Discount rate, %	4.0	3.8
Expected return on plan assets, %	5.0	5.0
Future salary increases, %	3.0	3.0
Future pension increases, %	2.0	2.0

The actuarial calculation is made in accordance with IAS 19.

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

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

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

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

Proposed distribution of earnings

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

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

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

The results of operations of the Parent Company, Swedish Match AB, and of the Group during 2006, and their respective positions at the close of 2006, are set forth in the income statements and balance sheets and accompanying notes.

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

Stockholm, February 13, 2007

Bernt Magnusson Chairman of the Board	Andrew Cripps	Kenneth Ek
Arne Jurbrant	Conny Karlsson	Eva Larsson
Joakim Lindström	Karsten Slotte	Kersti Strandqvist
Meg Tivéus		Sven Hindrikes President

Our Auditors' report was submitted on March 9, 2007

KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

Auditors' report

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

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

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

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

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the Parent company and the Group be adopted, that the profit of the Parent company be dealt with in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, March 9, 2007
KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

The Board of Directors' proposal under item 8 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Board of Directors proposes that a dividend be paid to the shareholders in the amount of SEK 2.50 per share. The Board of Directors proposes that the remaining profits be carried forward, minus the funds that may be utilised for a bonus issue, provided that the 2007 Annual General Meeting passes a resolution in accordance with the Board of Directors' proposal concerning a reduction of the share capital pursuant to item 9 a) below, as well as a resolution concerning a bonus issue in accordance with the Board of Directors' proposal pursuant to item 9 b) below.

The proposed record date for entitlement to receive a cash dividend is 26 April 2007. The dividend is expected to be paid through VPC AB (the Swedish Securities Register Center) on 2 May 2007.

The Board of Directors' statement concerning the justification of the proposed allocation of the Company's profit in accordance with Chapter 18, § 4 of the Swedish Company Act is enclosed in Appendix 1 A.

The Board of Directors' proposal under items 9 a) and 9 b) on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

Item 9 a)
The Board of Directors proposes a reduction in the Company's share capital of SEK 18,084,644.37 by means of the withdrawal of 13,000,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorisation granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

Item 9 b)
Provided that the Meeting passes a resolution in accordance with the Board's proposals under item 9 a) above, the Board of Directors proposes an increase in the Company's share capital of SEK 18,084,644.37 through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's proposals under item 9 a) above, the decision to reduce the share capital can be taken without obtaining the permission of the Swedish Companies' Registration Office (Bolagsverket), or, in disputed cases, the permission of the court.

The effect of the Board of Directors' proposal under item 9 a) entails a reduction in the Company's share capital of SEK 18,084,644.37. The effect of the Board of Directors' proposal under item 9 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

The Auditor's opinion, in accordance with Chapter 20, § 14 of the Swedish Companies Act, concerning this statement by the Board of Directors is enclosed in Appendix 2 A.

The resolution of the General Meeting in accordance with the Board's proposal under item 9 a) is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

The Board of Directors' proposal under item 12 on the agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Board of Directors proposes that it be authorised to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time more than 10 per cent of all shares in the Company, for a maximum amount of MSEK 3,000. The shares shall be acquired on the Stockholm Stock Exchange at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and the lowest offer price. Repurchase may not take place during the period when an estimate of an average price for the Swedish Match share on the Stockholm Stock Exchange is being carried out in order to establish the terms of any stock option programme for the senior company officials of Swedish Match. The purpose of the repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programme.

The Board of Director's statement concerning the justification of the proposed mandate concerning a buy-back of the Company's own shares pursuant to chapter 19, § 22 of the Swedish Companies Act is enclosed in Appendix 3 A.

The resolution of the General Meeting with regard to the Board proposals under item 10 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Previous buy-backs*

Year	2000	2001	2002	2003	2004	2005	2006
Number of repurchased shares	28 799 500	25 146 710	7 995 000	13 672 000	6 816 288	15 615 612	31 533 300
Holding at year-end	28 799 500	21 596 000	19 591 000	23 263 000	15 079 288	18 694 900	5 632 019
Holding at year-end as a percentage of total share capital	7.13%	5.8%	5.4%	6.6%	4.5%	5.8 %	2.0 %

* net after shares sold in conjunction with stock option programmes

The Board of Directors' proposal under <u>item 11</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Board of Directors proposes that the principles for determination of salary and other remuneration payable to the President and other members of the Company management (the Principles") which were adopted at the Extraordinary General Meeting in December 2006 are adopted by the Annual General Meeting 2007.

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

The Principles stated below shall apply to remuneration and other terms of employment for the Group management (i.e. the President, Divisional Managers and Senior Vice Presidents in charge of Group functions reporting directly to the President). These principles already apply at present. In some cases, agreements with somewhat different contents that were previously entered into still apply. The contents of the Company managements' employment agreements are presented in Swedish Match's Annual Report for 2006.

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

The total remuneration paid to Group management officials shall comprise the following components: fixed salary, annual variable salary, a long-term incentive programme in the form of employee stock options, pension benefits, terms in conjunction with notice of termination and severance pay, and other benefits.

Fixed salary: The fixed salary for Group management officials shall correspond to market rates and shall be based on competence, responsibility and performance. This principle for determining the fixed salary component for Group management officials is already being applied.

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

- **firstly**, the average annual improvement in the Group's earnings per share during the period from 2005 to 2007 (i.e. 2005 in comparison with 2004, 2006 in comparison with 2005, and 2007 in comparison with 2006). The maximum allocation in accordance with this criterion shall occur if the average improvement during the three-year period is 20 per cent or more. No allocation will be made if the average improvement is less than 5 per cent;

- **secondly**, the result of the average return after tax on operating capital, adjusted for accumulated amortisation of intangible assets, during the years from 2005 to 2007 in comparison with the average return after tax on operating capital, adjusted for accumulated amortisation of intangible assets, during the years from 2004 to 2006. 75 per cent of the maximum allocation in accordance with this criterion shall occur if the return has remained unchanged and maximum allocation in accordance with this criterion shall occur if the latest three-year average has increased by two percentage points or more in relation to the preceding three-year average. No allocation will be made in accordance with this criterion if the latest three-year average for the return is two percentage points lower than for the preceding period.

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

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

Employee stock options: Group management officials are covered by an ongoing employee stock option programme under which call options in Swedish Match AB may be allocated. The options have a five-year term and can be redeemed during the fourth and fifth years of the term. The value of the options allocated shall be maximised to 65 per cent of the fixed salary and the allocation calculated on the basis of two equally weighted criteria: one is a measurement based on the Group's earnings per share and one is a measurement based on the return on adjusted operating capital.

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

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

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

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

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

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

Previous undertakings not yet due: In April 2006, the Annual General Meeting approved an employee stock option programme for 2006. The stock options under this programme will be allocated after the AGM 2007. In addition thereto, the Divisional President of the North America Division may receive a variable salary in accordance with the local programme as explained above.

The Board of Directors' proposal under item 12 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

Over the period from 1999 to 2006, Swedish Match has implemented a rolling stock option programme whereby it has been possible to allocate call options on shares in the Company on an annual basis to a number of key Company employees if certain terms and conditons are met. The Board of Directors has resolved on allocation of the stock options and the Company's shareholders have, at each respective general meeting, resolved to issue call options relating to the Company's own shares to secure the Company's obligations. The general meeting has also resolved on a corresponding programme for the year 2007.

The resolution under item 12 on the agenda concerns the question of whether the Company shall, in order to be in a position to honour the existing stock option programme for 2006, be entitled to issue the relevant call options itself and to transfer shares in connection with requests for the exercise of these call options. The alternative to such a procedure is to purchase options on the open market.

For the sake of order, it must be emphasised here that the shareholders' meeting shall not, under this item, adopt a position with regard to the stock option programme per se as the Company is bound by the general meeting's decision on the stock options programme for the year 2006.

According to the 2006 stock option programme, certain senior Company officials shall be allocated a minimum of 8,125 stock options and a maximum of 38,693 stock options. The stock options can be used to buy shares over the period from 1 March 2010 to 29 February 2012 at a redemption price of SEK 145.50. The terms and conditions applying to the stock options were established on the basis of the average price of the Swedish Match share on the Stockholm Stock Exchange over the period from 14 February 2007 to 27 February 2007, which was SEK 121.29. The stock options have been valued by Handelsbanken Capital Markets in accordance with the Black-Scholes model. In this model, volatility has been assumed to be 24.5 per cent and the risk-free interest rate 4.21 per cent. In addition, an assumption concerning dividend growth has been used when calculating the value. Account has been taken of the fact that the options' liquidity will be limited. The market value of the options, calculated on the basis of the conditions prevailing at the time at which the terms and conditions applying to the options were established, is deemed by Handelsbanken Capital Markets to be SEK 19.90 per option, corresponding to a total maximum value of SEK 26,179,982.

The stock option programme for 2006 covers 59 senior Company officials. The allocation of options was approved by the Compensation Committee in February 2007.

The Board of Directors proposes

The Board of Directors proposes that the Meeting resolve that the Company shall issue a maximum of 1,315,577 call options to hedge the stock option programme for 2006. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer a maximum of

1,315,577 shares in the Company at a selling price of SEK 145.50 per share in conjunction with a potential exercise of the call options. The number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure, in accordance with “Terms and conditions for call options, 2007/2012”, Appendix 5 A.

The resolution of the Meeting in accordance with the Board’s proposals in item 12 is contingent upon it being supported by shareholders representing at least nine-tenths of both the votes cast and the shares represented at the Meeting.

Dilution etc.

Swedish Match’s share capital breaks down into 280,000,000 shares with a quota value of SEK 1.39 per share. All shares carry one vote each. Via buy-backs, the Company has a holding on 30 March 200 of a total of 14 240 266 of its own shares and the net number of outstanding shares therefore totals 265 759 734 shares. The intention is that the options issued will, when exercised, lead to the acquisition of these repurchased shares. Over the period starting in 2000 and lasting until now, the Company has, in accordance with decisions by the Company’s shareholders’ meetings, bought back shares in the Company with a view, among other things, to covering the allocation of options in the Company’s rolling stock option programme. The Board of Directors proposes in item 10 that the 2007 Annual General Meeting should, with a corresponding purpose in mind, authorise the Board to decide on the acquisition of the Company’s own shares.

If the stock options proposed for issue in connection with item this 12, following a resolution passed at the 2007 Annual General Meeting, are exercised, the net number of shares after repurchases will increase by 1,315,577, or 0.5 per cent calculated on the basis of the net number of outstanding shares.

The stock options issued have a potential dilution effect. Calculated in accordance with the recommendation of the International Financial Reporting Standards (IFRS) concerning earnings per share, the options issued by the Company and still not redeemed on 31 December 2006 had a combined dilution effect on earnings per share of SEK 0.03 per share (from SEK 8.12 to SEK 8.09), which is equivalent to 0.4 per cent.

Appendix 11

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

TERMS AND CONDITIONS FOR CALL OPTIONS 2007/2012 PERTAINING TO PURCHASE OF SHARES IN SWEDISH MATCH AB

§1

DEFINITIONS

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

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

§ 2

ACCOUNT-OPERATING INSTITUTE AND REGISTRATION

The maximum number of Call options is 1,315, 577.

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

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

§ 3

RIGHT TO PURCHASE SHARES

The Holder shall have the right, but not the obligation, to purchase from the Company one share of the Company for each Call option at an exercise price of SEK 145.50 per share. The exercise price and the number of shares that may be purchased with each Call option may be adjusted in the cases described in § 7 below. Only the full number of shares to which the full number of Call options, which are registered via a given account-operating institute and which one and the same Holder wishes to exercise at the same time, carry rights, may be purchased. Such purchase shall exclude the excess portion of a Call option that cannot be exercised.

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

§ 4

PURCHASE OF SHARES

If the Holder wishes to exercise the Call option, the application to purchase shares must be made during the period from March 1, 2010 through February 29, 2012, or at a later final date or prior to an earlier final date for application to purchase that may be established in the cases described in § 7, Subsections C, D, E, L and M below. When such application is made, an application form duly filled out as prescribed shall, for purposes of registrations, be presented to the Bank. As soon as possible following receipt of such application, the Bank will prepare a settlement note between the Company and the Holder pertaining to the purchase of the shares specified in the application. An application to purchase is not possible to make and the Company is not obliged to transfer shares during such period when trading with shares in the Company is prohibited according to § 15 of the Act concerning reporting obligations for certain holdings of financial instruments (or other at each time prevailing legislation).

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

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

§ 5

PAYMENT IN CONNECTION WITH PURCHASE OF SHARES

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

§ 6

POSITION OF CALL OPTION HOLDERS

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

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

§ 7

ADJUSTMENTS, ETC.

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

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

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

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

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

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

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

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

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

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

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

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

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

Maximum number of new shares
that may be issued as specified in the
resolution authorizing the issue x the
(average price of the share - the issue
price of the new shares)

value of subscription right = Number of shares prior to the resolution authorizing new shares

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

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

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

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

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

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

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

Adjusted exercise price = (average share price)

Average share price increased by the calculated theoretical value of the subscription right

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

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

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

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

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

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

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

Adjusted exercise price = (average share price)

Average share price increased by the

calculated theoretical value of the subscription right

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

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

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

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

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

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

F. Should the Company decide on a <u>cash dividend</u> to shareholders whereby they would receive dividends that, combined with other dividends paid during the same fiscal year, exceed three (3) percent of the average price of the share during a period of 25 trading days immediately preceding the day the Board of the Company announces its intention to submit a proposal to the General Meeting for such a dividend, an adjusted exercise price and an adjusted number of shares that may be purchased with a Call option shall be applied. The adjustment shall be based on that portion of total dividends that exceed three (3) percent of the average price of the share during the aforementioned period (Extraordinary dividend).

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

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

Adjusted number of shares that each Call option carries entitlement to purchase	=	Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the extraordinary dividend per share) / Average price of the share

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

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

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

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

Preceding number of shares that each Call option carries entitlement to

Adjusted number of shares each Call option carries entitlement to purchase = purchase x (average price of the share increased by the value of the demerger payment per share) / Average price of the share

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

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

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

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

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

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

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

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

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

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

Adjusted number of shares each Call option carries entitlement to purchase =	Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the repaid amount per share) ――――――――――― Average price of the share

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

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

Estimated repayment	Actual amount to be repaid per purchased share, less average trading price for shares over a period of 25 trading days, effective from the date of the issue decision without entitlement

amount per share =	to reduced value (average share price) total number of shares in the Company used as basis for purchase of one share, less the value of 1

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

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

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

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

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

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

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

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

§8

SPECIAL OBLIGATIONS OF THE COMPANY

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

§9

REPURCHASE

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

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

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

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

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

§ 10

TRUSTEES

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

§ 11

LIMITS OF LIABILITY OF THE BANK AND VPC

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

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

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

§ 12

NOTICES

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

§ 13

CONFIDENTIALITY

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

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

§ 14

CHANGES IN TERMS AND CONDITIONS

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

§ 15

APPLICABLE LAW

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

The Nominating Committee's proposal under <u>item 15</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Nominating Committee proposes that the fees to the Board of Directors, for the period until the close of the next Annual General Meeting, be paid according to the following.

The Chairman shall receive MSEK 1.5 and the other Board Members elected by the Meeting shall each receive SEK 600,000. It is furthermore proposed that the Board, as compensation for committee work carried out, be allocated SEK 210,000 to the Chairmen of the Compensation Committee and the Audit Committee respectively and SEK 110,000 respectively to the other members of these committees, however in total no more than SEK 875,000. It is proposed that Members of the Board employed by the Swedish Match Group shall not receive any remuneration.

The Nominating Committee has also issued the following statement of principle:

The Nominating Committee is of the opinion that the Members of the Board should own shares in the Company. The Nominating Committee accordingly wishes that the Board of Directors establishes principles governing the Board Members' ownership of shares in the Company. The following should serve as guidelines for these principles:

- all Members of the Board (including the Chairman) shall acquire shares in the Company for a sum corresponding to the remuneration received, after deductions for income tax, (excluding remuneration for committee work);

- the Members of the Board shall retain these shares for a period of 12 months after the acquisition and shall be permitted to sell a maximum of one half of the shares acquired during the period of 13 to 24 months following the acquisition.

All Members of the Board have notified the Nominating Committee of their acceptance of the Nominating Committee's wishes with regard to share acquisition as specified above.

The Nominating Committee's proposal under item 16 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Nominating Committee proposes election of the Board of Directors according to the following:

Re-election of:	Andrew Cripps Sven Hindrikes Arne Jurbrandt Conny Karlsson Kersti Strandqvist Meg Tiveus
Election of:	Charles A. Blixt John P. Bridendall

The Nominating Committee further proposes that Conny Karlsson is elected as Chariman of the Board of Directors.

Presentation of proposed Board Members

Conny Karlsson
Born 1955, Master of economics and business administration.
Proposed Chairman of the Board. Board member since 2006. Member of the Compensation Committee.
Other Board assignments: Board Chairman of Lindex AB and Zodiak television AB, Board member of Carl Lamm AB and Telia Sonera AB.
Previous positions: Marketing Director, Procter&Gamble E&SO; Marketing Director and Regional Director, Procter&Gamble Scandinavia; Marketing Director, Procter&Gamble UK; President, Duni AB.

Sven Hindrikes
Born 1950. MBA. Board member since 2005.
President and Chief Executive Officer of Swedish Match AB since 2004. Joined Swedish Match in 1998. Member of Group management since 1998. Sven Hindrikes is employed by the Company and is thus not considered an independent Board member.
Previous positions: formerly employed by ABB in Mexico and Vice President of ABB Canada; Vice President of Linjebuss AB.

Andrew Cripps
Born 1957, BA, University of Cambridge.
Board member since 2006. Member of the Audit Committee.
Other Board Assignments: Non-executive director and Chairman of the Remuneration Committee and member of the Audit and Nominating Committees of Trifast Plc. Chairman of The Board of Trustees of Oxford House in Bethnal Green Inc.
Previous positions: Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA; Director, Carreras Group Ltd; Director of Corporate Finance, Rothmans International. Various senior positions with British American Tobacco. Chartered Accountant and member of the Institute of Chartered Accountants of England and Wales.

Arne Jurbrant
Born 1942, MBA. Board member since 2002.

Member of the Compensation Committee.
Other Board assignments: Member of the IFL/MTC Foundation.
Previous positions: President´s assistant, Pripps Bryggerier; Product Manager, Pripps Bryggerier; Marketing Manager, General Foods; Sales Manager, General Foods; President, General Foods Denmark; President, General Foods Sweden/Denmark; CEO, Kraft Foods Nordic Region.

Kersti Strandqvist
Born 1964. B.Sc., MBA.
Board member since 2005. Member of the Audit Committee. Business Area Manager for Feminine Care within SCA Personal Care.
Previous positions: Neste Chemicals (Sweden, Finland, Belgium), Elf Atochem (France); Director of R&D for Incontinence Care, SCA Hygiene Products; Business Area Manager for Baby Care within SCA Personal Care.

Meg Tivéus
Born 1943. MBA. Board member since 1999. Chairman of the Audit *Committee.*
Other Board assignments: Chairman of Boss Media. Board member of Cloetta Fazer AB, Billerud AB, Danderyds Sjukhus AB, Nordea Fonder AB and Synerco AB. Prior Board assignments for Statens Provningsanstalt AB, Operan AB, Postgirot AB, Kommentus AB, SNS, SJ and Framfab.
Previous positions: Project Manager at McCann Ericsson Advertising; Product Manager at Modo AB; Division Manager at Åhléns AB; Division Manager at Holmen AB; Vice President of Posten AB; President of Svenska Spel AB.

Charles A. Blixt
Born 1951. J.D. and B.A.
Interim General Counsel at Krispy Kreme Doughnuts.
Other Board assignments: Corporate board memberships Targacept Inc. (NASDAQ: TRGT) and Krispy Kreme Doughnuts, Inc. (NYSE: KKD). Also Board member of Salem Academy and College Board of Trustees.
Previous positions: Head of Department and Chief legal officer RJ Reynolds Tobacco Holdings; Executive Vice President and General Counsel Reynolds American Inc.

John P. Bridendall
Born 1950. MBA and B.S.
Private investor, Financial Advisor to Jess S. Jackson, Founder, Chairman and CEO, Jackson Family Wines.
Previous positions: Senior Vice President and Chief Financial Officer, Jack Daniell Distillery Lem Motlow, Prop. Inc.; Director Corporate Development and Investor Relations, Brown-Forman Corporation; Executive Vice President, Finance and Administration, Jackson Enterprises, Jackson Wine Estates International, Jackson Family Wines and Kendall-Jackson Wine Estates; President, Jackson Enterprises, Consulting & Business Development.

Additionally, the shareholders are informed that the employees’ associations have, through special elections, appointed:

As members of the Board:	As deputy members of the Board:
Kenneth Ek, PTK	Eeva Kazemi-Vala, PTK
Eva Larsson, LO	Håkan Johansson, LO
Joakim Lindström, LO	Gert-Inge Rang, PTK

The Nominating Committee's proposal under item 17 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Nominating Committee proposes that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2008 Annual General Meeting. The four largest shareholders are identified on the basis of the known numbers of votes immediately prior to publication.

No remuneration shall be payable to the members of the Nominating Committee. Any expenses incurred in the course of the Nominating Committee's work shall be borne by the Company.

INSTRUCTIONS FOR SWEDISH MATCH AB'S NOMINATING COMMITTEE ADOPTED AT THE ANNUAL GENERAL MEETING HELD ON 23 APRIL 2007

1. DUTIES

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

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

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

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

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

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

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

2. MEMBERS AND CHAIRMAN

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

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

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

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

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

3. **MEETINGS**

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

The Nominating Committee is quorate if not less than three members are present. The decision of the Nominating Committee shall be the opinion that is supported by more than half of the members of the Nominating Committee.

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

4. **AMENDMENTS TO THESE INSTRUCTIONS**

The Nominating Committee shall evaluate these instructions, and the work of the Nominating Committee, on an ongoing basis, and shall submit to the General Meeting proposals regarding any changes to these instructions that the Nominating Committee has deemed appropriate.

The Board of Directors' proposal under item 19 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

Background to the proposal

The proposal means that the possibility according to the Swedish Companies Act to implement a provision in the Articles of Association regarding a right for non-shareholders to attend or in some other manner monitor the proceedings of the General Meetings of Shareholders without any special resolution being needed, is used. It is however reserved a right for the Board of Directors to decide on special conditions that such non-shareholders must fulfil, e.g. requirement for notice of attendance.

The Board proposes

The Board proposes that the Articles of Association is amended to that a new section 11 is inserted with the wording wet out below:

> § 11
>
> Persons who are not shareholders of the company shall, in accordance with terms stipulated by the Board of Directors, be entitled to attend or in some other manner monitor the proceedings of the General Meetings of Shareholders.

It is further proposed that the items currently numbered §§ 11, 12 and 13 in the Articles of Association shall be renumbered §§ 12, 13 and 14 after the adoption of the proposed amendment.

After the adoption of the above proposed amendments, the Articles of Association will have the wording set out in appendix 10 A.

The Board further proposes that the Company's President is authorised to make minor adjustments of an editorial nature to the resolution of the shareholders' meeting that may prove necessary in connection with the registration of such a resolution with the Swedish Companies Registration Office (Bolagsverket).

The resolution of the General Meeting in accordance with the Board's proposal under item 19 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Swedish Match AB (publ)
Company ID 556015-0756

ARTICLES OF ASSOCIATION

§ 1

The Company's trading name is Swedish Match AB.
The Company is a public limited company (publ).

§ 2

The registered office of the Company is in Stockholm.

§ 3

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

§ 4

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

§ 5

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

§ 6

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

§ 7

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

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

§ 8

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

§ 9

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

§ 10

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

§ 11

Persons who are not shareholders of the company shall, in accordance with terms stipulated by the Board of Directors, be entitled to attend or in some other manner monitor the proceedings of the General Meetings of Shareholders.

§ 12

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

§ 13

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

§ 14

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

These Articles of Association were adopted at the Annual General Meeting held on 23 April 2007.

The Board of Directors' proposal under item 20 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 23 April 2007

The Board of Directors proposes that the Meeting should authorise the Board of Directors to decide, on one or more occasions prior to the next Annual General Meeting, to raise participating loans in the event that the Company, in conjunction with any loan-based financing of the ongoing commercial activities, should deem this loan type to be most advantageous for the Company in the instance in question.

The background to the proposed authorisation is that the Board is of the opinion that the Company should have the opportunity to utilise this form of loan in any loan-based financing of the ongoing commercial activities, should this loan type be deemed the most appropriate for the Company in the instance in question. Under the regulations of the new Swedish Companies Act, resolutions concerning loan-based financing where the interest rate is wholly or partially dependent on the dividends to the shareholders, the price trend for the Company's shares, the Company's profits or the Company's financial position must be passed by the General Meeting of Shareholders or by the Board of Directors with the support of authorisation from the General Meeting. To afford the Company the maximum possible flexibility in its efforts to optimise the terms and conditions in conjunction with loan financing, the Board of Directors is thus of the opinion that the Meeting should authorise the Board to make decisions concerning participating loans when and as necessary.