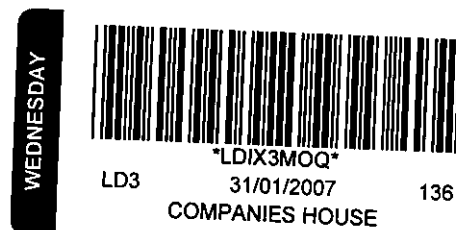


SWEDISH MATCH UK LIMITED

DIRECTORS' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2005



Company No: 873671

SWEDISH MATCH UK LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS
for the year ended 31 December 2005

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SWEDISH MATCH UK LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS (continued)
for the year ended 31 December 2005

The board of directors

SD Duggan-Hill	(resigned 01/09/05)
MJ Gray	(resigned 30/11/05)
SM Jackman	(resigned 12/05/06)
GD Jones	(resigned 30/09/06)
JJ Catania	(appointed 14/07/05)
G Kamphuis	(appointed 01/10/06)

Company secretary

SM Jackman	(resigned 12/05/06)
GM Long	(appointed 12/05/06)

Registered office

Sword House
Totteridge Road
High Wycombe
Buckinghamshire
HP13 6EJ

Auditors

KPMG LLP
Aquis Court
31 Fishpool Street
St Albans
AL3 4RF

The directors present their annual report and audited financial statements for the year ended 31 December 2005.

Principal activities

During the year the principal activities of the UK business of the company continued to be the distribution of matches, fire related products, lighters, certain tobacco products and other smokers' requisites and of advertising products (consisting of advertising matches, lighters and various other articles).

SWEDISH MATCH UK LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS (continued)
for the year ended 31 December 2005

Review of business and future developments

During the third quarter of 2005 the company undertook a business review. This review covered all areas of the business and the key outcome of this review was the closure of the Advertising Products business which sold a range of advertising products such as matches, lighters, watches and similar products.

The directors do not foresee any significant change in the business of the company during the subsequent financial year.

Results and dividends

During the year under review the business performed in accordance with expectations. The accounts for the year ended 31 December 2005 show a loss of £362,000 (2004: loss of £852,000). No dividend will be paid for the year (2004: £nil).

Directors and their interests

The directors who held office during the year were as follows:

SD Duggan	Resigned 01/09/05
MJ Gray	Resigned 30/11/05
SM Jackman	Resigned 12/05/06
GD Jones	Resigned 30/09/06
JJ Catania	Appointed 14/07/05
G Kamphuis	Appointed 01/10/06

None of the directors who held office at the end of the financial year had any disclosable interest in shares of the company.

According to the register of director' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	Number of options Granted	Number of options exercised
GD Jones	34,407	Nil

Political and charitable donations

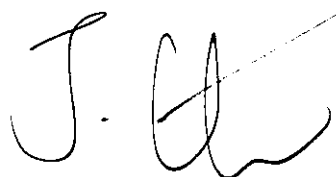
The company made no political contributions during the year. Donations to UK charities amounted to £687 (2004: £1,000).

SWEDISH MATCH UK LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS (continued)
for the year ended 31 December 2005

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'J. Catania', with a long horizontal stroke extending to the right.

JOHN CATANIA
Director

Date: 30/1/2007

SWEDISH MATCH UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2005

Statement of Directors' Responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year, under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

SWEDISH MATCH UK LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SWEDISH MATCH UK LIMITED

for the year ended 31 December 2005

We have audited the financial statements of Swedish Match UK Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes on pages 7 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs at 31 December 2005 and of its loss for the year then ended
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants and Registered Auditor
Aquis Court
31 Fishpool Street
St Albans
AL3 4RF

Date: 31 January 2007

SWEDISH MATCH UK LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2005

	<u>NOTE</u>	<u>2005</u>	<u>2004</u> (as restated) £'000
Turnover	2	21,997	21,737
Cost of Sales		(14,821)	(14,165)
Gross Profit		<u>7,176</u>	<u>7,572</u>
Distribution Costs		(6,078)	(6,824)
Administrative Expenses		(1,745)	(1,580)
Operating Loss		<u>(647)</u>	<u>(832)</u>
Interest Receivable and Similar Income	5	333	330
Other Finance Costs	6	(428)	(457)
Loss on Ordinary Activities before Taxation	3	<u>(742)</u>	<u>(959)</u>
Taxation on Loss on Ordinary Activities	7	380	107
Loss for the Year	15	<u>(362)</u>	<u>(852)</u>

All items above relate to continuing operations.

There is no material difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

SWEDISH MATCH UK LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND
LOSSES
for the year ended 31 December 2005

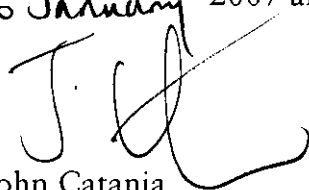
	<u>NOTE</u>	<u>2005</u>	<u>2004</u> (as restated)
		£'000	£'000
Loss for the Year		(362)	(852)
Total pension scheme actuarial gain/(loss)	18	1,055	(760)
Deferred taxation on total pension scheme actuarial gain/(loss)	13	(317)	228
Total recognised gains/(losses) relating to the year		<u>376</u>	<u>(1,384)</u>
Prior year adjustment <i>(relating to the full implementation of FRS17)</i>	15	(6,568)	
Total losses recognised since last annual report		<u>(6,192)</u>	

SWEDISH MATCH UK LIMITED

BALANCE SHEET as at 31 December 2005

	<u>NOTE</u>	<u>2005</u>	<u>2004</u> (as restated)
		£'000	£'000
FIXED ASSETS			
Tangible assets	8	594	300
Investments	9	121	121
		<u>715</u>	<u>421</u>
CURRENT ASSETS			
Stocks	10	1,489	2,210
Debtors	11	13,331	13,232
Cash at bank and in hand		1,029	1,724
		<u>15,849</u>	<u>17,166</u>
Creditors – amounts falling due within one year	12	<u>(5,221)</u>	<u>(5,979)</u>
Net current assets		<u>10,628</u>	<u>11,187</u>
Net assets excluding pension liability		<u>11,343</u>	<u>11,608</u>
Pension liability	18	<u>(8,480)</u>	<u>(9,121)</u>
Net assets including pension liability		<u>2,863</u>	<u>2,487</u>
CAPITAL AND RESERVES			
Called up share capital	14	1	1
Share premium account	15	3,691	3,691
Capital redemption reserve	15	1,142	1,142
Profit and loss account	15	<u>(1,971)</u>	<u>(2,347)</u>
Shareholders' funds	16	<u>2,863</u>	<u>2,487</u>

The financial statements on pages 7 to 24 were approved by the Board of Directors on 30 January 2007 and were signed on its behalf by:


John Catania
Director

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments; presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The recognition and measurement requirements of FRS 17 'Retirement benefit' have also been adopted, previously the transitional disclosures of that standard have been followed.

The accounting policies under these new standards are set out below. Details of the effect of the full adoption of FRS 17 and the effect upon the corresponding amounts for the year ended 31 December 2004 are set out in note 15 to the accounts. FRS 28 'Corresponding amounts' has no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. FRS 21 and FRS 25 have also had no material effect.

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention in accordance with Companies Act 1985 and applicable accounting standards in the United Kingdom.

The directors have taken advantage of the provisions of Section 228(1) of the Companies Act 1985 not to prepare consolidated financial statements as the Company and its subsidiaries are included, by full consolidation, in the consolidated financial statements of Swedish Match AB, a company incorporated in Sweden whose accounts are publicly available and can be obtained from the address given in note 21.

During the year the company was a wholly owned subsidiary of Swedish Match AB, incorporated in Sweden and is included in the consolidated accounts of that company, which are publicly available. Accordingly the company is exempt from publishing a cash flow statement under the terms of FRS 1 'Cash flow statements'.

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

Turnover

Turnover comprises amounts invoiced to customers and fellow subsidiaries less returns and trade discounts, volume rebates and value added tax. Turnover is recognised in the accounts when goods are dispatched.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet or at the agreed contractual rate. Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

Fixed assets and depreciation

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is provided on a straight-line basis on all fixed assets. The charge in the profit and loss account is calculated to write off the cost or valuation of fixed assets over their expected useful economic lives.

The useful economic lives assumed for the principal categories are:

Plant and machinery	3 - 10 years
Motor vehicles	3 - 5 years

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred Tax'.

Finished goods

Finished Goods are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and, in respect of work-in-progress and finished stocks, includes an appropriate proportion of overhead costs. Where necessary, provision is made for obsolete, slow moving and defective stocks on a systematic basis.

Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) **as at 31 December 2005**

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond equivalent term and currency to the liability.

The pension scheme deficit is recognised in full. The movement in the scheme deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Related party transactions

During the year the company was a wholly owned subsidiary of Swedish Match AB, a company incorporated in Sweden whose accounts are publicly available. Accordingly the company is exempt under the terms of FRS 8 'Related party transactions' from publishing details of related party transactions which have taken place with other group companies.

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

2. SEGMENTAL REPORTING

<u>Class of business</u>	Turnover	
	<u>2005</u> £'000	<u>2004</u> £'000
Smokers Requisites and Associated Products	21,997	21,737

Turnover is primarily derived from UK sales.

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	<u>2005</u> £'000	<u>2004</u> £'000
Depreciation charge for year - owned assets	131	186
Auditors' remuneration:		
- Audit services	19	23
Operating lease rentals in respect of:		
- plant and machinery	186	147
- other	313	300
Exchange loss	30	37

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

4. DIRECTORS AND EMPLOYEES

- a. The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	<u>2005</u>	<u>2004</u>
Distribution	39	38
Administration	15	15
	<u>54</u>	<u>53</u>

- b. The aggregate payroll costs of these persons were as follows:

	<u>2005</u>	<u>2004</u>
		(as restated)
	£'000	£'000
Wages and salaries	1,936	2,283
Social security costs	209	249
Pension costs (note 18)	261	243
	<u>2,406</u>	<u>2,775</u>

- c. Remuneration of directors

	<u>2005</u>	<u>2004</u>
	£'000	£'000
Directors emoluments	447	669
Compensation for loss of office	126	-
	<u>573</u>	<u>669</u>

The company has 3 directors (2004: 4) accruing benefits under the defined benefits pension scheme in respect of qualifying services.

- d. Highest paid director

	<u>2005</u>	<u>2004</u>
	£'000	£'000
Directors' emoluments for services to the Company	194	247
Defined benefit pension scheme accrued pension at the end of current year	123	112

The highest paid director has exercised share options in respect of the parent company during the year. The details of these options can be found in the accounts of the parent company available from the address in note 21.

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

5.	INTEREST RECEIVABLE AND SIMILAR INCOME		
		<u>2005</u>	<u>2004</u>
		£'000	£'000
	Interest receivable from group undertakings	307	284
	Interest receivable from third parties	26	46
		<u>333</u>	<u>330</u>
6.	OTHER FINANCE COSTS		
		<u>2005</u>	<u>2004</u>
		£'000	£'000
			(as restated)
	Expected return on pension scheme assets	2,503	2,399
	Interest on pension scheme liabilities	(2,931)	(2,856)
		<u>(428)</u>	<u>(457)</u>
7.	TAXATION ON LOSS ON ORDINARY ACTIVITIES		
		<u>2005</u>	<u>2004</u>
			(as restated)
		£'000	£'000
a.	Current tax charge		
	UK corporation tax at 30% (2004: 30%)	-	(48)
	Prior year adjustments	32	-
	Total current tax charge/(credit)	32	(48)
	Deferred tax – other (note 13)	(369)	-
	Deferred tax – pension scheme liability (note 13)	(43)	(59)
	Tax on loss on ordinary activities	<u>(380)</u>	<u>(107)</u>

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

b. Factors affecting the tax charge for the year

The current tax credit for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<u>2005</u> £'000	<u>2004</u> £'000 (as restated)
Loss on ordinary activities before tax	(742)	(959)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	(223)	(288)
Effects of:		
Expenses not deductible for tax purposes	37	75
Profit & loss pension charge in excess of contributions paid	42	-
Depreciation for year in excess of/less than capital allowances	(24)	13
Current year trading losses not utilised	168	152
Adjustments to charge in respect of previous periods	32	-
Total current tax charge/(credit) for the year (see above)	<u>32</u>	<u>(48)</u>

8. TANGIBLE FIXED ASSETS

	Plant, Machinery and Motor Vehicles £'000
Cost	
At 1 January 2005	1,613
Additions	425
At 31 December 2005	<u>2,038</u>
Depreciation	
At 1 January 2005	1,313
Charge for the year	131
At 31 December 2005	<u>1,444</u>
Net Book Value	
At 31 December 2005	<u>594</u>
At 31 December 2004	<u>300</u>

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

9. INVESTMENTS

As at 31 December 2005 the Company owned the beneficial interest in the entire issued share capital of eight non-trading companies incorporated in the United Kingdom as follows:

	Cost and NBV £'000
Promotional Clothing Direct Limited	-
Bryant & May Limited	-
Swedish Match UK Pension Trustee Limited	-
Cheapside Trust Limited	1
John Solomon Inc Limited	120
Swan Vesta Limited	-
Swedish Match UK Sales Limited	-
The Union Match Company Limited	-
At 31 December 2005	<u>121</u>

10. STOCKS	<u>2005</u> £'000	<u>2004</u> £'000
Finished goods held for resale	<u>1,489</u>	<u>2,210</u>
11. DEBTORS:	<u>2005</u> £'000	<u>2004</u> £'000
Trade debtors	3,506	4,146
Amounts owed by group undertakings	8,195	7,840
Corporation tax recoverable	563	527
Deferred tax asset (note 13)	369	-
Other debtors	527	513
Prepayments and accrued income	<u>171</u>	<u>206</u>
	<u>13,331</u>	<u>13,232</u>
12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<u>2005</u> £'000	<u>2004</u> £'000
Trade creditors	1,406	2,129
Amounts owed to group undertakings	1,043	1,124
Other creditors	1,309	1,417
Taxation and social security	273	232
Accrued expenses	<u>1,190</u>	<u>1,077</u>
	<u>5,221</u>	<u>5,979</u>

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

13. DEFERRED TAXATION	2005 £'000	2004 £'000 (as restated)
Provided deferred tax asset (pensions):		
Deferred tax excluding that relating to pension liability	-	-
Pension liability	3,635	3,909
Total deferred tax asset provided	<u>3,635</u>	<u>3,909</u>
Balance brought forward as previously reported	-	-
Prior year adjustment	3,909	-
Balance brought forward as restated	<u>3,909</u>	-
Deferred tax movement in profit and loss account for the year (note 7)	43	-
Deferred tax charged to the statement of total recognised gains and losses	(317)	-
Balance carried forward	<u>3,635</u>	-
Provided deferred tax asset (other):		
	2005 £'000	2004 £'000
Timing differences in respect of accelerated capital allowances	27	-
Other short term timing differences	342	-
	<u>369</u>	<u>-</u>

The deferred tax asset in 2005 in relation to timing differences has been recognised due to the company anticipating to be profitable for the foreseeable future (previously unprovided).

Un-provided deferred tax asset:		
Un-provided deferred tax asset comprises the following:	2005 £'000	2004 £'000 (as restated)
Timing differences in respect of accelerated capital allowances	-	66
Other short term timing differences	-	174
Capital losses	1,940	1,940
	<u>1,940</u>	<u>2,180</u>

The deferred tax asset in respect of capital losses has not been recognised because it may only be relieved against future chargeable gains. The directors consider that it will take some time for the tax losses to be relieved and, under these circumstances, do not consider it appropriate to recognise the deferred tax asset.

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

		Authorised, Allotted, Called Up and Fully Paid	
14.	CALLED UP SHARE CAPITAL	<u>2005</u>	<u>2004</u>
		£	£
	1,200 Ordinary shares @ £1 each	1,200	1,200
	Shares' classified in shareholders' funds	<u>1,200</u>	<u>1,200</u>

15. SHARE PREMIUM ACCOUNT AND RESERVES

	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000
At 1 January 2005 – as previously stated	3,691	1,142	4,221
Prior year adjustments	-	-	(6,568)
At 1 January 2005 – as restated	3,691	1,142	(2,347)
Loss for the financial year	-	-	(362)
Pension scheme actuarial gain, net of deferred taxation	-	-	738
At 31 December 2005	<u>3,691</u>	<u>1,142</u>	<u>(1,971)</u>

Prior Year Adjustments

As disclosed in note 1 to the accounts the recognition and measurement requirements of FRS 17 'Retirement benefit' in relation to the company's defined benefit pension scheme have been adopted for the first time and in accordance with the requirements of FRS 28 'Corresponding amounts', the comparative results for the year ended 31 December 2004 have been restated so as to be reported on a consistent basis.

The effect of the restatement is to decrease the retained loss on ordinary activities for the year ended 31 December 2004 by £438,000, but to increase total recognised losses for that year by £94,000. The opening balance of retained profits for the year ended 31 December 2004 has been decreased by £6,474,000 to reflect the effects of the restatement on prior years.

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £'000	2004 £'000
Opening shareholders' funds:		
As previously stated	9,055	10,345
Prior year adjustments	(6,568)	(6,474)
As restated	2,487	3,871
Loss for the financial year	(362)	(852)
Pension scheme actuarial gain/(loss), net of deferred taxation	738	(532)
Closing shareholders' funds	2,863	2,487

17. CONTINGENT LIABILITIES

The bank has issued a VAT bond in favour of HM Customs and Excise, which amounted to £400,000 (2004: £400,000) with full recourse to the Company.

18. PENSION OBLIGATIONS

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £29,000 (2004: £7,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Funded defined benefit scheme

The Company also operates a funded defined benefit scheme for its employees. The assets of the scheme are held in a separate trustee-administered fund. The Scheme was closed to new members from 1 September 2002. Actuarial valuations for the scheme are undertaken every three years by a qualified actuary.

The latest actuarial valuation of the scheme was carried out as at 6 April 2005. The most significant actuarial assumptions used in that valuation were that future investment returns would be 7.4% per annum pre retirement and 4.8% per annum post retirement. That salaries would increase at 4.6% per annum and that pensions in payment would increase at 5% per annum for services accrued before 1 September 2002 and at 2.6% per annum for service accrued thereafter.

As at the date of the latest actuarial valuation the market value of the assets of the scheme was £43,949,000 with a funding level of 79% of the value of the liabilities in respect of benefits accrued to the valuation date. Since 6 April 2005, Company contributions have been paid at the rate of 14.0% of Pensionable Earnings up to

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

31 March 2006 and 20.4% of Pensionable Earnings thereafter together with expenses and life assurance premiums. The Company has also agreed to pay special additional contributions of £375,000 per annum on each 1 April, at least until the results of the next actuarial valuation are available. The annual pension cost of the scheme is assessed in accordance with the advice of an independent, professionally qualified actuary and is calculated using the projected unit method of valuation.

The Company contribution made to the fund for the year amounted to £520,000 (2004: £496,000).

The valuation was updated by the actuary on an FRS17 basis as at the 31 December 2005. Previous figures, as at 31 December 2004 and 31 December 2003, were derived by updating the results of the previous valuation as at 6 April 2002.

The main financial assumptions used by the actuary in this valuation are as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Discount rate for assessing plan liabilities	4.80%	5.30%	5.50%
Rate of increase in salaries	4.60%	4.50%	4.40%
Rate of increase for pensions in payment			
- Pre 88 GMPs	0.00%	0.00%	0.00%
- Post 88 GMPs	2.00%	2.00%	2.00%
- Pre 02 excess	5.00%	5.00%	5.00%
- Post 02 benefits	2.70%	2.60%	2.60%
Inflation rate assumptions	3.10%	3.00%	2.90%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

	<u>Value at</u> <u>31/12/05</u> <u>£'000</u>	<u>Expected</u> <u>Long-</u> <u>Term</u> <u>Rate of</u> <u>Return at</u> <u>31/12/05</u> <u>£'000</u>	<u>Value at</u> <u>31/12/04</u> <u>£'000</u>	<u>Expected</u> <u>Long-</u> <u>Term</u> <u>Rate of</u> <u>Return at</u> <u>31/12/04</u> <u>£'000</u>	<u>Value at</u> <u>31/12/03</u> <u>£'000</u>	<u>Expected</u> <u>Long-Term</u> <u>Rate of</u> <u>Return at</u> <u>31/12/03</u> <u>£'000</u>
Equities	15,510	7.4%	13,960	7.7%	13,259	7.8%
Bonds	32,400	4.5%	28,670	5.0%	26,740	5.2%
Other	728	4.5%	621	4.8%	491	3.8%
Total	48,638	5.4%	43,251	5.9%	40,490	6.0%

The following amounts at 31 December 2005 were measured in accordance with the requirements of FRS 17:

	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Total market value of assets	48,638	43,251	40,490
Present value of plan liabilities	(60,753)	(56,281)	(52,563)
Deficit in the plan	(12,115)	(13,030)	(12,073)
Related deferred tax asset	3,635	3,909	3,622
Net pension liability	(8,480)	(9,121)	(8,451)

Movement in deficit during the year

	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Deficit in scheme at beginning of the year	(13,030)	(12,073)	(11,690)
<i>Movement in year:</i>			
Current service cost	(232)	(236)	(266)
Contributions	520	496	272
Other finance cost	(428)	(457)	(455)
Actuarial gain/(loss)	1,055	(760)	66
Deficit in scheme at end of the year	(12,115)	(13,030)	(12,073)

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

Analysis of amounts charged to the profit and loss account:

Analysis of other pension costs charged in arriving at operating loss	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Current service cost	(232)	(236)	(266)
Total operating charge	(232)	(236)	(266)

Analysis of amounts charged as other finance costs	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Expected return on pension scheme assets	2,503	2,399	2,252
Interest on pension scheme liabilities	(2,931)	(2,856)	(2,707)
Net finance charge	(428)	(457)	(455)

Total charge to the profit and loss account	(660)	(693)	(721)
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Analysis of amount recognised in statement of total recognised gains and losses

Details of experience gains and losses	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Difference between the expected and actual return on scheme			
Amount (£)	4,551	1,387	1,194
Percentage of scheme assets	9.0%	4.0%	3.0%
Experience gains and losses on scheme liabilities			
Amount (£)	2,586	-	(45)
Percentage of the present value of the scheme liabilities	4.0%	0.0%	0.0%
Changes in assumptions underlying the present value of the scheme liabilities			
Amount (£)	(6,082)	(2,147)	(1,083)

SWEDISH MATCH UK LIMITED

NOTES TO THE ACCOUNTS (continued) as at 31 December 2005

Details of experience gains and losses (continued)	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Percentage of the present value of the scheme liabilities	(4.0%)	(4.0%)	(2.0%)
Total actuarial gain/(loss) recognised in statement of total recognised gains and losses			
Amount (£)	1,055	(760)	66
Percentage of the present value of the scheme liabilities	2.0%	(1.0%)	0.0%

19. SUBSEQUENT EVENTS

Since the balance sheet date the members of the defined benefit pension scheme have agreed to changes in the levels of pension benefits that they will receive. It is anticipated that these changes will result in a substantial reduction in the scheme deficit during the year ended 31 December 2006.

20. FINANCIAL COMMITMENTS

- a. The company had no unprovided capital commitments during the year (2004: £Nil)
b. At 31 December 2005 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land & Buildings		Other Operating Leases		Total	
	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>
Operating Leases which expire:						
Within one year	-	-	19	126	19	126
Two to five years	-	-	96	66	96	66
More than five years	313	300	-	-	313	300
	<u>313</u>	<u>300</u>	<u>115</u>	<u>192</u>	<u>428</u>	<u>492</u>

21. ULTIMATE PARENT UNDERTAKING

For the year ended 31 December 2005 Swedish Match AB, incorporated in Sweden, was the parent undertaking of the smallest and largest group of which the Company was a member, which prepared group accounts. Copies of the consolidated accounts of Swedish Match AB are available at SE-118, 85 Stockholm, Sweden.

The directors consider that the Company's ultimate parent undertaking and controlling party is Swedish Match AB, incorporated in Sweden.