

★★★  
SWEDISH MATCH

# Annual Report

2008

Sales

**up 5%**

*Snuff and snus:*

**16%**

**Sales increase**

*Red Man moist snuff*

**Successful launch**

Now in 65,000 American stores



## The content



CEO comment p. 04



Snuff and snus p. 10

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## Some news



### *Star Formation* – cutting-edge technology

Swedish Match is dedicated to consumer-driven product development and innovative technology. The star formation design, utilizing a cutting-edge technology from Swedish Match, is a unique product feature now becoming more widely available on the Scandinavian market.

The attractive star formation design is rapidly gaining popularity among snus users. This product presentation uses unparalleled technology which has been developed at the Kungälv facility in Gothenburg, Sweden – a truly state-of-the-art unit that specializes in portion-packed products. The snus offered in a star formation is available in white and black portions. ■



### Fresh cigars with FoilFresh®

FoilFresh® is a new packaging solution that keeps cigars fresh even longer. Swedish Match developed the new foil packaging and has been using it since the beginning of 2008 in the US market for the popular machine-made Game cigars, under the Garcia y Vega brand as well as for White Owl. ■



## Innovative brands – a platform for the future

Active, consumer-driven brand and product development is the driving force for organic growth at Swedish Match.

The brand work is based on long-term, consistent strategies developed with the consumer as its primary focus. To further stimulate growth, Swedish Match is actively working with product innovation for both existing market-leading brands and new offerings.

Swedish Match is the proud owner of spearhead production technology, a variety of creative packaging solutions, modern product formats and appealing flavors – all of which provide our brands with vigor and dynamism. We are also proud of the great

creativity in our sales and marketing teams to find efficient solutions to customer needs. During the year, a wide variety of products and product varieties were launched, primarily for cigars and smokeless products for the US and Europe. With market-leading brands and an innovative approach to change, the Company is well positioned for the future.

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information available on the Corporate website.



## Punch Gran Puro Sesenta

A new variety of the hand-rolled cigar, Punch, has been launched, Punch Gran Puro Sesenta.

This is the seventh format in the popular cigar series, which is manufactured in Honduras. Punch Gran Puro is a top-selling, all-Honduran cigar favored by premium cigar smokers for its uniquely rich and complex taste. In response to consumer trends indicating a preference for cigars in larger ring gauges, we developed Sesenta, the largest Punch Gran Puro cigar released to date. ■

## The numbers

SALES

**13,162** MSEK

OPERATING PROFIT

**3,090** MSEK

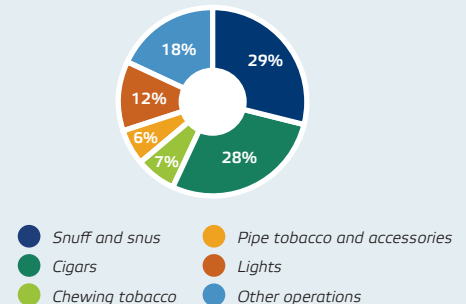
KEY DATA, MSEK

	2008	2007	2006
Sales	13,162	12,551	12,911
EBITDA excluding larger one time items	3,465	3,166	3,583
Operating profit	3,090	2,997	3,285
Operating margin <sup>1)</sup> , %	22.9	21.8	24.3
Profit for the year	2,261	2,056	2,335
Earnings per share, SEK	8.98	7.82	8.13
Dividend per share, SEK	4.10 <sup>2)</sup>	3.50	2.50

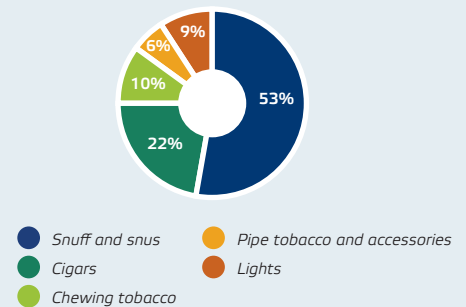
<sup>1)</sup> Excluding larger one time items.

<sup>2)</sup> Board proposal.

SALES BY PRODUCT AREA



OPERATING PROFIT BY PRODUCT AREA<sup>1)</sup>



<sup>1)</sup> Excluding Other operations.



# This is Swedish Match



OPERATING PROFIT  
**1,689** MSEK

## Snuff and snus

**Main brands:** *General, Ettan, Catch, Göteborgs Rapé, Grovsnus, Timber Wolf, Red Man, Longhorn, Taxi*

Swedish Match maintains a leading position in the Scandinavian snus market in all segments. In North America, the Company is one of the major players in the growing value-priced snuff segment. In South Africa, Swedish Match is the second largest player.

**Main markets:** Sweden, Norway, the US, South Africa

**Production units:** Sweden, the US, South Africa

	2008	2007
Sales, MSEK	3,829	3,289
Operating profit, MSEK	1,689	1,366
Operating margin, %	44	42



## Chewing tobacco

**Main brands:** *Red Man, Southern Pride, Granger Select*

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

**Main markets:** the US

**Production units:** the US

	2008	2007
Sales, MSEK	934	956
Operating profit, MSEK	329	312
Operating margin, %	35	33



OPERATING PROFIT

**689** MSEK

## Cigars

**Main brands:** *La Paz, Willem II, Hajenius, Oud Kampen, White Owl, Garcia y Vega, Macanudo, Partagas (US), Punch (US)*

Swedish Match is one of the world's largest producers and distributors of cigars and cigarillos. Swedish Match maintains a leading position in the US market for premium cigars.

**Main markets:** the US, France, Spain, Benelux, Germany, Australia

**Production units:** the US, the Dominican Republic, Honduras, Belgium, Indonesia

	2008	2007
Sales, MSEK	3,657	3,411
Operating profit, MSEK	689	737
Operating margin, %	19	22

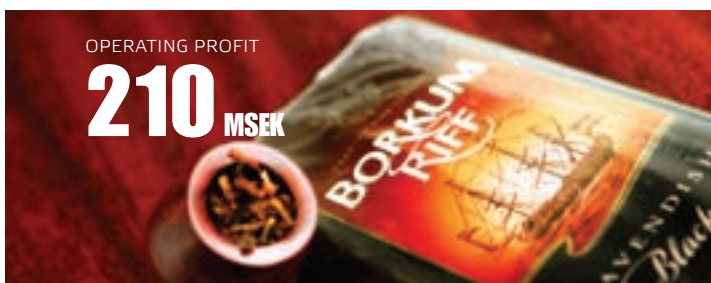
### Group

The Swedish Match head office, where the CEO and Group staff are based, is located in Stockholm. Operations are conducted in three divisions: North Europe, North America and Swedish Match International.

Consolidated sales amounted to 13,162 MSEK and the average number of employees was 11,866. Production takes place in the Company's own production plants in 11 countries: Belgium, Brazil, Bulgaria, the Dominican Republic, Honduras, Indonesia, the Netherlands, the Philippines, Sweden, South Africa and the US.

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information is available on the Corporate website [www.swedishmatch.com/ourcompany](http://www.swedishmatch.com/ourcompany).



OPERATING PROFIT

**210** MSEK

## Pipe tobacco and accessories

**Main brands:** *Borkum Riff, Half and Half, Best Blend, Boxer, Black & White, Nineteen O'Four, Greve Gilbert Hamiltons Blandning*

Swedish Match is one of the world's largest producers of pipe tobacco.

**Main markets:** South Africa, the UK, Australia, the US, Sweden

**Production units:** South Africa, the US as well as outsourced production

	2008	2007
Sales, MSEK	817	851
Operating profit, MSEK	210	201
Operating margin, %	26	24



OPERATING PROFIT

**276** MSEK

## Lights

**Main brands:** *Solstickan, Fiat Lux, Swan, Tres Estrellas, Feudor, Redheads, Cricket*

Swedish Match maintains a strong position in a number of markets for matches. The brands are mostly local and hold a leading position in their respective markets. Swedish Match is a key player in the international market for disposable lighters.

**Main markets:** Russia, Brazil, Sweden, France, the UK, Australia

**Production units:** Sweden, Brazil, Bulgaria, the Philippines, the Netherlands

	2008	2007
Sales, MSEK	1,534	1,473
Operating profit, MSEK	276	252
Operating margin, %	18	17

“As the year progressed it became clear that our moist snuff strategies in the US and snus strategies in Sweden were working and delivering solid results.”

### CEO comment

# A strong business platform that delivered solid earnings

2008 has been an eventful year, and for the shareholders of Swedish Match a further testament to the solid business model on which the Company is based.

It is also a year when we have seen our investments in growth paying off. Total company sales grew for the first time since 2005, even with continued negative currency effects. The Company's net profit grew and reached the second highest level in this decade. Earnings per share reached 8.98 SEK per share, a level unsurpassed since the sale of the cigarette division in 1999. As important as demonstrated solid performance is the business platform itself. Swedish Match has over the years continually worked to become more relevant, and be even more strongly positioned in the marketplace, in order to fully take advantage of the business opportunities that lie ahead.

#### The year that was

The year 2008 was marked by a global recession, a credit squeeze, and a global

recession. At the beginning of 2008 the recession in the US had only just begun. The central bankers in most major markets were more worried about inflation than a slowdown in the overall economy. We at Swedish Match were determined to grow our volumes and improve our market position for moist snuff in the US, while improving our profit level in Scandinavia despite another substantial excise tax increase on snus in Sweden for the second year in a row. As the year progressed it became clear that our moist snuff strategies in the US and snus strategies in Sweden were working, and delivering solid results.

At the beginning of the year we recognized that there would also be challenges for our cigar businesses – from the public smoking bans in France and the Netherlands, to the product mix shifts occurring for machine made cigars in the US, to trade inventory reductions for premium US cigars. Swedish Match and its employees stood up to the challenges before them, bringing new and innovative

products to the marketplace which met consumer and customer needs for quality, value, and freshness. For instance, in the US machine made cigar business we introduced an all-new Foilfresh® packaging, ensuring longer lasting freshness, and addressing both a consumer and a customer need. In Europe, we extended our range within our most popular brands, such as *La Paz*, to include cigars that are better adapted to shorter smoking occasions, in view of public smoking bans. In the US premium cigar market, we continued refreshing our assortment with new varieties, recognizing the need for package size, cigar type, and brands to deliver both excellent quality and unsurpassed value.

In the financial market environment in 2008, it became increasingly evident that taking on new debt would be more expensive if and when it became available. This, of course, affected Swedish Match, but it also affected the thousands of businesses especially in the US and Europe which must rely on credit to fund their inventories and ►





continuing operations. From a Swedish Match perspective, this meant that there would be a pause in the Company's share repurchase program in order to maintain a high degree of flexibility in an environment of extreme uncertainty. It also meant that we needed to work even more closely with both suppliers and vendors to ensure efficient movement of materials and inventory, and helping retailers, especially for premium cigars, to manage their businesses for better cash generation. Consumers and retailers are the lifeblood of Swedish Match, and the Company worked to ensure that the changing needs of these parties were being addressed.

### Our position in an ever-changing legal and regulatory environment

Communication and influence regarding sound regulations as the base for access to markets and the right to compete with other tobacco products can not succeed without a visible and engaged Swedish Match, with a clear voice in matters that concern us. Swedish Match continues to engage in regulatory affairs in all our major markets, and 2008 was no exception.

Swedish Snus has been debated during 2008, being expressed both in the scientific community and among politicians. The European Commission published the scientific report Health Effects of Smokeless Tobacco Products (SCENIHR) that among other things stated that Swedish Snus poses significantly fewer and less severe health risks than cigarettes and other currently legal tobacco products within the EU. The ban in the European Union on Swedish Snus exports to other member states has publically been challenged by the Swedish Government who views the ban discriminatory and disproportionate.

Swedish Match is currently growing in an environment framed by regulatory activism targeting tobacco products. Given the current developments, smokefree products and especially Swedish Snus have great potential, but also run the risk of being viewed as one of many tobacco products within the same regulatory framework.



The challenge for Swedish Match is to ensure sound competition and that Swedish Snus is regulated based on scientifically balanced facts with regard to its unique origin, quality and potential as a viable smokefree alternative.

### Snus and snuff: maintaining our lead in Scandinavia, growing in the US

Snus and moist snuff is by far the most important product category for Swedish Match in terms of delivering operating profit. We estimate that the combined US and Scandinavian markets for snus and moist snuff amount to approximately 1.4 billion cans annually, with a consumer retail value of 35 billion SEK or more. Swedish Match is the market leader in Sweden and Norway, and has a solid position in the value segment in the US moist snuff market, continuing to grow market share in volume

terms. During 2008 the Company's sales for snus and moist snuff grew by 16 percent, while operating profit increased by 24 percent. Profitability in the US improved over the course of the year, as *Red Man* moist snuff, launched in September 2007, delivered improved results. Profitability also improved as price effects in Scandinavia offset volume declines from sharply higher consumer prices in both 2007 and 2008 stemming from increases in Swedish excise taxes. By the end of 2008, Swedish Match had achieved substantial progress in the continuing strategy to strengthen its position in the snuff and snus product categories, and laying the groundwork for further growth.

In the US, *Red Man* moist snuff was a clear success, having grown the fastest of any Swedish Match new product launch in the US, and approaching 2 percent share of market at the end of the year – after only 15





“For me it is the consumers who decide who the leader is.”

months since the first launch. *Red Man* now joins *Timber Wolf* and *Longhorn* in the snuff portfolio, and together these brands offer a strong and competitive brand portfolio that took Swedish Match volumes to an all time high. Our US moist snuff market share reached another milestone in 2008, surpassing 12 percent for the full year.

In Scandinavia, our sales and marketing teams have worked even harder at delivering products and programs that customers and consumers need. They worked to provide better service, better products, excellent value, and a commitment to partnership and growth. On the product front, a number of exciting new product launches were made, often employing the Company's patented “white portion technology” and presented in our exclusive star formation. This technology and product presentation provides clear consumer benefits as well as helping to differentiate Swedish Match produced products from those

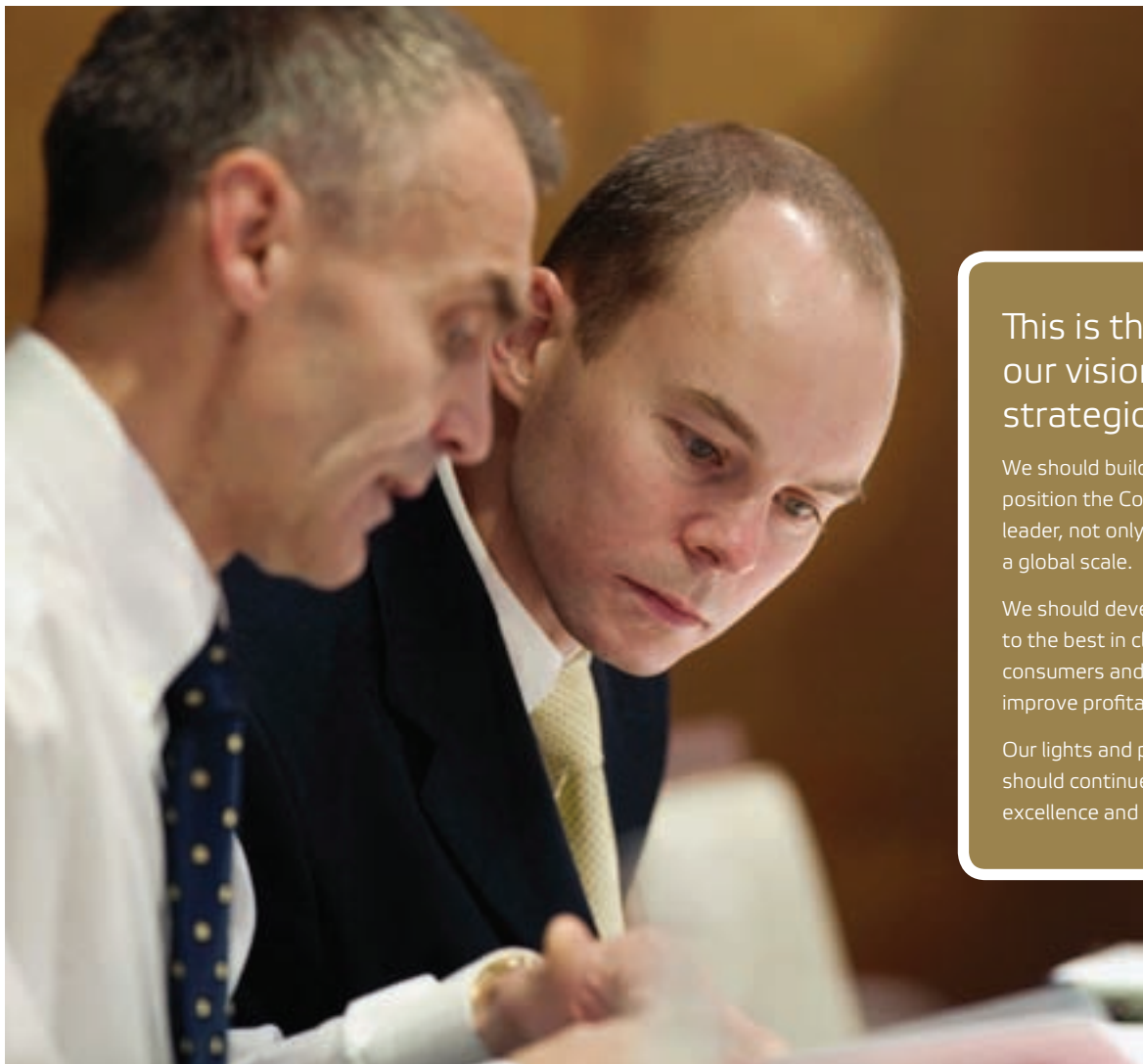
of our competitors. The results of the efforts of our sales and product teams have been clear. A proof is that, despite an ever increasing competition, we can look back at a year with stable and very strong market share in the important premium segment where we ended the year with 97 percent of the Swedish market according to ACNielsen. Despite higher prices, brought on by the sharp increases in excise taxes, consumers have demonstrated their loyalty and recognition of the value of their brands and products, and for Swedish Match this means that we have been able to further grow our Scandinavian snuff business, both in terms of sales and profitability.

### Our vision and strategic direction

As a company we have many stakeholders, including our shareholders, employees, consumers, and customers, as well as governmental and non-governmental

organizations and society as a whole. As the CEO, my prime objective is value creation for our shareholders. I sincerely believe that to achieve this we need to address the needs and demands of all our stakeholders. By doing that – and never losing sight of the needs of the consumers, we can drive value. Operationally, value creation for me is about managing what we have today in the most efficient way and, most importantly, generating organic growth for the future.

Of our existing businesses, the organic growth prospects are best in our smokefree portfolio. This is also where we have many of our core competencies. We have a unique heritage, strong brands, and a talented organization. We know the consumer and we have a technological lead. Social and regulatory trends support the growth of smokefree products, and in particular more modern forms like Swedish Snus. ►



## This is the basis for our vision and strategic direction:

We should build on our strengths and position the Company as the smokefree leader, not only in Scandinavia, but on a global scale.

We should develop our cigar business to the best in class; With focus on consumers and customers we should improve profitability.

Our lights and pipe tobacco businesses should continue to focus on operational excellence and profitability.

### Global smokefree leader

For me it is the consumers who decide who the leader is. To efficiently offer our brands to our consumers we rely on our partners in the trade and an open and honest relationship with regulatory bodies and opinion makers.

*Therefore our brands should be the preferred choice by consumers. Our brands should be the icons of the category and deliver outstanding emotional and functional consumer satisfaction.*

*We should be the most valued partner to the trade wherever we do business. We should come with the most valuable offerings, provide the best insights and be the preferred and most trusted partner in managing the smokefree category.*

*We should remain the industry authority for regulators and opinion makers.*

Swedish Match will always remain open to dialog with authorities and law makers, but never fail to express a dissenting opinion if the foundation for our business is being questioned. We will reinforce our position in

the Industry by actively offering decision makers our knowledge about every aspect of snus and providing our consumers fair and balanced information regarding known health effects.

As a global leader in smokefree tobacco, we can drive change and continue growth in a new and changing competitive landscape. I am working closely with my senior management team to help ensure that the entire Company is committed to unlocking the value potential of smokefree products, wherever that may be. Swedish Match is currently increasing its production capacity for snus with its state of the art facility in Kungälv in Sweden. We are test marketing snus with our joint

venture with Lorillard in the US, and also with our own Swedish brands in selected tobacco cities in a number of US cities. Following the close of the year, we took an important step to expand our sights on

markets across the globe for smokefree tobacco and we announced our joint venture for smokefree products with Philip Morris International. With this joint venture, and with other activities and programs, we will work to improve our ability to leverage our strengths on a truly global scale. Product development efforts will be stepped up, always with the consumer foremost in our activities. Competition is also recognizing the high potential in smokefree products. In the industry, we witness how both the scientific community and more and more consumers are recognizing that smokefree tobacco, and Swedish Snus in particular, is significantly less harmful than smoking, and can play a role in tobacco harm reduction.

Large tobacco companies, traditionally focused on cigarettes, are entering the fold. In the past year, Altria announced that they would become the largest US moist snuff company through the acquisition of UST. Reynolds American, through its previous acquisition of Conwood, continues to drive

“As a global leader in smokefree tobacco, we can drive change and continue growth in a new and changing competitive landscape.”

growth in the US snuff category. Reynolds and others are also testing new smokefree products in the US. British American Tobacco has acquired the snus business of Scandinavian Tobacco Group and is now the largest competitor in Sweden. Imperial is the largest competitor in Norway.

This brings new challenges, but also opportunities – for the growth and development of smokefree category in markets throughout the world. With our strong position, intensified work to become even better in all areas, we stand well prepared to benefit from this development.

#### Best in class for cigars

During 2008 we faced some challenges in our cigar business. At the same time we have a solid foundation. We have strong market positions in many countries and recent acquisitions like Cigars International in the US and Bogaert Cigars in Europe have added key competencies and brands.

As best in class, Swedish Match will become more focused and a more valued supplier, delivering outstanding product, service, and quality for the money, with brands that stand the test of time.

Our cigar business has three legs: premium cigars, US machine-made cigars, and European machine-made cigars. While the brands, product types, and geographies may be different, many similarities in sourcing, systems, and production, to name a few, provide us with opportunities to improve, helping us to achieve a best in class position, and helping us to improve shareholder value over the coming years. One of the changes we have already implemented at the end of this past year has been to further integrate the cigar units. Our Swedish Match International business unit, for example, now has full responsibility

for both our European cigar business, and our premium cigars globally.

#### Lights and pipe tobacco – operational excellence

In lights and pipe tobacco, we have strong supply chains and brands. Historic rationalization initiatives and focus on continuous improvement means that we can now look at state of the art production setups. Our factories are well utilized and automation is high. During the year we inaugurated a new and modern lighter manufacturing facility outside Manila in the Philippines.

We have a brand portfolio that is uniquely strong. Our match brands are icons in many countries, *Cricket* is getting more and more recognized as one of the best quality disposable lighters and for pipe we have international momentum with leading brands like *Borkum Riff* and in South Africa our core brands *Boxer* and *Best Blend* account for more than 90 percent of the market.

All of this has contributed to the excellent results for these businesses, despite the pressure on volumes caused by a general fall in demand. For the future we will continue to focus on excellence. We will manage our brands, we will develop and offer even more relevant products to our consumers, and we will stay focused on productivity.

#### A strong product portfolio, driving profitability and growth

Every product area, from our smokefree tobacco products, to cigars and pipe tobacco, to lights has an important role to play in the Company's portfolio.

We will continue to leverage our strengths in category management, sales and logistics synergies, and brand and

product leadership to drive further growth. We will further increase our focus on growth opportunities for smokefree. We will leverage our heritage, our skills and competencies and technological lead across geographical boundaries. We will develop and leverage our brands. An example is the *Red Man* snuff product launch that has been the beneficiary of the exceptionally strong brand values nurtured over the years for the *Red Man* chewing tobacco business.

#### Organic growth stems from a collaborative effort

Of all the elements of driving organic growth, perhaps none is more important than the collaborative efforts of the Swedish Match team. Based on a clear vision, well communicated and defined strategic objectives, and an environment based on teamwork and trust, the employees of Swedish Match are working together in a spirit of openness and a determination to excel. My management team and I will continue to openly engage new ideas, and invite better ways to achieve our goals. Growth comes not only from products, marketing, selling and efficient use of resources. It comes from talent and a culture of success. ■

Stockholm, March 2009



**Lars Dahlgren**  
President and CEO





Swedish Match is the market leading producer of snus in the Scandinavian markets, where snus enjoys widespread product appeal. Moist snuff continues to be among the fastest growing categories in the US tobacco market, and Swedish Match is improving its position with market share gains. With its strong portfolio of brands, Swedish Match strives to maintain and enhance its market positions wherever it competes. The moist snuff and snus product categories provide opportunities for further growth in sales and profit.

*Snuff and snus*

# Dynamic markets bring new opportunities

## Financial development

Sales during the year increased by 16 percent to 3,829 MSEK (3,289). Operating profit for the year increased by 24 percent to 1,689 MSEK (1,366).

In the Scandinavian market, Swedish Match sales increased by 18 percent, from improved pricing and mix effects. Overall shipment volumes declined by 3 percent. However a strong volume growth in Norway and taxfree substantially offset volume declines in Sweden. Swedish volumes were negatively impacted by a substantial increase in the weight-based excise tax for snus. In the US, sales grew as the Company gained market share in a market that grew by more than 6 percent.<sup>1)</sup> Swedish Match shipment volumes in the US increased by 13 percent.

The operating margin was 44 percent for the year (42). The improved operating margin stems primarily from positive price

and mix effects in Scandinavia and less pronounced trade loading and destocking effects in Sweden, more than offsetting significant product launch costs in the US.

## Market

The Global market for moist snuff and snus is estimated to be in excess of 1.4 billion cans, and growing. Scandinavia and the US are by far the world's largest markets for snuff and snus.

The Scandinavian market offers a broad range of brands and product varieties, with pouch products being the most popular and continuing to grow in importance. The largest market in Scandinavia is Sweden, categorized as a mature market. Norway and taxfree (which serves consumers throughout the Nordic area) are fast growing markets which have substantially offset any volume declines on the Swedish market. ▶

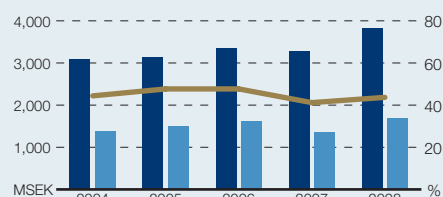


## Operational highlights

- Improved sales and profitability on the Scandinavian market
- North American moist snuff shipment volumes up 13 percent
- *Red Man* moist snuff rolled out nationwide in the US

<sup>1)</sup> Source: Swedish Match and industry estimates. ACNielsen estimates 2008 market growth of 6.4 percent.

SALES AND OPERATING PROFIT



■ Sales ■ Operating profit — Operating margin, %

KEY DATA, MSEK

	2008	2007	2006
Sales	3,829	3,289	3,363
Operating profit	1,689	1,366	1,614
Operating margin, %	44	42	48
Investments in property, plant and equipment	173	233	118
Average operating capital <sup>1)</sup>	1,756	1,652	1,478
Average number of employees	1,000	974	954

<sup>1)</sup> Opening operating capital for 2006 has not been restated in accordance with the new definition of net debt and therefore includes net pension liabilities.



The US moist snuff market has enjoyed sustained volume growth over the past decade, where in recent years the value-priced and pouch segments have demonstrated the strongest growth. Many of the new consumers entering the moist snuff category are cigarette smokers.

Within the European Union, sales of snus have been banned since 1992. Sweden was exempted from the sales ban for the Swedish market when it became an EU member in 1995.

### Scandinavia

#### Main brands

The largest brands on the Scandinavian market are *General*, *Ettan*, *Grovsnus*, *Göteborgs Rapé*, *Kronan*, and *Catch*. During 2008, the Company launched a number of new products, either as line extensions of existing brands, (the most notable being for *General*, such as *General Sterk*) or under new brands. *Kronan*, the Company's value-priced brand in this region, is the number one brand

in that segment in Sweden. In Scandinavia, growth of the share of white-portion snus was particularly noted, with unique product characteristics produced using Swedish Match's patented technologies.<sup>1)</sup> In addition to its traditional snus products, Swedish Match also offers the number one brand in the non-tobacco smokefree segment, *Onico*, providing consumers a high quality nicotine free alternative. On the Norwegian market, the Company has continued to grow with such strong traditional brands as *General*, *Röda Lacket*, and *Göteborgs Rapé*.

#### Market

In 2008, consumption in the Scandinavian snus market amounted to 240 million cans.<sup>2)</sup> Swedish Match is the leading manufacturer of snus, with a volume share in Sweden of approximately 87 percent in October–November 2008.<sup>2)</sup> In Norway, Swedish Match estimates its volume share to be close to 80 percent.<sup>2)</sup> While both the Norwegian and taxfree markets continued to grow at

double digit levels in volume terms, declines in the Swedish market, brought on by higher retail prices on the back of significant tax increases, caused overall market volumes in Scandinavia to decline by 1–2 percent during 2008.<sup>2)</sup> During the past few years, consumers have moved from traditional loose product to portion-packed (pouch) snus, which now accounts for about 64 percent of volumes in Scandinavia.<sup>2)</sup>

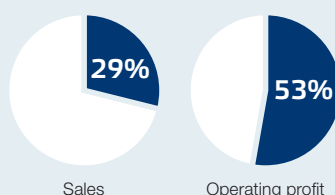
The Swedish market has more than one million snus consumers, of whom approximately 200,000 are women. It is estimated that over 25 percent of men use snus on a regular basis.<sup>3)</sup> The number of men using snus has been relatively stable, while the number of women using snus on a regular basis is increasing.

Tobacco excise taxes in Sweden, based on weight, are a significant proportion of the retail price of a can of snus. In September 2007, the Swedish Government announced that this weight based tax on snus would increase by 90 SEK per kilo, effective January 1, 2008. This follows an increase in 2007 of 123 SEK per kilo, double the level in 2006. The effect of these tax increases caused volumes at the end of 2006 and 2007 to rise substantially due to both consumer and retailer product hoarding. During the first six months of 2007 both trade destocking and consumption declines in Sweden resulted in lower shipment volumes. During the first half of 2008, destocking effects were, however, more modest than the previous year.

#### OPERATING PROFIT

**1,689** MSEK

#### SHARE OF GROUP TOTAL



Sales

Operating profit

#### MARKET FACTS 2008<sup>1)</sup>

	Scandinavia	US
Market size, no. of cans	240 million	1.2 billion
Swedish Match market share	87.0%	12.1%

<sup>1)</sup> ACNielsen and Swedish Match estimates, volume share.

<sup>1)</sup> For example its white-portion technology, as well as star formation.

<sup>2)</sup> Source: ACNielsen and Swedish Match estimates.

<sup>3)</sup> Source: SCB/UJLF.





**Timber Wolf** is Swedish Match's best-selling moist snuff brand on the North American market and is available in a broad range of cuts and flavors.

**Ettan** is one of the most popular brands in Sweden. This snus has a classic tobacco taste, consisting of tobacco, salt and water.



**General** is Scandinavia's largest snus brand and by far market leader. Available in 10 varieties, the *General* brand family offers the consumer a wide choice of formats, sizes and flavors.



## Red Man – now also available as traditional American snuff

>> *Red Man* is undeniably the best-known brand of chewing tobacco in the US, with a tradition and product history that date back more than 100 years. Through innovation and product development, *Red Man* chewing tobacco has retained its position as market leader in its product category. Transferring the brand over to traditional American snuff provides the new snuff product with immediate connection to quality and tradition. The launch of *Red Man* moist snuff is part of the growth strategy for moist snuff and snus, which represents the greatest growth opportunity for Swedish Match on the North American market. <<

### Point of sales and merchandising

The most important sales channels for snus in Scandinavia are supermarkets, convenience stores, and gasoline stations. Snus is also sold in tobacconists, bars, restaurants, and in taxfree outlets, including airports and ferries. The sales price is set by the retailers, with the result that prices can vary widely. Snus is

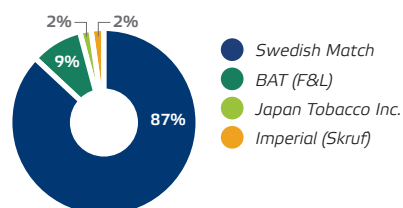
merchandised from coolers to help ensure freshness and quality. During 2008, Swedish Match continued its efforts with its consumer website for the Swedish market. By logging on to [www.swedishmatch.com/konsument](http://www.swedishmatch.com/konsument), Swedish consumers can easily explore the Swedish Match product range. ▶

### SWEDISH MATCH MAIN BRANDS

Scandinavia: *General, Ettan, Grovsnus, Kronan, Göteborgs Rapé, Catch*

US: *Timber Wolf, Longhorn, Red Man*

### COMPETITORS – SWEDEN<sup>1)</sup>



<sup>1)</sup> Source: ACNielsen.





# General

– a brand  
synonymous  
with snus

>> *General* is Swedish Match's largest snus brand and the Nordic market leader by far. For many snus users, the brand is synonymous with the product snus. As for many other Swedish Match snus brands, *General* traces its roots back to the 19th century. The classic snus, is available in a number of flavors and formats that result from meticulously selected tobacco types. As with all Swedish Match Scandinavian snus, *General* is manufactured in accordance with the **GothiaTek®** quality standard. *General* guarantees quality and gives a rich tobacco experience. <<

## Competitors

The largest competitor in Scandinavia is British American Tobacco (BAT), which acquired the snus business of Scandinavian Tobacco Group (STG) including Fiedler & Lundgren (F&L) during the year. In October–November 2008, BAT (F&L) had a market volume share of approximately 9 percent in Sweden.<sup>1)</sup> Other competitors on the Scandinavian market include Japan Tobacco Inc. and Imperial (the largest competitor in Norway). Most competitive brands are positioned in the low-priced segment.

## North America

### Main brands

The largest brands for Swedish Match on the US market are *Timber Wolf* and *Longhorn*. During the second half of 2007, the Company launched a new moist snuff brand, *Red Man*. During 2008, *Red Man* was rolled out nationally, and is now available in most stores that carry Swedish Match products. The *Red Man* family of products is a range of traditional moist snuff in the market's most popular cuts and flavors. The *Red Man* brand draws on the heritage from its number one position in the chewing tobacco category.

### Market

The US is the world's largest moist snuff market, with consumption in 2008 estimated by Swedish Match to be nearly 1.2 billion cans. During the past five years, can volume in the moist snuff market has grown at the rate of 6 percent or more annually, and during 2008 the market growth rate is estimated to have been approximately 6 percent in volume terms.<sup>1)</sup> This growth comes primarily from new consumers, including cigarette smokers, who recognize the advantages of this smokefree product in a country where smoking restrictions continue to intensify. Moist snuff is sold throughout the US, and volumes are particularly strong in the Southeast, Southwest, and mid-Atlantic states.

The fastest growth in the US moist snuff market is in the value-priced and pouch segments. The Swedish Match portfolio is almost exclusively in the value-priced

segments, with both traditional loose and pouch products. The pouch category now accounts for approximately 7 percent of the cans of moist snuff sold in the US.<sup>2)</sup>

This is a dynamic category, with new products, new brands, and line extensions constantly offering consumers a wide variety of choices. Pricing is an important factor in the growth of the snuff category in the US. In many cases, premium brands can be double the price of value-priced brands.

For the full year 2008, Swedish Match's market share by volume was 12.1 percent, up from 11.1 percent in 2007.<sup>2)</sup> *Red Man* reached 1.8 percent of the market in December 2008, only 15 months from its initial launch in September, 2007, and successfully achieved full distribution in the marketplace, available in 65,000 outlets. The increase during the year was also partly

<sup>1)</sup> Source: ACNielsen and Swedish Match estimates.

<sup>2)</sup> Source: ACNielsen.





attributable to the continued strong performance of the Company's established *Longhorn* brand, which had approximately 4.6 percent of the market at the end of 2008.<sup>1)</sup> The value segment grew by more than 10 percent in terms of the number of cans sold during the year, and accounted for approximately 46 percent of the US market during 2008.<sup>1)</sup>

Swedish Match, as well as other competitors, continued efforts to assess and develop a market for Swedish style snus in the US market.

Snus differs from traditional American moist snuff in a number of ways. The production processes for American moist snuff and Swedish Snus differ in that moist snuff is fermented while Swedish-style snus is pasteurized. For Swedish Match, both production techniques comply with the ▶

## Outlook

The Company will continue to build on its strengths, positioned as the smokefree leader, not only in Scandinavia, but on a Global Scale. The largest market for snus in Scandinavia is Sweden. With continued product innovation, a commitment to being the most valued partner to our customers, and a company culture dedicated to making sure that Swedish Match brands are the preferred choice by consumers, the Company will be well positioned to maintain its leadership positions. After two successive years of dramatic increases in the Swedish excise tax on snus, the decision not to further increase the weight based tax in January 2009 should bring more volume stability on the Swedish Market.

Continued volume growth in the US moist snuff market is expected, and the US snus market is expected to experience a great deal of activity, often

on a test market basis. Swedish Match is well positioned in the lower priced segments of the US moist snuff markets – segments which are expected to grow faster than the overall US moist snuff market.

Public smoking bans, heightened understanding of the concept of harm reduction, new and innovative products, and increased industry activity should support further market growth of the moist snuff and snus product segments wherever these products are available.

The Company will work to expand its footprint beyond the US and Scandinavia through its joint venture with Philip Morris International, and will work to continually strengthen its position within its core markets. As a global leader in smokefree tobacco, the Company can drive change and continue growth in a new and changing competitive landscape.

<sup>1)</sup> Source: ACNielsen.



**GothiaTek®** maximum allowable limits. Another difference is that the American moist snuff is placed behind the lower lip while Swedish Snus is spitless, placed behind the upper lip.

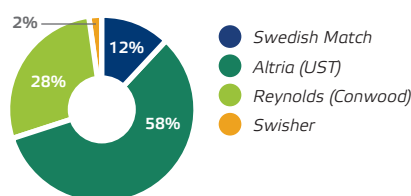
The main Swedish Match brand for snus in the US is *General*, available in selected tobacconists. The Company also has a joint venture with Lorillard, (the third largest cigarette company in the US), and produces snus for this joint venture in Sweden. The product is marketed under the *Triumph* brand, and is available in Georgia and Ohio. Still a very small category in the US, Swedish style snus is considered to have a long term growth potential.

<sup>1)</sup> Source: ACNielsen.

#### Point of sales and merchandising

The main distribution channels are convenience stores and gas stations, discount tobacco outlets, supermarkets, as well as the Internet. The product is merchandised through point of sale displays, and supported by both in-store and adult lifestyle related activities.

COMPETITORS – THE US<sup>1)</sup>



#### Competitors

The largest competitors on the market are Altria (UST), with a market share by volume of 58 percent for 2008, and Reynolds (Conwood), with a market share of 28 percent.<sup>1)</sup>

#### Other markets and other snuff products

Swedish Match has a small presence for snus in Russia, in Moscow and Saint Petersburg. The Company also has a limited test market of snus in South Africa.

Swedish Match sells dry nasal snuff in both Europe and South Africa. Swedish Match is number two in the South African market with the locally produced *Taxi* brand,



## Culinary snus experience

Food and tobacco have long been a fitting combination, but food together with snus is relatively unexplored territory. Esperanto, a Stockholm restaurant run by Head Chef Sayan Isaksson and Restaurant Manager Daniel Petterson, and Swedish Match's tobacco expert Conny Andersson have joined forces to compose a menu in which Swedish snus appeals to completely new culinary experiences. Each dish is rounded off with a matching portion of snus, whereby the flavor and aroma of the various snus varieties enhance the taste sensation of the food.

sold mainly via convenience stores, low-price outlets, small stores and kiosks. In Europe, Swedish Match markets nasal snuff under the *Singleton's*, *Kensington*, and *Rumney's* brands, mainly in and around the Alps.

### Production and distribution

In Sweden, production of snus takes place in Gothenburg and Kungälv. The Kungälv facility opened in 2003, and is currently being expanded. This state of the art unit specializes in portion-packed (pouch) products including the Swedish Match proprietary white-portion technology.

In the US, production of moist snuff takes place in Owensboro, Kentucky. The Owensboro factory, in addition to moist

snuff, produces chewing tobacco and pipe tobacco. The plant has developed a flexible production platform which allows resources to be employed where needed. This flexible setup means that the Company can efficiently adapt to production changes as increases in snuff production offset declines in chewing and pipe tobacco.

Swedish Match produces nasal snuff in Boksburg, South Africa.

Distribution for all tobacco products in Sweden, including products from other manufacturers, is shipped from the Company's distribution facilities in Stockholm and Gothenburg. The Company has a high level of purchase orders through its webshop and supplementary electronic

purchase systems. Products are most often delivered on a weekly basis to avoid retail out of stock situations.

In the US, Swedish Match ships products daily to wholesaler and selected retailer locations throughout the country direct from its production facilities and through both owned and third-party warehouses.

Consumers can also purchase Swedish snus directly on the Internet. This distribution channel is limited to countries where the product is permitted. ■

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information available on the Corporate website.







RED MAN is such a strong brand that it is almost synonymous with the entire chewing tobacco product category.

## Chewing tobacco

# Red Man

For chewing tobacco consumers, *Red Man* is synonymous with the good life – fishing, hunting, and the great outdoors. With over a century of tradition, *Red Man* continues to be the best selling chewing tobacco brand in the US.

### Financial development

Sales for the year decreased by 2 percent to 934 MSEK (956), and operating profit increased by 5 percent to 329 MSEK (312). In local currency terms sales grew slightly. Higher average prices offset volume declines, while a weaker USD had a negative impact on reported operating profit. The operating margin was 35 percent (33).

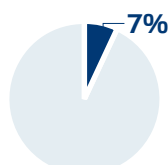
### Market

The US market for chewing tobacco is in a long term state of decline. Volumes typically fall in the range of 5–10 percent per year. This occurs as consumers leave the market, some moving to moist snuff. With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability.

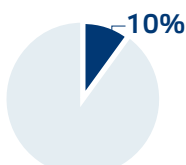
OPERATING PROFIT

**329** MSEK

SHARE OF GROUP TOTAL

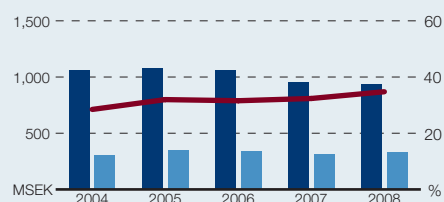


Sales



Operating profit

SALES AND OPERATING PROFIT



■ Sales ■ Operating profit — Operating margin, %



# - An American tradition

Swedish Match is the largest producer of chewing tobacco in the US, the Company's brands have a share of approximately 46 percent.<sup>1)</sup>

The market is segmented by brand, flavor and price point, with the value-priced segment growing as a percentage of the overall mix. Approximately 70 percent of sales are estimated to be in the premium segment, with *Red Man* being the leading brand.

## North America

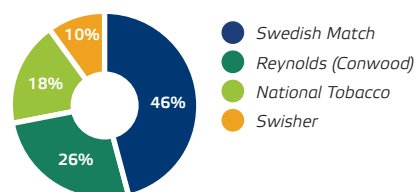
### Main brands

The Company's best known brands include *Red Man*, *Red Man Golden Blend*, *Red Man Silver Blend*, *Granger Select*, and *Southern Pride*. The *Red Man* brand family is by far the largest in the US, with more than 35 percent of all volumes sold.

### Point of sales

Chewing tobacco is sold in the same stores as other tobacco products. Convenience stores and low-price tobacco outlets account for the majority of sales.

## COMPETITORS - THE US<sup>1)</sup>



<sup>1)</sup> Source: ACNielsen.

## Competitors

Competitors in the North American market include Reynolds American Inc. (Conwood), National Tobacco and Swisher. Conwood is the largest competitor.

## Other markets

Swedish Match has very limited sales of chewing tobacco outside the US, for example, the *Piccanell* brand in Sweden.

## Production and distribution

Production takes place in Owensboro, Kentucky in the US. Swedish Match ships products daily to wholesaler and selected retailer locations throughout the country direct from its production facility and through both owned and third party warehouses. During 2008, an agreement was reached with National Tobacco, which has approximately 18 percent<sup>1)</sup> of the chewing tobacco market. According to the agreement, Swedish Match produces chewing tobacco for both companies in the Owensboro facility during 2009. ■

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information available on the Corporate website.



## Operational highlights

- Operating profit up 8 percent in local currency
- Continued market share gains in the US, reaching 46 percent
- Agreement reached to supply National Tobacco with products from 2009

## Outlook

Consumption is expected to continue declining in the US near the historical level of 5–10 percent. Swedish Match will focus on high product quality and effective market communication. The Company will continue its emphasis on cost control, and in 2009 will begin producing chewing tobacco for National Tobacco which will address production efficiency in a declining market.

### SWEDISH MATCH MAIN BRANDS

US: *Red Man*, *Southern Pride*, *Granger Select*

### KEY DATA, MSEK

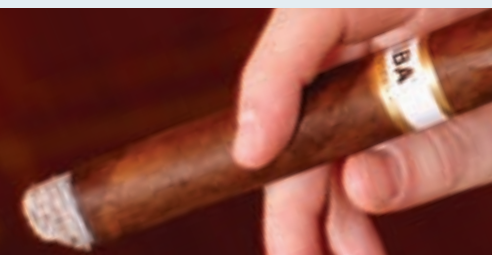
	2008	2007	2006
Sales	934	956	1,063
Operating profit	329	312	338
Operating margin, %	35	33	32
Investments in property, plant and equipment	14	25	17
Average operating capital <sup>1)</sup>	281	312	359
Average number of employees	345	369	357

<sup>1)</sup> Opening operating capital for 2006 has not been restated in accordance with the new definition of net debt and therefore includes net pension liabilities.

As the leading premium cigar manufacturer in the US, and with substantial machine-made cigars businesses in both the US and Europe, Swedish Match is well placed in the worldwide cigar market. During 2008, the Company improved its competitive position through the 2007 acquisitions of Cigars International Inc. in the US, and Bogaert in Europe. New products and new formats were added to the range of the Company's high quality cigar products.

## Cigars

# Always striving to be best



## Operational highlights

- Sales increased by 8 percent in local currencies
- Smooth integration of the Cigars International and Bogaert acquisitions
- Gains in market share in many important European markets
- US premium cigars hit by slowdown in purchase activity

## Financial development

Group sales for the full year were 3,657 MSEK (3,411), while operating profit was 689 MSEK (737). In local currencies, sales increased by 8 percent, primarily attributable to acquired businesses.

In the US, sales grew by 11 percent in local currency. The American market represents 62 percent of total Swedish Match cigar sales. Cigars International Inc. was acquired in September 2007 and provided a positive contribution to both the sales and operating profit. Excluding the sales from Cigars International Inc., US cigar sales were down in local currency.

Sales outside of the US grew by 6 percent in Swedish krona. Approximately 33 percent of Swedish Match cigar sales are in Europe. This includes the incremental sales from Bogaert, acquired in June 2007, which is especially strong in Benelux, France, and Germany. Excluding the sales from Bogaert, non-US sales decreased by 4 percent in local currency.

## Market

Swedish Match estimates that the global market amounts to approximately 15 billion cigars, with North America and Western Europe being the two largest markets, accounting for more than 90 percent of global cigar sales. Hand-rolled premium cigars account for less than 3 percent of global volume but account for more than 25 percent of the total sales value.

Premium cigars are produced mainly in Latin America and the Caribbean with about two-thirds of this production estimated to be sold in the US. Outside the US, other important premium cigar markets are Spain, France and Germany.

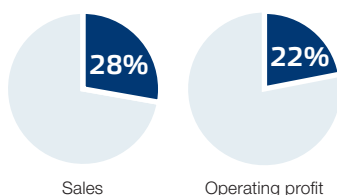
The market for machine-made cigars in the US is estimated by Swedish Match to amount to more than 7 billion cigars, and has been growing at an average rate of 2 percent per year in volume terms over the past several years. In 2008, the US machine-made cigar market is estimated to have grown by more than 8 percent in volume, with fastest growth coming from the little cigar segment.<sup>1)</sup> The European market is estimated by Swedish Match to ▶

<sup>1)</sup> Volume share based on ACNielsen (US machine-made) or Swedish Match estimates (other businesses).

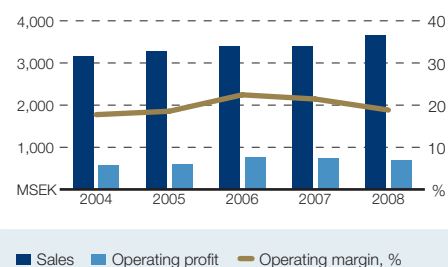
### OPERATING PROFIT

**689** MSEK

### SHARE OF GROUP TOTAL



### SALES AND OPERATING PROFIT



# in class

SWEDISH MATCH is one of the world's largest producers and distributors of cigars and cigarillos. The Company maintains a leading position in the US market for premium cigars.

KEY DATA, MSEK	2008	2007	2006
Sales	3,657	3,411	3,407
Operating profit	689	737	770
Operating margin, %	19	22	23
Investments in property, plant and equipment	53	99	90
Average operating capital <sup>1)</sup>	6,242	5,235	4,977
Average number of employees	8,525	8,715	8,915

<sup>1)</sup> Opening operating capital for 2006 has not been restated in accordance with the new definition of net debt and therefore includes net pension liabilities.



CLUB MACANUDO is one of New York's most exclusive cigar clubs, located on the trendy Upper East Side, 26 East 63rd Street.



amount to more than 5 billion cigars, and is estimated to have declined by less than 3 percent in 2008. The decline in Europe is partly due to the enactment or expansion of smoking bans, most notably in the Netherlands and France.

Over the course of 2008, Swedish Match strengthened its presence in both Europe and the US through the 2007 acquisitions of the Bogaert cigar business in Europe and the Cigars International Inc. business in the US. Bogaert is a manufacturer of both branded and private label machine-made cigars whose brands include *Hollandia* and *Bogart*. Cigars International Inc. is a fast growing provider of high quality premium cigars which caters directly to consumers via mail order and the Internet.

#### **North America – Premium cigars**

##### *Main brands*

The leading brand in the US is *Macanudo*, produced in the Dominican Republic by

Swedish Match. Other major Swedish Match Dominican and Honduran premium cigar brands in the US include *Partagas*, *Punch*, *Hoyo de Monterrey*, *Cohiba*, *La Gloria Cubana*, *Don Tomas* and *Helix*, as well as *5 Vegas* and *CI Legends*, available through Cigars International Inc.

##### *Market*

Premium cigars on the North American market accounted for 41 percent of the Group's total cigar sales in 2008. Swedish Match estimates that the North American market for premium cigars declined by approximately 5 percent in volume terms during 2008, to approximately 270 million units. The trend in the US has been toward a higher percentage of smaller premium cigars. Swedish Match is the market leader in the US, with a market share estimated by Swedish Match to be in the range of 30 percent, measured in number of cigars sold. While cigar volumes fluctuate from year to year, over

time the US market has been generally stable in volume terms. During 2008, premium cigar tobacconists, many of which are small family owned businesses, were faced with the negative impacts of the US credit markets, necessitating tighter inventory controls and in many cases inventory reductions.

Consumers of premium cigars in the US are brand loyal, but enjoy trying new varieties of their favorite brands. Continuous new product development and line extensions are therefore very important in this category. The Group has a number of large competitors, including Imperial (Altadis USA), Fuente and Davidoff.

##### *Point of sales*

Premium cigars are typically sold in fine tobacconist shops where the interaction between the consumer and the cigar expert is very important. A large and growing portion of premium cigar sales takes place through mail order or on the Internet.



### North America – Machine-made cigars

#### *Main brands*

While Swedish Match is a relatively small player in the US, it has strong brands in both the natural wrapper machine-made cigar segment, (with its *Garcia y Vega* brand and its popular *Game* assortment) and the HTL (homogenized tobacco leaf) and flavored cigar segments (with brands such as *White Owl*). Machine-made cigars on the North American market accounted for 21 percent of the Group's total cigar sales in 2008.

#### *Market*

During 2008, little cigars continued their upswing in popularity in the US, while there was continued movement away from certain flavored cigars, toward natural wrapper and

lightly aromatic cigars. As natural wrapper cigars tend to sell at higher retail price than these flavored cigars, this trend has positive impact on sales.

In the US, manufacturers typically introduce several new products using well-established brands every year. During 2008, Swedish Match launched a number of new products under both the *Garcia y Vega* and *White Owl* brands using its *Foilfresh*® concept. *Foilfresh*® cigars ensure that consumers can always find a softer, “fresher” cigar.

#### *Point of sales*

Machine-made cigars are primarily sold in gasoline stations and convenience stores, as well as in supermarkets and tobacco sales outlets, and on the Internet. ►



## *Macanudo 1968*

*Rich, dark and unexpected*

>> Ever since the first Macanudo was rolled, America has embraced its quality and consistency, making it the US' favorite premium cigar. Macanudo 1968 represents a limited edition collection made solely of proprietary tobaccos. Swedish Match has developed the seeds used in each of the cigar's components and selected specific growing regions to enrich the blend and its aroma. So unique are the tobaccos used in Macanudo 1968, it tastes like no other cigar. <<



## Wee Willem – strongest brand in Australia

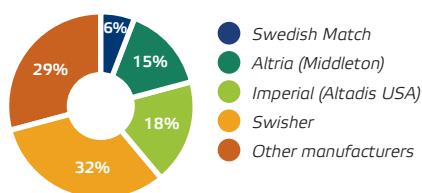
>> *Wee Willem* is the strongest cigar brand and market leader in Australia. It is a sub brand of the well-known cigar brand *Willem II*. The name, *Wee Willem*, means “little Willem” and refers to Prince Willem who lived in the Netherlands during the 17th century.

The package consists of ten small cigars. *Wee Willem* is available in five different variations; regular, blue, gold, aroma and aroma filter.

The competitive edge of *Wee Willem* is that every single cigar is individually cellophanned. With this packaging, *Wee Willem* stands out from the competition via a unique claim of freshness for its cigarillos. <<



COMPETITORS – US MACHINE MADE<sup>1)</sup>



### Competitors

Imperial (Altadis USA), Swisher and Altria (Middleton) are the major competitors to Swedish Match on the US market for machine-made cigars. Imperial (Altadis USA) is the largest competitor in sales terms. Swedish Match's market share by volume in this sector is close to 6 percent.<sup>1)</sup>

### Europe

#### Main brands

Swedish Match has a number of well known brands in Europe, with many of the brands being particularly strong in their local market or country. Among these brands are *La Paz*, *Willem II*, and *Justus van Maurik*. In the Netherlands, *Hajenius* and *Oud Kampen* brands are particularly strong high-end brands. With the acquisition of the Bogaert business, the *Bogart* and *Hollandia* brands were added to the Swedish Match portfolio, and these are especially strong in the Benelux region.

The Company has a limited but growing presence in the hand-rolled premium cigar market in Europe.

#### Market

The European machine-made cigar market is estimated to have declined slightly in terms of volume during 2008, following a similar decline in 2007. During 2008,

market declines in France, Belgium, and the Netherlands were partially offset by market growth in Spain, Italy, and Finland. Sales of machine-made cigars in Europe accounted for 36 percent of the Group's total cigar sales during 2008.

Swedish Match estimates that its market share grew in most European markets during the year, driven largely by the full year impact of the Bogaert acquisition. Countries in Europe where Swedish Match sells the most cigars include the Benelux countries, France, Finland, Spain, and Germany. Restrictions on smoking in public places in the Netherlands from July led this market to decline nearly 7 percent in 2008 in terms of volume.

Swedish Match owns 40 percent of Arnold André, a German company with production units in Bünde and Königslutter, Germany.

#### Point of sales

Cigars are sold in Europe mainly through tobacconists but also through supermarkets, gasoline stations, convenience stores, and specialty stores.

#### Competitors

The European market for machine-made cigars is fragmented. The Group's largest competitors are ST Winterman's, Imperial (Altadis), and Burger which are all similar in size within the EU. There are a number of privately held cigar companies that are strong in their respective home markets.

#### Other markets

Swedish Match has a small presence in various markets outside the US and Europe. Swedish Match is the market leader in the

<sup>1)</sup> Source: ACNielsen.



Australian market with its best selling cigar brand *Wee Willem*. Swedish Match also sells cigars in parts of Asia. Cigar volumes are small in Asia and Eastern Europe but there is growth potential in countries with increasing purchasing power in these regions.

### Production and distribution

For the US market, premium hand-rolled cigars are crafted in Santiago in the Dominican Republic and in Danli and Cofradia in Honduras, using the finest quality tobacco from around the world. Machine-made cigars for the US mass market are produced both in Santiago in the Dominican Republic and Dothan, Alabama, in the US.

For the European market, cigars are manufactured in Houthalen in Belgium as well as in Pandaan and Pasuruan in Indonesia. Some hand-rolled and machine-made cigars from the American production units are also sold in Europe. In Europe and other markets, cigars are delivered from Houthalen in Belgium to local warehouse units in the different countries.

In the US, premium cigars are mainly shipped directly on a daily basis to individual retailers as well as distributors, Internet/catalog retailers, and wholesalers across the country from the Company's New Jersey distribution facility. Premium cigars destined outside of the US are also shipped from the factory in the Dominican Republic. Cigars International Inc. ships premium cigars directly to consumers from the Company's Pennsylvania distribution facility. Swedish Match ships US machine-made cigars daily to wholesaler and selected retailer locations throughout the country direct from its production facilities and through both owned and third party warehouses.

Swedish Match also has a limited number of stand-alone retail locations, including the exclusive Hajenius Cigar Store in Amsterdam and stores operated by Cigars International Inc. in Pennsylvania. The Company also has a strong presence in its exclusive *Club Macanudo* stores in both the US and abroad. ■



#### The faon

The shape of a cigar, or its faon, is a major contributing factor to the cigar smoking experience.

The faon is described by its length and thickness. A straight cigar is for example referred to as Corona, Panatella or Robusto, while the Torpedo and Pyramido refers to shaped cigars called figurados.

## Outlook

As best in class, Swedish Match will become more focused and a more valued supplier, delivering outstanding product, service, and quality for the money, with brands that stand the test of time.

The Company's cigar business has three legs: Premium Cigars, US machine made cigars, and European machine made cigars. While the brands, product types, and geographies may be different, many similarities in sourcing, systems, and production, to name a few, provide Swedish Match with opportunities to improve, helping our best in class position, and helping us to improve shareholder value over the coming years.

#### SWEDISH MATCH MAIN BRANDS

US premium: *Macanudo, Partagas, Punch, Hoyo de Monterey, La Gloria Cubana, Cohiba, Helix, Don Tomas* (all produced in the Dominican Republic or Honduras)

US machine-made: *White Owl, Garcia y Vega, Game by Garcia y Vega*

Europe machine-made: *La Paz, Willem II, Bellman, Oud Kampen, Justus van Maurik, Hajenius, Hofnar*

#### MARKET FACTS 2008<sup>1)</sup>

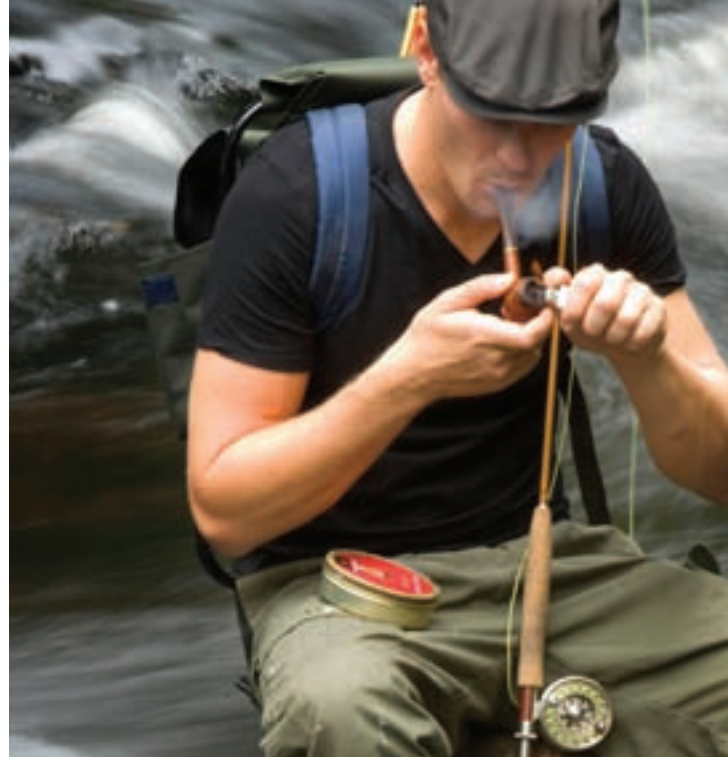
	Premium US	Machine-made US	Machine-made Europe
Market size, no. of cigars	270 million	7 billion	5 billion
Swedish Match market share	30%	6%	15%

<sup>1)</sup> ACNielsen and Swedish Match estimates.

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information available on the Corporate website.

Swedish Match is one of the world's largest producers of pipe tobacco, with strong local and international brands in many countries. In South Africa and several European markets, Swedish Match enjoys the leading market position. Consumption of pipe tobacco is declining in most markets, most notably in Europe and the US. Accessories include cigarette filters and paper.



### Pipe tobacco and accessories

# A strong cash ge

## Operational highlights

- Sales increased by 8 percent in local currencies
- Operating profit increased by 24 percent in local currencies
- Shipment volumes increased by 2 percent
- Sale of Swedish Match UK

### Financial development

Sales for the year amounted to 817 MSEK (851). Operating profit amounted to 210 MSEK (201) and the operating margin was 26 percent (24). During 2008 sales and operating profit was negatively affected by the decrease in value of the South African rand versus the Swedish krona. In local currencies sales increased by 8 percent.

### Market

Global consumption of pipe tobacco is declining, in terms of both volumes and sales. The largest markets for pipe tobacco are North America and Europe, where Swedish Match estimates consumption to decline annually in the range of 8 to 12 percent. South Africa is an important market for Swedish Match, where the Group has a leading position. In Asia and parts of Eastern Europe, the use of pipe tobacco is limited.

Most of Swedish Match's brands are local, including *Boxer* and *Best Blend* in South Africa, and *Half and Half* in the US. In Europe and many other markets, *Borkum Riff* is a leading international brand.

### Europe

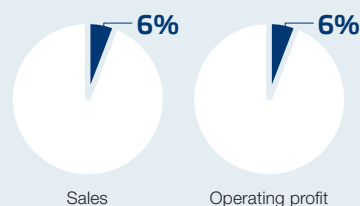
Swedish Match markets its products throughout Europe, with the strongest positions in Sweden, Austria, Spain, and Switzerland. Consumption in Europe typically declines in the range of 8 to 12 percent per year. *Borkum Riff* is one of the Company's best known brands. Pipe tobacco is sold mainly through tobacconists, as well as convenience stores and supermarkets.

In the accessories segment, Swedish Match is present in a number of countries, most notably Australia. In December, Swedish Match sold its UK accessories business to Republic Technologies International.

OPERATING PROFIT

**210** MSEK

SHARE OF GROUP TOTAL



SALES AND OPERATING PROFIT





PIPE TOBACCO AND ACCESSORIES

# nerator

## Outlook

The market for pipe tobacco is expected to continue declining at rates near levels in recent years. Profitability for the product area is good, however, and cash flow from pipe tobacco operations is expected to remain strong in the years ahead.

### North America

Consumption of pipe tobacco in North America declined by an estimated 8 percent during 2008.<sup>1)</sup> Swedish Match's market share in terms of volume is approximately 15 percent. *Half and Half* and *Borkum Riff* are among the Company's best selling brands. Pipe tobacco is sold mainly through drugstores, supermarkets, convenience stores, low-price outlets, and specialty tobacco stores in the US.

### South Africa

Swedish Match is the largest manufacturer and distributor in South Africa, and brands sold by the Group include *Boxer*, *Best Blend*, *Nineteen O'Four*, *Black and White*, and *Giraffe*. Consumption of pipe tobacco in South Africa increased slightly in volume

terms during 2008. Some consumers use pipe tobacco as a traditional product and others as roll your own.

### Other markets

Swedish Match has only a marginal presence in pipe tobacco outside its main markets, for instance in Australia and parts of Asia. In Australia, *Borkum Riff* is the leading pipe tobacco brand.

### Competitors

Eight producers account for about three-fourths of global pipe tobacco production. Most manufacturers also produce other tobacco products for the local or international markets. Competitors include MacBaren, Altria (Middleton), Reynolds American Inc. (Lane), and Imperial.

## Production and distribution

In South Africa the production takes place in Boksburg. Production of *Borkum Riff* and some other brands is outsourced to MacBaren in Denmark. In the US, *Borkum Riff* is imported from Europe. These products are distributed in both Europe and other markets. Production of pipe tobacco of other brands for the US market takes place in Owensboro, Kentucky. ■

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information available on the Corporate website.

<sup>1)</sup> Source: ACNielsen.

#### KEY DATA, MSEK

	2008	2007	2006
Sales	817	851	899
Operating profit	210	201	265
Operating margin, %	26	24	29
Investments in property, plant and equipment	13	20	23
Average operating capital <sup>1)</sup>	733	831	1,015
Average number of employees	395	364	457

<sup>1)</sup> Opening operating capital for 2006 has not been restated in accordance with the new definition of net debt and therefore includes net pension liabilities.

#### SWEDISH MATCH MAIN BRANDS

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



Swedish Match is the market leader in a number of markets for matches and fire related products. For matches, the brands are mostly local, and have leading positions in their home markets. Well-known match related brands include *Solstickan*, *Three Stars*, *Fiat Lux*, and *Redheads*. *Cricket* is one of the leading quality disposable lighters in Russia and several other countries in Europe and other parts of the world.



Traditional household brands exemplify Swedish Match assortment, with brands such as *Solstickan*, *Redheads*, *Fiat Lux*, *Three Stars* and *Union Match*.



## Lights

# Iconic brands



## Operational highlights

- Sales increased by 4 percent
- Operating profit increased by 9 percent
- Operating margin reached 18 percent for the year

### Financial development

Sales for the year increased by 4 percent to 1,534 MSEK (1,473). Operating profit increased to 276 MSEK (252). The operating margin was 18 percent (17).

### Market

Swedish Match sells matches in many markets, mainly in Europe, Latin America and parts of Asia. Consumption of matches in the world market is declining in most industrialized countries, particularly in Europe, where Swedish Match has a strong presence.

The main markets for lighters are Russia, the European Union and parts of Asia. Worldwide, sales are generally stable, with declines in the European Union partially offset by gains in other markets.

### Europe

#### Main brands

For matches, brands tend to be local, with one brand being iconic in any given country. Some of the best known brands in Europe include *Solstickan* (Sweden), *Swan* (UK), *Tres Estrellas* (Spain), *Feudor* (France), and *Korona* (Hungary) among others.

For lighters, Swedish Match manufactures one of Europe's best known brands for quality disposable lighters, *Cricket*.

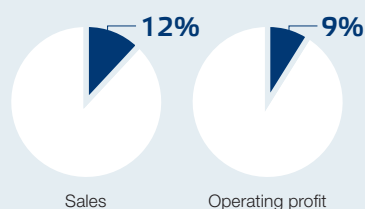
#### Market

Swedish Match estimates that consumption of matches continued to decline during 2008, while the market for specialty matches and products with higher margins, such as firestarters and disposable barbecue grills, grew.

OPERATING PROFIT

**276** MSEK

SHARE OF GROUP TOTAL



SALES AND OPERATING PROFIT





## Outlook

The Lights product area is able to generate good cash flow and profitability. The Company will strive to defend and strengthen its positions in key markets, in the coming years. Swedish Match will continue to focus on marketing its Cricket brand disposable lighters and utility lighter products. The Company will also work to improve its product positioning for its other fire related products with, for example, innovative package design.

For lighters, Swedish Match holds a leading market position in Russia for premium disposable lighters. The Group also has well entrenched positions in the Nordic countries, the UK and France. Retail sales of Swedish Match brands in the European market are estimated to have been stable during 2008. *Cricket* lighters are marketed using the key selling points of quality, design and safety. During 2008, all lighters sold into the European Union were required to be child resistant.

### Point of sales

Matches are sold in Europe mainly through supermarkets and tobacconist stores as well as gasoline stations and service stores.

Lighters are sold mostly in stores that sell tobacco products, and can also be found in outlets where tobacco is not available, such as grocery stores, in some countries.

### Latin America

#### Main brands

Swedish Match has the largest match brand on the Brazilian market, with *Fiat Lux*. The

*Cricket* brand of disposable lighters is also widely available.

### Market

Swedish Match has a significant presence in Latin America, and the largest match market in this region is Brazil, where the Company has a leading position. Swedish Match estimates its market share in Brazil to be in the range of 45 to 50 percent for matches, in terms of volume. For lighters, *Cricket* is a major brand in Brazil.

### Point of sales

Matches and lighters are widely available wherever tobacco products are sold, such as kiosks, supermarkets, variety and discount retailers, and gas and convenience stores.

### Other markets

Swedish Match sells matches in a number of markets outside Europe and Latin America, but the value of these sales are relatively low. Swedish Match is the market leader for match products in Australia with

the brand *Redheads*. Swedish Match also has lighter sales in a number of Asian markets.

### Competitors

Match competition comes mostly from low cost Asian and other non-EU suppliers. Major lighter competitors include Bic, Tokai, Flamagas, and a number of other manufacturers based mainly in China and other parts of Asia.

### Production and distribution

Match related production takes place in Sweden (Tidaholm and Vetlanda), in Bulgaria (Kostenetz), and in Brazil (Curitiba). Lighter facilities are located in Manila in the Philippines, Assen in the Netherlands, and Manaus in Brazil. During 2008, a new state of the art lighter facility was inaugurated in Manila, replacing the previous facility. ■

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

More information available on the Corporate website.

#### KEY DATA, MSEK

	2008	2007	2006
Sales	1,534	1,473	1,503
Operating profit	276	252	249
Operating margin, %	18	17	17
Investments in property, plant and equipment	74	92	38
Average operating capital <sup>1)</sup>	857	826	840
Average number of employees	1,378	1,440	1,565

<sup>1)</sup> Opening operating capital for 2006 has not been restated in accordance with the new definition of net debt and therefore includes net pension liabilities.

#### SWEDISH MATCH MAIN BRANDS

Matches: *Solstickan*, *Fiat Lux*, *Swan*, *Tres Estrellas*, *Feudor*, *Redheads*

Lighters: *Cricket*

Swedish Match strives to attract, develop and retain motivated and highly skilled employees for a strong and sustainable development of the Group. The Company's success is founded on committed and result-oriented employees and their willingness to develop, for personal enhancement and improvement of the Company's performance.

## *Our employees*

# Dedicated to growth

### **Attractive employer**

Swedish Match provides an international environment with varied opportunities and work assignments. The organization is decentralized in terms of responsibility for local business. Empowerment is a key component of the Swedish Match culture and leadership style, and initiatives and result-oriented actions are encouraged. The atmosphere is informal but professional. As a global player, the organization strives to create a working climate that rewards the sharing of information and competence, while encouraging behavior that promotes high performance across all markets.

For the past several years, Swedish Match has worked to ensure that managers and employees have ongoing and open discussions regarding targets and plans. Managers at Swedish Match must demonstrate good

leadership by setting clear targets, conducting reviews, and delegating tasks and assignments to appropriate levels in the organization.

Swedish Match encourages employees to have an active dialogue with their managers to create an attractive and motivating workplace. An annual employee career development evaluation is the single most important tool for maintaining this dialogue and for drafting targets on an individual level.

The Company regularly conducts employee surveys to measure how Swedish Match is perceived as an employer. Based on the results, managers, together with their employees, are responsible for identifying possible areas for improvement and for developing action plans. These plans are designed to enhance both working climate and performance, with the goal of making Swedish Match an even better workplace.

### **Career and competence development**

Continuous access to qualified employees is a top priority for Swedish Match.

Accordingly, it is important to provide opportunities for employees to develop and grow through new or varied work assignments and responsibilities. Various activities are continuously undertaken to find and develop the talents required to achieve the Group's business objectives.

Most of Swedish Match's competence development takes place within the three Divisions and is designed to meet their specific needs for training and their different business objectives. Development programs for Swedish Match are based on professional education and training that provides our employees and managers with the competencies necessary to achieve exceptional individual and group



*Mark Hasty, Human Resources manager at Swedish Match North America Division*

## **SWEDISH MATCH NORTH AMERICA UNIVERSITY PROGRAM**

"The 'Swedish Match North America University Program' aims to enhance participants' knowledge of Swedish Match operations across functions and give them tools to understand their own leadership style. In 2007, I participated and this year, 2008, I spearheaded the program. The best outcome of this program is that it allows

participants to gain better perspectives on industry challenges and how they can impact those challenges. Moreover, it gives confidence and positive feedback; we are a strong company with competent, good people. I feel proud that Swedish Match decided to invest in my personal development."



## Meeting forums

In order to create a strong leadership culture in the Swedish Match organization and to implement the Group's strategies, the Company regularly arranges management conferences for key managers from the entire Group. The conferences focus on strategies and business targets and on the sharing of experiences.

Within the Group, there is also cooperation across the organization through cross-divisional teams such as marketing, production, IT, product development teams, Human Resources and environmental managers. The various groups meet regularly to plan, coordinate and evaluate Group-wide activities within each area.

performance. This also promotes professional growth and career enhancement.

In the Swedish Match North America Division, customized training focusing on business-ready leaders took place this year. A group of 15 high performers with leadership potential was identified, and group members were invited to follow a career development program based on such topics as strategic thinking, decision-making, risk management, innovation, change management and how to create high-performing teams.

In the Swedish Match North Europe Division, a leadership development initiative was implemented in 2008. Over two days, all of the organization's leaders met and focused on developing employees in connection with business targets. The program comprised target-setting, motivation and feedback. As part of the leadership development initiative, an employee development program called Professional Employee was also initiated to support cultural change in the organization.

Internal recruitment is a natural part of the Swedish Match company culture. The ambition is to utilize internal competence by providing development opportunities so that employees can take on more responsibilities in the organization during the course of their careers. Nine out of ten members of the Swedish Match Group Management Team are internally recruited. During the year, most of the management vacancies were filled through internal recruitments. External recruitments are mainly carried out when a particular competence cannot be found internally.

### Securing management resources

Talent Management is a priority for Swedish Match's senior management. Members of both the Board of Directors and the Group

Jessica Olsson, receptionist at the Kungälv plant, North Europe Division

## THE PROFESSIONAL EMPLOYEE

"The objective of the training was to create better understanding of how our various units interact and contribute to achieving our business goals. In teams, with participants from units including HR, manufacturing, production and preparation, we gained insight into each other's work methods and found new cross-functional routines. I became more aware of how my own initiatives can improve our results. I gained a broader perspective



on the Company as a whole and how we together can create a stronger and more competitive Swedish Match."

Management are involved in the process. The process includes 200 people, and the objective is to secure appropriate staffing of senior management and key personnel, and to identify and develop high-potential employees in order to meet long-term organizational requirements.

The talent management process starts locally, with management teams continuously reviewing the required competences and identifying key positions and talents. At Group level, the CEO, Divisional Presidents and Group Human Resources representatives review the results, and a summary is prepared for the Board. The process enables the organization to gain an overall profile of the requirements and of the potential available in the Group. It also identifies managerial capabilities, possible alternative careers and successors. ■

## European Works Council

The European Works Council (EWC) was formed on the basis of an EU directive (Council Directive 94/45/EC), the purpose of which is to improve information provided to employees of companies that have operations in several countries and more than 1,000 employees. Within the Group, employee representatives from five countries meet. Two meetings were held in 2008.

## Cooperation with trade unions

In accordance with the Act on Co-Determination at Work (MBL), Swedish Match has an agreement concerning collaboration with trade union organizations active in the Group's Swedish business units. Under this agreement, a council comprising management representatives and employee representatives appointed to the Board of Directors meets in advance of scheduled Board meetings and on other ad hoc occasions. The Council focuses on particular issues that could result in MBL negotiations. A reference group also meets in advance of such Board meetings. The reference group comprises local trade union representatives of waged and salaried employees.

Swedish Match recognizes its role as a corporate citizen, and believes that active work on such issues as social, financial and environmental development contributes to the sustainable development of business operations.

Awareness of corporate responsibility has long been an integral part of Swedish Match's corporate culture. We believe that building long-standing relations with stakeholders, maintaining sound workplace practices, and upholding high business ethics and morals are key success factors for long-term growth and sustainability.



## Sustainability

# Code of conduct

Swedish Match's Code of Conduct, established in 2004, is the foundation for the Company's position in areas related to Corporate Responsibility. Swedish Match's commitment to social responsibility and environmental issues is supported by the Group's core values: Communication, Teamwork, Trust, Innovation, Recognition and Growth. These values are the platform for our business ethics and, as such, they are demonstrated in our relations with stakeholders and are a natural part of the way we conduct our business.

During 2008, Swedish Match reviewed and improved the content and form of the Code of Conduct to better meet current standards. This review included an overhaul of the follow-up process. The main changes were the full integration into the Code of Conduct of the tobacco policy and business ethics policy and the areas related to communication. The Code encompasses five different areas:

- **Social responsibility** – including human rights, child labor, supplier contracts, and issues specific to tobacco products.
- **Workplace practices** – including health and safety, recruitment, and remuneration.
- **Business ethics** – including conflict of interest, honest and ethical conduct; compliance with laws, rules and regulations; fraud response; gifts and loans; and related party transactions.
- **Communication** – including designated spokespersons, public reporting and communication, and internal reporting on critical information.
- **Environment** – including continuous environmental improvement and prevention of pollution in activities, products and services.

The Company policies comply with international conventions and guidelines on

human rights and labor conditions. The international conventions and guidelines referred to here are the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the central ILO conventions and the OECD's Guidelines for Multinational Enterprises.

### *Compliance with the Code of Conduct*

Swedish Match is an international group of companies. As such, it must comply with the national laws and regulations of the countries in which it operates and demonstrate respect for indigenous cultures and traditions in these countries.

The Code of Conduct is applicable to all Group employees, regardless of position. Every employee has a personal responsibility to make sure that actions taken comply not only with the letter of the Code, but with its spirit. Management has an additional responsibility to foster a culture of compliance



with the Code. Every manager in the Group has an obligation to ensure that employees are informed about the Code of Conduct.

Individual company policies in the business must always conform to the principles stated in the Code. Violations of the Code of Conduct lead to disciplinary actions deemed appropriate.

#### *Review processes*

The Code of Conduct, approved by the Board of Directors, is reviewed annually to ensure a high level of business ethics within the Group. Various procedures are in place for monitoring and reviewing the policies in the Code of Conduct. The review processes are intended to ensure that employees and other stakeholders affected by the Code of Conduct are aware of, understand and comply with its content.

The review process is conducted by an external partner, AON, an international risk

management company. The review primarily comprises an examination of the Company's own business units. The business units are reviewed every other year according to an established schedule. The review process includes implementation of the Code as such, social responsibility and workplace practices. Business units are evaluated in areas such as human rights, child labor, forced labor, supplier contracts, health and safety matters. Based on the results, the external partner presents recommendations if needed. Areas for improvement are followed up the next year.

Areas such as business ethics and communication are evaluated through internal control processes.

The conclusions of the review process are reported to the business unit's management team and to Group Human Resources. Divisional management has operational responsibility for ensuring compliance with

the Code. Operationally, Group Human Resources is responsible for further development and revision of the Code.

#### *Whistleblower function*

To further secure sound business ethics within the Company, Swedish Match has established a "whistleblower function" that provides every employee in the Group with the opportunity to report any suspicions of infringement of Group policies. Such suspicions can be submitted – anonymously – to a Company representative, the Senior Vice President of Legal Affairs or the Chairman of the Audit Committee. ■

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

For more information on the Code of Conduct, visit Swedish Match's Corporate website.



## Sustainability

# Social responsibility

Social responsibility has a long-standing tradition within Swedish Match and is a natural part of how we conduct our business. Investments are predominantly directed towards our employees and other stakeholders with close relations to the Company. To address local needs and aspirations, initiatives may vary among countries.

## Empowerment of our employees

Swedish Match's empowerment projects focus mainly on health, education and other opportunities to help employees and their families develop. These projects include scholarships and various forms of training, or may comprise financial support for medication and improved housing conditions for employees.

Social initiatives vary among countries and are closely linked to the social framework in which Swedish Match operates as an employer. The societal expectations and legal framework for employers differ. In some countries, education and health are managed

by social frameworks, while in others, providing for these needs is in the interest of the socially responsible employer. Swedish Match is dedicated to providing a workplace that is free from health and safety hazards. In addition to mandatory safety training, the Company continuously strives to identify and correct potential safety issues, to offer a wide range of wellness programs and to ensure that the workplace is ergonomically sound. Many proactive measures are undertaken at Swedish Match's workplaces to ensure proper facility safety and security, thereby protecting the employees. ■

## Dominican Republic and Honduras

In both the Dominican Republic and Honduras, Swedish Match is known as one of the most valued employers, offering payment rates above minimum wage. Swedish Match has also developed and implemented a variety of programs created to improve life for employees and other people in these regions.

The programs include health plans for all employees, hosting regular health fairs and conducting free regular dental and health exams on-site, as well as various literacy programs for employees and members of the surrounding communities. Other efforts include bicycle-purchase programs, support of home-improvement projects, funding and supporting schools located in economically challenged communities near company facilities, as well as professional development of employees through funding of studies in a variety of disciplines. <<



## South Africa

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

Professional medical assistance is provided at our on-site clinic, where

employees have been trained in providing support, in the form of peer educators and support committees for fellow workers.

A literacy and numeracy program, Adult Basic Education and Training, ABET, sponsored and supported by Swedish Match, has now entered its fourth year. <<

## Brazil

Empowerment projects in Brazil include the Projeto Semear, which consists of providing basic education for employees who previously have not had this opportunity. Also, Swedish Match is running a project aimed at familiarizing factory workers with the digital world by introducing open computer areas. Furthermore, employees are entitled to computer loans for purchasing a computer for personal use. <<

## Civic life – community projects

Swedish Match has a long record of social investments and community involvement and its approach is to conduct community projects that are relevant for the local business environment. A number of the initiatives are directed towards the community in which Swedish Match operates.

Investments are also made in other independent projects. These activities

### Dominican Republic

In the Dominican Republic, Swedish Match is conducting an important environmental project focusing on earth preservation on land owned by the Company. This is important because trees have been harvested by farmers for their valuable timber and to create arable land. When the heavy tropical rains come, the dry topsoil is washed away, and land erosion can occur incredibly fast.

To address the issue of deforestation in the Dominican Republic, Swedish Match planted some 40,000 mahogany plants that will restore the natural flora. The roots will bind the soil together and the crowns will soften the impact of the heavy rains. <<



include providing support for children, the disabled and other people in need. Other initiatives may encompass measures to protect the environment or to safeguard cultural heritage, as well as to enrich public community life, such as arts, educational institutions and restoring public spaces. ■

*“Social responsibility is a natural part of how we conduct our business.”*

### US

In the US, the Company has a long-standing history of making charitable donations and supporting arts and continued education. Community involvement is strongly encouraged, and nearly all employees participate in some type of community involvement, whether through donations, volunteer work or participation. Many serve on boards or committees for non-profit organizations or participate in school functions and youth activities.

Each facility within Swedish Match in the US distributes a generous charitable contribution allotment to various organizations within the community, providing for character-building programs and supporting families in need. A committee comprised of employees reviews each request received and responds appropriately, funding many worthwhile causes each year. <<

### Brazil

Swedish Match's community involvement in Brazil includes contributions to selected institutions that take care of homeless children, the elderly and disabled people. One example is the Bom Menino Project (Young Boy), a skill-building program that enables youths aged 14 to 18 from low-income families to develop educational, employment and social skills. <<



Henry Ascher, Solstickan Award winner 2008

### Sweden

In Sweden, a number of different community projects are ongoing, the most well-known being the Solstickan Foundation. The Foundation was founded in 1936 for the purpose – according to its charter – of working toward “the benefit of chronically ill children, the disabled and the needy, primarily the elderly.” More than 100 MSEK has been distributed via the Foundation over the years, the most prestigious being the Solstickan Prize.

The Solstickan Prize is awarded to a person who, in addition to his or her ordinary work, has made an especially valuable contribution in one of the areas covered by the Foundation's charter. The Prize is awarded annually and the current prize money amounts to 100,000 SEK.

In 2008, the Solstickan Prize was presented to pediatrician Henry Ascher, with the motivation: “For having worked to ensure that all children who stay in Sweden, either permanently or temporarily, are treated in a manner that complies with the United Nations' Convention on the Rights of Children.”

Furthermore, the Tobacco and Match Museum in Stockholm is the custodian of an important part of Swedish industrial culture, with its extensive collections cared for by Swedish Match. <<

## Sustainability

# Environment

Swedish Match believes that environmental efforts contribute to long-term sustainable development of business operations. We continuously strive to make improvements in areas of our operations that have an environmental impact, thus creating sustainable conditions for our businesses, employees and society at large.

### Swedish Match and the environment

The production processes and raw materials used in the tobacco industry generally have limited environmental impact.

Approximately 80 percent of the raw materials used within the Swedish Match Group are renewable, and environmentally harmful substances are only handled to a limited extent during production. However, Swedish Match recognizes that its operations have an environmental impact and has determined that its water and energy consumption have the greatest environmental impact, together with business travel and freight transport.

Swedish Match works constantly to achieve improvements in operations that have an environmental impact. In order to increase resource efficiency, the Group continuously fine-tunes its systems for cleaning and reducing emissions. To reduce travel, videoconferences and teleconferences are encouraged, and we strive to increase our use of environmentally friendly company cars.

Our philosophy is that environmental efforts should be carried out locally and that targets for environmental efforts should be formulated based on identified environmental impacts. These targets should be clear, measurable and consistent with environmental policy. They address areas such as CO<sub>2</sub> emissions, fuel and energy, discharges to water, and factory

waste. The targets also address compliance with regulations and other commitments. In recent years, we have reduced our water and energy consumption and our waste production.

Swedish Match welcomes the development of increased environmental awareness and sees it as an incentive for the Group to continuously improve, measure and find new ways to reduce its environmental impact. The trend also provides a common platform to measure environmental performance against that of other companies. One comparison in which Swedish Match is participating is the Carbon Disclosure Project (CDP), which maps companies' CO<sub>2</sub> emissions.

### Environmental standards and management systems

Swedish Match works systematically on environmental and quality issues in operations that have an environmental impact. The Swedish Match Group has adopted an environmental policy that encompasses all aspects of its operations. The policy is based on the principles of the environmental standard ISO 14001 and is available to both external and internal stakeholders on the Group's website and Intranet. Due to the diversity of Swedish Match's activities, subordinated environmental policies are formulated for each division.

The majority of our business units, representing approximately 90 percent of the Group's sales, are certified according to the environmental standard ISO 14001. In 2008, the Group's entities in Honduras were certified.

Because the ISO 14001 certifications are mainly applicable to production units, an internal Environmental Management System (EMS) was developed to cover all other business units, such as head offices and sales offices. EMS is based on the same principles as ISO 14001, and its purpose is to ensure that improvement projects and review procedures are in place in all our business units.

### Environmental organization

The divisional management teams are responsible for implementing the Group Environmental Policy and operating the improvement programs. Each major business unit has an environmental manager, and the operational work is carried out by appointed environmental representatives. A large number of environmental achievements take place in our day-to-day business, in close connection with customers, consumers and employees.

The Group Environmental Council, with representatives from all divisions, headed by the Senior Vice President Group Human Resources, is responsible for environmental issues and for reporting environmental results. The Council's task is to safeguard compliance with Swedish Match's stated policy and the Environmental Management System throughout the organization. This is achieved by regular meetings and by a structured information exchange between

EMISSIONS OF CARBON DIOXIDE (CO <sub>2</sub> ) <sup>1)</sup>	2007	2006	2005	2004
Total tons CO <sub>2</sub>	74,388	78,161	73,927	94,140
Ton CO <sub>2</sub> per employee	6.2	6.3	5.2	6.3
Ton CO <sub>2</sub> per MSEK sales	5.9	6.1	5.6	7.2

<sup>1)</sup> Source: Swedish Match



meetings. The Environmental Council members represent the link between divisions and Corporate Headquarters.

The Environmental Council has formulated a common working platform for environmental issues. In 2007, Swedish Match established a single reporting and evaluation structure with common definitions for the entire Group.

In addition, corporate representatives are obligated to analyze and review environmental efforts regularly through both internal and external audits. The results of the audits are reported to the divisional management teams.

### Climate change

Increased awareness of the scientific findings surrounding climate change has resulted in a shift in perceptions and attitudes concerning the causes and importance of global warming. Swedish Match's prioritized environmental target is to limit the impact of greenhouse gas emissions on the climate. The Company is working purposefully on various improvement activities and projects. Emission reduction programs are in place for all business units certified according to ISO 14001. Systematic reduction programs have been in place since 1999.

Emission reduction programs pertain mainly to energy consumption in production facilities and to fuel consumption related to transports. The group is working with energy-saving programs and with programs to reduce electricity consumption for heating, cooling and lighting. Measures taken include the installation of low-energy lighting, insulation, heat-recovery systems and energy consumption controls. ■

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM) 

The entire environmental policy is accessible on the Corporate website.



## Swedish Match Environmental Policy

- We are committed to continual environmental improvement and the prevention of pollution in all our activities, products and services.
- We operate an environmental management system applicable at Group, divisional and factory levels to ensure that this commitment is continuously maintained.
- We are committed to complying with all relevant environmental legislation, regulations and other requirements in the countries where we operate.
- We continuously strive to achieve environmental objectives identified through our environmental management system.
- We undertake appropriate improvements and remedial actions based on financial and environmental criteria.
- We provide information about and document major changes in the environmental impact of our activities, products and services.

## Sustainability

# Scientific Affairs

A major change in perception about the health risks associated with different tobacco products has occurred within the scientific community during the last few years. The wide continuum of risk is increasingly being recognized. In this context, smokefree, Swedish snus-type products are generally considered best in class.

The main drivers of this change include epidemiological studies from Sweden which collectively form the “Swedish Experience”. A contributing factor has also been Swedish Match’s long tradition of science-driven product development, exemplified by, for instance, the world-leading industrial standard **GothiaTek®**. **GothiaTek®** emphasizes Swedish Match’s commitment to “tobacco harm reduction”.

*Modern, low-nitrosamine smokefree tobacco products, such as those manufactured by Swedish Match, are associated with minimal health risks and should, therefore, not be compared to cigarettes.*

More appropriate comparators include common consumer products, such as coffee or pharmaceutical nicotine replacement therapies.

Pending US legislation would grant regulatory authority over tobacco to the Food and Drug Administration (FDA). A special regulatory route for “reduced harm” tobacco products will probably be an integral part of this regulation. In this context, “reduced harm” does not only refer to the properties of the product itself. It must also take into account how the product is actually used by consumers and that more widespread population usage does not result in net overall population harm, for instance, through extensive dual usage together with conventional cigarettes or that it contributes to a decrease in complete smoking cessation.

Many observers believe that a Swedish snus-type product enjoys the greatest prospects to be the first to be approved by the FDA according to this new route. At this moment, it appears unlikely that any smoked tobacco product will be granted “reduced harm” status given the scientific uncertainties associated with prediction of health effects and the lack of long-term epidemiological studies.

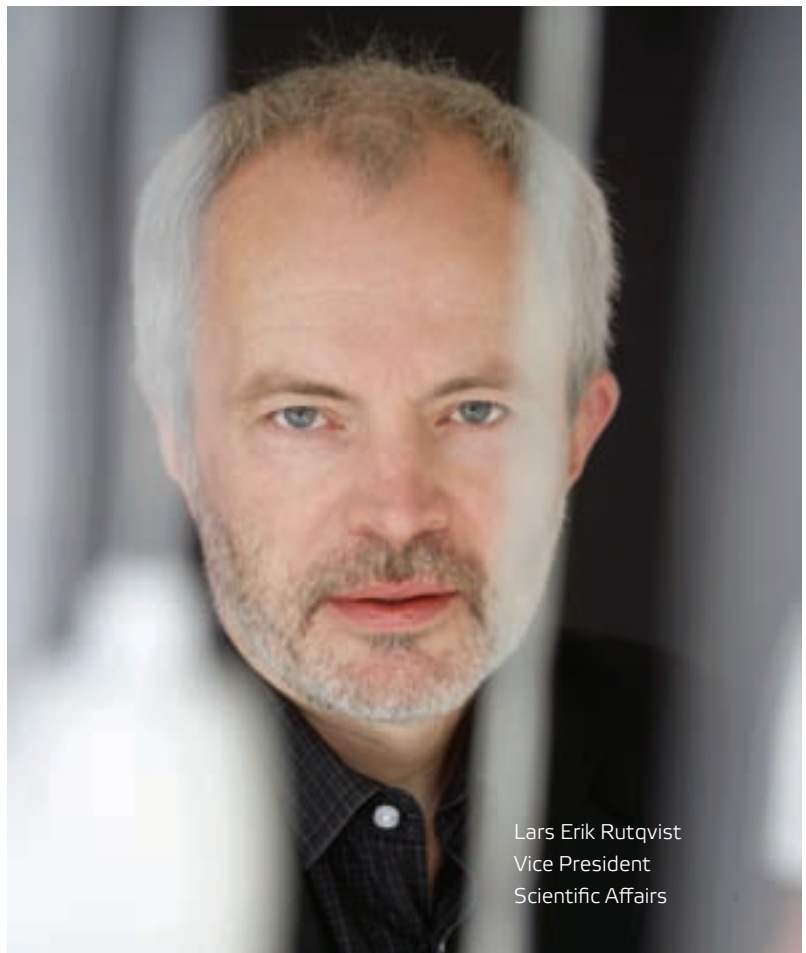
Swedish Match has a long-standing commitment to a scientifically-based product development which include continuous efforts to eliminate or reduce controversial compounds that are found naturally in tobacco. Swedish Match therefore is in a strong position to take advantage of the Company’s heritage, and to be the leading smokefree company favored by consumers as well as regulatory authorities. To further align the activities with these goals, Swedish Match has recently adopted a new Scientific Affairs Policy. An exciting, novel addition to the activities of Scientific Affairs is the sponsorship of two recently initiated clinical trials that are being conducted in the US and in Eastern Europe.

## Clinical trials

In Scandinavia there is compelling epidemiological data showing the migration during recent decades from cigarettes to snus. In Swedish population surveys, snus is reported to be the most commonly used smoking cessation aid. Many researchers have come to the conclusion that these circumstances have contributed to the internationally unique low smoking prevalence and record low rates of tobacco-related disease in Sweden, particularly among males. More recently, similar trends have been reported from Norway.

Based on these observations many researchers have felt that it would be appropriate to conduct clinical trials to test the efficacy of snus for smoking cessation purposes, particularly in countries where there is no long-standing cultural tradition of smokefree tobacco products.

Swedish Match was approached some years ago by two independent research groups with an interest in prevention of smoking-related disease and the role smokefree tobacco could potentially play in smoking cessation. The outcome of these contacts is that Swedish Match has agreed to act as the official sponsor of two smoking



Lars Erik Rutqvist  
Vice President  
Scientific Affairs

“In Swedish population surveys, snus is reported to be the most commonly used smoking cessation aid... More recently, similar trends have been reported from Norway.”

cessation trials which will test the efficacy of snus versus a placebo comparator without tobacco or nicotine. One of the trials will be conducted at four centres in the US, and the other in Serbia, a country where smoking prevalence is exceptionally high and where there is no history of smokefree tobacco use. Both trials are registered on the clinical trial website kept by the US National Institutes of Health ([www.clinicaltrials.gov](http://www.clinicaltrials.gov)).

#### US trial

The US trial was opened for entry in February, 2009. It is being conducted at four centres located in Evansville (Indiana), Daytona Beach (Florida), Austin (Texas), and Portland (Oregon). The study includes cigarette smokers who are motivated to quit using a smokefree tobacco product.

An internationally reputable CRO (Contract Research Organization) is responsible for coordination and monitoring of the study to ensure that all study procedures follow internationally accepted guidelines for clinical trials (Good Clinical Practice, GCP). Strict adherence to GCP is fundamental to the scientific validity of the trial and is typically mandated for tests of pharmaceutical products by regulatory authorities, such as the FDA (Food and Drug Administration) in the US.

The first results from this trial are expected during the first half of 2010.

#### The Serbian trial

This study is being conducted at two healthcare centres in Belgrade, Serbia. It also includes cigarette smokers who are motivated to quit using a smoke-free tobacco product. Just like the US trial it is

randomized, placebo-controlled, and double-blind, that is, participants are randomly allocated to either a snus-type, smokefree tobacco product or to a matching placebo product and both trialist and participant is “blinded” as to the product allocation.

An international CRO with local representation in Belgrade is responsible for coordination and monitoring to ensure GCP standards. The study was initiated in January, 2008. Accrual of participants will continue through the second quarter, 2009. First results are expected during the fourth quarter, 2010.

The design of both trials include a comparison of a smokefree tobacco product with a non-tobacco, non-nicotine product. To use a placebo comparator is standard methodology when testing the efficacy of a new product in a clinical trial setting for the first time. It was also the design favoured by the research groups responsible for conducting the trials.

#### “Proof of principle”

It is never possible to accurately predict the outcome of any scientific experiment, such as a controlled clinical trial. However, Swedish Match feels confident that the trials will emulate the observations in epidemiological studies from Scandinavia. These studies show that Swedish-type snus products can help to reduce smoking and increase quit rates among cigarette smokers. In this regard the clinical trials are expected to provide “proof of principle” and then represent a new and significant element in the scientific debate on the harm reduction potential of smokefree tobacco products. ■

## Swedish Match Scientific Affairs Policy

The main responsibilities of Scientific Affairs are (1) to continuously develop our scientific platform for the concept of tobacco harm reduction, (2) provide scientific guidance to product and business development projects, and (3) support the Company’s dialogue with relevant stakeholders in our society.

#### *Scientific platform*

A comprehensive, scientific platform for the concept of tobacco harm reduction is a cornerstone for the Company’s activities related to smokefree products. The platform requires monitoring and evaluation of emerging scientific data as well as interactions with the scientific community. Scientific Affairs also initiates and acts as a sponsor of research projects in strategic scientific areas where pivotal studies are not being performed by external research groups.

#### *Product & business development*

Scientific Affairs ensures that our product standards are consistent with new scientific findings, emerging legislation, and regulatory frameworks. This includes the chemical composition and other relevant properties of current and new products.

#### *Act as a dialogue partner*

It is vital that the Company’s communication activities related to tobacco and health are based on fact- and existing scientific knowledge. Swedish Match welcomes any constructive dialogue in this matter and encourages further cooperation with the scientific community and with our society in general. It is equally important that Swedish Match reacts to non-factual and arbitrary claims regarding our products.



## Information to shareholders

# Our window to the capital market

## Annual General Meeting

The Annual General Meeting of Swedish Match AB (publ) will be held on Tuesday, April 28, 2009, at 4.30 p.m. CET at Hotel Rival, Mariatorget 3, in Stockholm, Sweden. Registration for the Annual General Meeting will open at 3.30 p.m CET.

## Dividend

The Board of Directors proposes that a dividend of 4.10 SEK per share be paid to shareholders. The proposed record date for entitlement to receive a cash dividend is May 4, 2009. If the Annual General Meeting approves the Board's proposal, dividends will be paid through Euroclear Sweden AB (former VPC AB) on May 7, 2009.

## Calendar

Interim report Jan-Mar ..... April 30, 2009  
Interim report Jan-Jun ..... July 17, 2009  
Interim report Jan-Sep..... October 27, 2009  
Full-year report for 2009 ..... February 18, 2010  
Annual report for 2009 ..... March 2010

## Contacts



[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

Further information about the Annual General Meeting is available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).



### Investor Relations

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### Corporate Relations

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Djuli Holmgren is contact person for the Annual Report, the corporate website, and general shareholder information.

## Excellence 2008 in corporate communications

- ★ Best IR Manager Large Cap  
*IR Nordic Markets Awards (REGI/Affärsvärlden)*
- ★ Best IR Professional, Tobacco, Sell Side and Buy Side
- ★ Best IR Tobacco, Sell Side
- ★ Most improved IR, Tobacco, Buy side  
*Institutional Investor Magazine*
- ★ Best Corporate website Sweden
- ★ 2nd Best Corporate website Nordic region  
*Webranking Awards (Hallvarsson & Halvarsson)*

## Financial information



In addition to the Annual Report, Swedish Match publishes interim reports and shareholder magazines. Publications are issued in English and Swedish and, in addition to traditional printed versions, publications are also available in electronic format through the Company's website.

All new shareholders automatically receive a printed version of interim reports and the shareholder magazine Swedish Match Inside. As of end 2008, a special request must be made by shareholders for supplementary information services, such as the Annual Report.

Swedish Match provides additional information services through its Subscription Service, which can be accessed

on the Company's website. The Subscription Service enables any interested party to monitor the Company's share closing price for the week and receive reminders of calendar activities, press releases, interim reports, annual reports, etc.

New shareholders automatically receive log-in credentials to access a personal user account. Other interested parties can create a user account to access the information.

A request to modify the information received from Swedish Match can be submitted directly through the user account in the Subscription Service [www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe), or by e-mail to: [investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com).

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)   
More information available on the Corporate website.



## Follow Swedish Match at [www.swedishmatch.com](http://www.swedishmatch.com)

The Internet is an important source for company-related information. The aim of Swedish Match's website is to continuously provide shareholders, investors and other players in the capital market with timely and relevant information on the Group's operations and activities.

The website contains information concerning the Company, its business and strategies. It also provides financial information, share data and information regarding the Annual General Meeting. Furthermore, visitors to the website can access information on snus and health, relevant research findings, snus in the EU and Swedish Match's efforts in the area of environment and social responsibility.

# The share

The Swedish Match share is listed on the NASDAQ OMX Stockholm. Total share capital at the end of the year amounted to 390 MSEK, distributed among 255 million shares with a quotient value of 1.5275 SEK each. Each share carries one vote.

## Turnover

Total turnover in 2008 amounted to 515,542,139 Swedish Match shares on the NASDAQ OMX Stockholm, with a daily average turnover of 2.0 million shares. The turnover rate, or the liquidity of the share on the NASDAQ OMX Stockholm, was 198 percent during the year, compared with the average of 152 percent for the NASDAQ OMX Stockholm.

## Price trend

The Company's market capitalization at year-end 2008 amounted to 27.8 billion SEK<sup>2)</sup>. The share price decreased by 27.7 percent during the year, while the OMXS 30 Index decreased by 37.4 percent. The lowest price paid during the year was 95.75 SEK on October 10, and the highest price paid was 165.00 SEK on January 10.

## Ownership structure<sup>1)</sup>

At year-end, foreign ownership interests corresponded to 74.9 percent of total share capital, a decrease of 3.1 percentage points compared with 2007.<sup>2)</sup> Swedish ownership interests, totaling 25.1 percent, were distributed among institutions, with 9.3 percent of the share capital, mutual funds, with 7.1 percent, and private individuals, with 8.7 percent. The 10 largest shareholders accounted for 32.1 percent of the share capital.<sup>2)</sup>

## Dividend

The Swedish Match dividend policy specifies that the dividend should be within the range of 40 to 60 percent of earnings per share, subject to adjustments for larger one time items.

The Board of Directors intends to propose to the Annual General Meeting a dividend for 2008 of 4.10 SEK (3.50) per share, for a

total of 1,022 MSEK (886), based on the 249.2 million of shares outstanding at the end of the year. The dividend corresponds to 46 percent (45) of EPS for the year.

## Repurchase of shares

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

<sup>1)</sup> Source: SIS Ägarservice, according to Euroclear Sweden AB (former VPC AB).

<sup>2)</sup> Excluding shares held in treasury by Swedish Match AB, which corresponds to 2.3 percent of the total number of shares.

## Largest shareholders

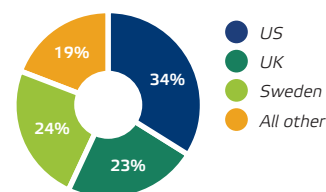
Source: SIS Ägarservice, according to Euroclear Sweden AB (former VPC AB) and data known by Swedish Match, as of December 31, 2008.

Owner as of December 31, 2008 <sup>1) 2)</sup>	No. of shares	%
Parvus Asset Management	26,314,200	10.6
Morgan Stanley Investment Management	14,117,937	5.7
Wellington Management Company	12,963,744	5.2
Swedbank Robur Funds	5,717,508	2.3
Nordea Funds	4,486,063	1.8
Second Swedish National Fund	4,327,303	1.7
Fourth Swedish National Fund	3,925,953	1.6
SHB/SPP Funds	2,831,121	1.1
Third Swedish National Fund	2,733,371	1.1
First Swedish National Fund	2,564,000	1.0
<b>Total of 10 largest shareholders</b>	<b>79,981,200</b>	<b>32.1</b>
Others	169,178,800	67.9
<b>Total</b>	<b>249,160,000</b>	<b>100.0</b>

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

<sup>2)</sup> Registered direct ownership and ownership through trustees. In addition the Company owns 5,840,000 shares acquired through buybacks.

## Share capital by country



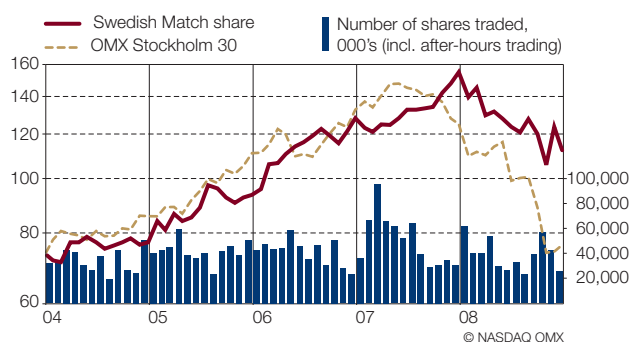
Source: SIS Ägarservice, according to Euroclear Sweden AB (former VPC AB) and data known by Swedish Match, as of December 31, 2008. "All other" also includes shareholders with less than 500 shares in the US, UK, and Sweden.

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

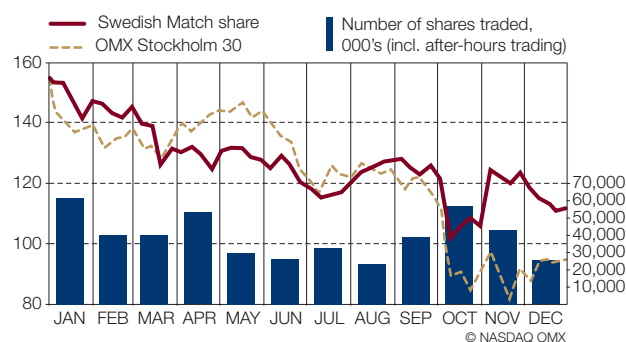
More information about the share is available on the Corporate website.



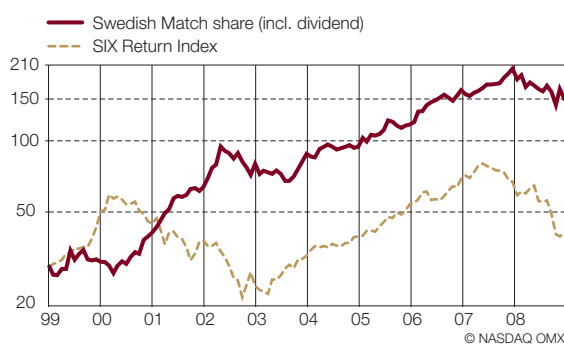
## Share price 2004–2008



## Share price 2008



## Total return 1999–2008

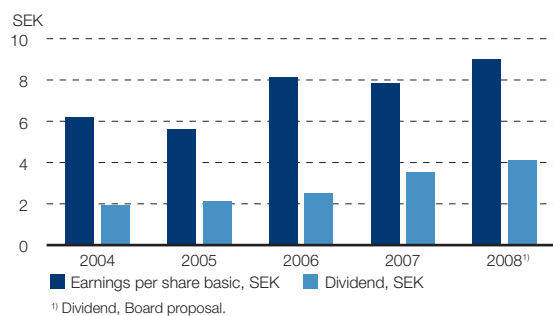


## Transfer of capital to Swedish Match shareholders

MSEK	2008	2007	2006	2005	2004	Total
Dividends	1,022 <sup>1)</sup>	886	664	627	612	3,811
Repurchase of own shares, net	934	2,453	3,585	1,411	576	8,959
<b>Total</b>	<b>1,956</b>	<b>3,339</b>	<b>4,249</b>	<b>2,038</b>	<b>1,188</b>	<b>12,770</b>

<sup>1)</sup> Dividend proposed for fiscal year 2008.

## Earnings and dividend per share 2004–2008



<sup>1)</sup> Dividend, Board proposal.

Share distribution<sup>1)</sup>

Size of holding	No. of owners	%	No. of shares	%
1–1,000	48,199	90.6	10,290,028	4.1
1,001–5,000	3,980	7.5	7,911,399	3.2
5,001–20,000	576	1.1	5,389,860	2.2
20,001–50,000	140	0.3	4,410,404	1.8
50,001–100,000	80	0.2	5,827,501	2.3
100,001–1,000,000	185	0.3	60,899,296	24.4
1,000,001–	54	0.1	154,431,512	62.0
<b>Total at December 31, 2008</b>	<b>53,214</b>		<b>249,160,000</b>	

<sup>1)</sup> Excluding shares held by Swedish Match.

Source: SIS Ågarservice AB, based on Euroclear Sweden AB (former VPC AB).

## Share data

	2008	2007	2006	2005	2004
Earnings per share, basic, SEK	8.98	7.82	8.13	5.61	6.18
Earnings per share, diluted, SEK	8.96	7.80	8.10	5.59	6.15
Dividend, SEK	4.10 <sup>1)</sup>	3.50	2.50	2.10	1.90
Dividend yield at year-end, %	3.67	2.27	1.95	2.24	2.47
Dividend pay-out ratio, %	46 <sup>1)</sup>	45	31	35	30
Market price at year-end, SEK	111.75	154.50	128.00	93.50	77.00
Market capitalization at year-end, SEK billion <sup>2)</sup>	27.8	39.5	35.1	28.6	24.8
P/E ratio	12.4	19.8	15.8	16.7	12.5
EBIT multiple	11.7	16.2	13.0	11.2	11.1
Total return, %	-25.8	22.7	39.5	24.2	7.0
Average number of shares, basic	251,867,479	262,604,644	287,062,345	315,128,554	325,708,645
Average number of shares, diluted	252,211,733	263,405,637	288,161,247	316,226,392	327,013,542
Number of shareholders	53,215	54,594	58,287	87,840	94,860

<sup>1)</sup> Board proposal.

<sup>2)</sup> Excluding shares held by Swedish Match.

# Five-year summary

Condensed consolidated income statements, MSEK	2008	2007	2006	2005	2004
<b>Sales</b>	<b>13,162</b>	<b>12,551</b>	<b>12,911</b>	<b>13,311</b>	<b>13,007</b>
<b>Gross profit</b>	<b>6,477</b>	<b>5,973</b>	<b>6,237</b>	<b>6,033</b>	<b>5,761</b>
Larger one time items	73	267	148	206	1,521
<b>Operating profit</b>	<b>3,090</b>	<b>2,997</b>	<b>3,285</b>	<b>2,825</b>	<b>3,593</b>
Net finance cost	-443	-336	-112	-128	-164
<b>Profit before income tax</b>	<b>2,646</b>	<b>2,662</b>	<b>3,173</b>	<b>2,696</b>	<b>3,429</b>
<b>Profit for the year</b>	<b>2,261</b>	<b>2,056</b>	<b>2,335</b>	<b>1,777</b>	<b>2,084</b>
EBITDA excluding larger one time items	3,465	3,166	3,583	3,206	2,916

Condensed consolidated balance sheets, MSEK	2008	2007	2006	2005	2004
<b>Assets</b>					
Intangible assets	4,702	4,419	3,469	4,265	3,452
Property, plant and equipment	2,458	2,388	2,221	2,488	2,712
Non-current financial assets	2,284	1,011	1,055	1,150	848
Inventories	3,202	2,520	2,473	2,770	2,476
Current receivables	2,530	2,685	3,354	2,475	2,408
Cash and cash equivalents including other investments	3,179	3,444	3,098	3,657	3,002
<b>Total assets</b>	<b>18,355</b>	<b>16,467</b>	<b>15,670</b>	<b>16,806</b>	<b>14,898</b>
<b>Equity and liabilities</b>					
Equity, including minority interest	1,381	724	2,041	5,083	5,060
of which, minority interest	4	4	3	3	481
Non-current provisions	1,281	1,292	1,192	3,072	2,512
Non-current liabilities	11,312	9,335	8,472	2,884	2,580
Current provisions	29	60	61	293	647
Current liabilities	4,352	5,056	3,904	5,474	4,099
<b>Total equity and liabilities</b>	<b>18,355</b>	<b>16,467</b>	<b>15,670</b>	<b>16,806</b>	<b>14,898</b>

Condensed consolidated cash flow, MSEK	2008	2007	2006	2005	2004
Net cash from operating activities	1,979	2,327	1,335	2,718	3,626
Net cash used in investing activities	-48	-490	-255	-140	-658
Net cash used in financing activities	-2,226	-1,426	-1,164	-1,441	-2,779
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-295</b>	<b>410</b>	<b>-85</b>	<b>1,137</b>	<b>189</b>
Cash and cash equivalents at beginning of the year	3,439	3,042	3,325	2,058	1,909
Effects of exchanges rate fluctuations on cash and cash equivalents	34	-13	-198	130	-40
<b>Cash and cash equivalents at end of year</b>	<b>3,178</b>	<b>3,439</b>	<b>3,042</b>	<b>3,325</b>	<b>2,058</b>

Key figures	2008	2007	2006	2005	2004
Operating capital at year-end, MSEK <sup>1)</sup>	9,585	8,439	8,059	7,765	7,314
Net debt, MSEK	7,640	7,127	5,658	674	527
Investments in property, plant and equipment, MSEK	331	541	304	328	486
Operating margin, % <sup>2)</sup>	22.9	21.8	24.3	19.7	17.8
Return on operating capital, % <sup>2)</sup>	33.5	33.1	38.1	34.7	29.4
EBITA interest cover	7.5	9.0	15.7	26.6	15.4
Net debt/EBITA	2.4	2.5	1.7	0.2	0.2
Equity/assets ratio, %	7.5	4.4	13.0	30.2	34.0
Share capital, MSEK	390	390	390	390	808
Dividends per share, SEK	4.10 <sup>3)</sup>	3.50	2.50	2.10	1.90
Earnings per share basic, SEK	8.98	7.82	8.13	5.61	6.18
Earnings per share diluted, SEK	8.96	7.80	8.10	5.59	6.15

<sup>1)</sup> Due to changes on accounting principles governing pensions, the Company decided to amend the internal definition of operating capital. As of 2006, pension liabilities and pension receivables are not included in operating capital.

<sup>2)</sup> Excluding a gain from sale of subsidiary and related assets during the fourth quarter 2008, gain on sale of real estate during 2007 and 2005, the pension curtailment gain during 2006, the settlement income from UST, and impairment and reserves in match operations during 2004.

<sup>3)</sup> Board proposal.

Sales by product area, MSEK	2008	2007	2006	2005	2004
Snuff	3,829	3,289	3,363	3,131	3,081
Cigars	3,657	3,411	3,407	3,283	3,171
Chewing tobacco	934	956	1,063	1,079	1,058
Pipe tobacco and accessories	817	851	899	920	901
Lights	1,534	1,473	1,503	1,936	1,960
Other operations	2,390	2,571	2,677	2,962	2,836
<b>Subtotal</b>	<b>13,162</b>	<b>12,551</b>	<b>12,911</b>	<b>13,311</b>	<b>13,007</b>

Operating profit/loss by product area, MSEK	2008	2007	2006	2005	2004
Snuff	1,689	1,366	1,614	1,504	1,376
Cigars	689	737	770	613	567
Chewing tobacco	329	312	338	347	304
Pipe tobacco and accessories	210	201	265	237	254
Lights	276	252	249	58	1
Other operations	-176	-137	-99	-140	-190
<b>Subtotal</b>	<b>3,017</b>	<b>2,730</b>	<b>3,137</b>	<b>2,618</b>	<b>2,312</b>
Gain on sale of subsidiary and related assets	73	-	-	-	-
Gain on sale of real estate	-	267	-	206	-
Pension curtailment gain	-	-	148	-	-
Settlement income, UST	-	-	-	-	1,521
Impairment and reserves in match operations	-	-	-	-	-150
Cost for acquisition of share in Wimco Ltd	-	-	-	-	-90
<b>Total</b>	<b>3,090</b>	<b>2,997</b>	<b>3,285</b>	<b>2,825</b>	<b>3,593</b>

Operating margin by product area, %	2008	2007	2006	2005	2004
Snuff	44.1	41.5	48.0	48.0	44.7
Cigars	18.8	21.6	22.6	18.7	17.9
Chewing tobacco	35.2	32.7	31.8	32.1	28.7
Pipe tobacco and accessories	25.7	23.6	29.5	25.8	28.2
Lights	18.0	17.1	16.6	3.0	0.0
<b>Group<sup>1)</sup></b>	<b>22.9</b>	<b>21.8</b>	<b>24.3</b>	<b>19.7</b>	<b>17.8</b>

<sup>1)</sup> Excluding a gain from sale of subsidiary and related assets during the fourth quarter 2008, gain on sale of real estate during 2007 and 2005, the pension curtailment gain during 2006, the settlement income from UST, and impairment and reserves in Lights operations during 2004.



# Quarterly data

Condensed consolidated income statements, MSEK <sup>1)</sup>	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	<b>3,628</b>	<b>3,432</b>	<b>3,284</b>	<b>2,818</b>	<b>3,527</b>	<b>3,272</b>	<b>3,090</b>	<b>2,663</b>
<b>Gross profit</b>	<b>1,804</b>	<b>1,691</b>	<b>1,598</b>	<b>1,384</b>	<b>1,647</b>	<b>1,570</b>	<b>1,461</b>	<b>1,295</b>
Gain on sale of subsidiary and related assets	73	-	-	-	-	-	-	-
Gain from real estate sale	-	-	-	-	267	-	-	-
<b>Operating profit</b>	<b>937</b>	<b>868</b>	<b>738</b>	<b>547</b>	<b>1,062</b>	<b>759</b>	<b>642</b>	<b>534</b>
Net financial cost	-98	-115	-117	-114	-86	-105	-79	-66
<b>Profit before income tax</b>	<b>839</b>	<b>754</b>	<b>621</b>	<b>433</b>	<b>976</b>	<b>655</b>	<b>563</b>	<b>468</b>
<b>Profit for the year attributable to equity holders of the Parent</b>	<b>728</b>	<b>671</b>	<b>517</b>	<b>346</b>	<b>791</b>	<b>491</b>	<b>441</b>	<b>332</b>
EBITDA excluding larger one time items	980	979	847	660	897	875	751	642

<sup>1)</sup> Data for Q1-Q3 2008 has been restated due to a multi-employer plan being entirely assumed by Swedish Match and thereby reclassified from a post-employment defined contribution plan to a post-employment defined benefit plan.

Key figures <sup>1)</sup>	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, % <sup>2)</sup>	23.8	25.3	22.5	19.4	22.5	23.2	20.8	20.0
Equity/assets ratio, %	7.5	4.4	-1.7	1.0	4.4	1.9	2.4	9.2
Investments in property, plant and equipment, MSEK	118	65	75	73	120	132	165	124
Earnings per share, basic, SEK	2.91	2.67	2.04	1.36	3.04	1.89	1.66	1.23

<sup>1)</sup> Data for Q1-Q3 2008 has been restated due to a multi-employer plan being entirely assumed by Swedish Match and thereby reclassified from a post-employment defined contribution plan to a post-employment defined benefit plan.

<sup>2)</sup> Excluding larger one time items.

Sales by product area, MSEK <sup>1)</sup>	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snuff	1,063	992	953	821	981	852	794	662
Cigars	1,056	936	908	757	928	902	847	735
Chewing tobacco	260	237	227	210	222	243	253	238
Pipe tobacco and accessories	217	214	189	198	223	220	203	205
Lights	410	404	374	347	405	374	354	340
Other operations	621	650	634	484	769	682	638	483
<b>Total</b>	<b>3,628</b>	<b>3,432</b>	<b>3,284</b>	<b>2,818</b>	<b>3,527</b>	<b>3,272</b>	<b>3,090</b>	<b>2,663</b>

<sup>1)</sup> Data for Q1-Q3 2008 has been restated due to a multi-employer plan being entirely assumed by Swedish Match and thereby reclassified from a post-employment defined contribution plan to a post-employment defined benefit plan.

Operating profit/loss by product area, MSEK <sup>1)</sup>	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snuff	470	486	412	321	441	383	311	231
Cigars	206	188	184	112	195	185	193	164
Chewing tobacco	96	87	77	69	75	83	82	72
Pipe tobacco & accessories	57	54	47	51	58	64	24	56
Lights	71	85	64	56	67	67	62	57
Other operations	-36	-32	-47	-61	-41	-22	-29	-45
<b>Subtotal</b>	<b>864</b>	<b>868</b>	<b>738</b>	<b>547</b>	<b>795</b>	<b>759</b>	<b>642</b>	<b>534</b>
Gain on sale of subsidiary and related assets	73	-	-	-	-	-	-	-
Gain from real estate sale	-	-	-	-	267	-	-	-
<b>Total</b>	<b>937</b>	<b>868</b>	<b>738</b>	<b>547</b>	<b>1,062</b>	<b>759</b>	<b>642</b>	<b>534</b>

<sup>1)</sup> Data for Q1-Q3 2008 has been restated due to a multi-employer plan being entirely assumed by Swedish Match and thereby reclassified from a post-employment defined contribution plan to a post-employment defined benefit plan.

Operating margin by product area, % <sup>1)</sup>	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snuff	44.2	49.0	43.3	39.0	45.0	45.0	39.1	34.9
Cigars	19.5	20.1	20.3	14.8	21.0	20.5	22.7	22.3
Chewing tobacco	36.8	36.9	34.1	32.7	34.1	34.3	32.3	30.1
Pipe tobacco and accessories	26.3	25.4	25.0	26.0	25.9	28.9	11.7	27.1
Lights	17.4	21.1	17.1	16.1	16.4	17.8	17.5	16.8
<b>Group<sup>2)</sup></b>	<b>23.8</b>	<b>25.3</b>	<b>22.5</b>	<b>19.4</b>	<b>22.5</b>	<b>23.2</b>	<b>20.8</b>	<b>20.0</b>

<sup>1)</sup> Data for Q1-Q3 2008 has been restated due to a multi-employer plan being entirely assumed by Swedish Match and thereby reclassified from a post-employment defined contribution plan to a post-employment defined benefit plan.

<sup>2)</sup> Excluding larger one time items.

# Definitions

## AVERAGE SHAREHOLDERS' EQUITY

$$\frac{\text{Opening + closing equity attributable to the equity holders of the Parent}}{2}$$

## EBITA

Earnings excluding larger one time items, net finance cost, tax, amortization and impairments of intangible assets

## OPERATING CAPITAL

Current operating assets + intangible assets + tangible assets + other non-current operating assets – current and non-current operating liabilities

## AVERAGE OPERATING CAPITAL

$$\frac{\text{Opening + closing operating capital}}{2}$$

## EBITA INTEREST COVERAGE RATIO

$$\frac{\text{EBITA}}{\text{Interest expense – interest income}}$$

## OPERATING MARGIN (%)

$$\frac{100 \times \text{Operating profit}}{\text{Net sales}}$$

## DIVIDEND YIELD (%)

$$\frac{100 \times \text{Dividend (paid/proposed after year-end)}}{\text{Year-end share price}}$$

## EBITDA

Earnings excluding larger one time items, net finance cost, tax, depreciation, amortization and impairments of tangible and intangible assets

## P/E RATIO

$$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$$

## DIVIDEND PAY-OUT RATIO (%)

$$\frac{100 \times \text{Dividend (paid/proposed after year-end)}}{\text{Earnings per share}}$$

## EQUITY/ASSETS RATIO (%)

$$\frac{100 \times \text{Total equity}}{\text{Total assets}}$$

## RETURN ON OPERATING CAPITAL (%)

$$\frac{100 \times \text{Operating profit}}{\text{Average operating capital}}$$

## EARNINGS PER SHARE

$$\frac{\text{Profit for the year attributable to equity holders of the Parent}}{\text{Average number of shares outstanding}^1)}$$

## EQUITY PER SHARE

$$\frac{\text{Equity attributable to equity holders of the Parent}}{\text{Number of shares outstanding at year-end}^1)}$$

## SHARE TURNOVER RATE (%)

$$\frac{100 \times \text{Annual turnover of shares}}{\text{Total number of shares}}$$

## EBIT MULTIPLE

$$\frac{\text{Stock market value at year-end + net debt + minority interest}}{\text{Operating profit}}$$

## NET DEBT

Interest-bearing liabilities, adjusted for hedges relating to these liabilities + net provisions for pensions and similar obligations – cash and cash equivalents and other investments

## TOTAL RETURN (%)

$$\frac{100 \times (\text{Share price at year-end – share price at preceding year-end}) + (\text{dividend paid + return on reinvested dividend})}{\text{Share price at preceding year-end}}$$

<sup>1)</sup> Number of shares outstanding relates to shares outstanding excluding treasury shares.

The board proposes an  
**increased  
dividend to  
4.10 SEK**

Operating margin up to  
**22.9%**

**STRONG  
PERFORMANCE**

*in both sales and operating profit*

**CONTINUED**

**GROWTH FOR SNUS**

*in both Scandinavia and the US*



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# Report of the Board of Directors

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

Swedish Match produces and sells market-leading brands in smokefree tobacco products, cigars, pipe tobacco and lights products. The Company sells products across the globe, with production units in 11 countries. The Swedish Match share is listed on the NASDAQ OMX Stockholm.

## Sales

Sales for the year amounted to 13,162 MSEK (12,551). In local currencies, sales increased by 6 percent.

Sales of snuff increased to 3,829 MSEK (3,289). In Scandinavia sales volumes decreased by 3 percent measured in number of cans. Volumes in Sweden decreased while volumes in Norway and tax free increased. Effective January 1, 2008 the excise tax on snus in Sweden increased by 37 percent. Altogether the excise tax for snus in Sweden has increased by 173 percent compared to the level in 2006. Hoarding in anticipation of tax increases on the Swedish market distorts volume comparisons between the years. In the United States sales grew as the Group gained market share in a growing market. The volumes increased by 13 percent.

For cigars in total, sales for the year amounted to 3,657 MSEK (3,411). In local currencies, sales increased by 8 percent impacted by acquired businesses. During the year, volumes and sales were negatively impacted by both smoking bans in France and the Netherlands as well as price/mix effects toward smaller and less expensive cigars in markets in both the US and Europe.

Chewing tobacco is sold primarily on the North American market. Sales decreased to 934 MSEK (956). In local currency sales were up by 1 percent. Higher average prices compensated for volume declines. Sales for Pipe tobacco and Accessories amounted to 817 MSEK (851). In December Swedish Match sold its Swedish Match UK Ltd. business to Republic Technologies International. The divested business includes mainly accessories like cigarette papers and filters and corresponds to some 1 percent of Swedish Match total Group sales. The divestment resulted in a capital gain of 73 MSEK and is reported separately as a larger one time item. Sales in the Lights product area amounted to 1,534 MSEK (1,473). In local currencies sales increased by 3 percent.

## Operating profit

Operating profit for the year amounted to 3,090 MSEK (2,997). Operating profit, excluding larger one time items comprising the gain from sale of our UK business in 2008 of 73 MSEK and gain from sale of real estate of 267 MSEK in 2007, amounted to 3,017 MSEK (2,730). The increased operating profit is mainly due to increased profit in the snuff product area. Currency translation has affected the operating profit comparison negatively by 64 MSEK.

Group operating margin for the full year was 23.5 percent (23.9). Group operating margin excluding larger one time items was 22.9 percent (21.8).

### Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2008	2007	2008	2007
Snuff	3,829	3,289	1,689	1,366
Cigars	3,657	3,411	689	737
Chewing tobacco	934	956	329	312
Pipe tobacco and accessories	817	851	210	201
Lights	1,534	1,473	276	252
Other operations	2,390	2,571	-176	-137
Subtotal	13,162	12,551	3,017	2,730
<i>Larger one time items:</i>				
Gain on sale of subsidiary and related assets	-	-	73	-
Gain on sale of real estate	-	-	-	267
<b>Total</b>	<b>13,162</b>	<b>12,551</b>	<b>3,090</b>	<b>2,997</b>

### Summary of consolidated income statement

MSEK	2008	2007
Sales	13,162	12,551
Operating profit	3,090	2,997
Net finance cost	-443	-336
Taxes	-385	-606
<b>Profit for the year</b>	<b>2,261</b>	<b>2,056</b>
<i>Attributable to:</i>		
Equity holders of the Parent	2,261	2,055
Minority interests	1	1
Earnings per share, SEK	8.98	7.82

### Other operations

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

Sales in Other operations were 2,390 MSEK (2,571) while operating profit was a negative 176 MSEK (negative 137).

### Net finance cost

Net finance costs for the year increased to 443 MSEK (336) as a result of higher average net debt and increased interest rates.

### Taxes

The Group tax expense for the year amounted to 385 MSEK (606), corresponding to a tax rate of 14.5 percent (22.8). The main reasons for the lower tax rate compared to 2007 are significant positive one time reversals of tax provisions as well as a lower weighted average tax rate. Another reason is the revaluation of the deferred tax liability on untaxed reserves in Sweden following the decision by the parliament to lower the corporate tax rate from 28.0 to 26.3 percent as from January 1, 2009. In addition, profit for the year contains a gain from sale of a UK subsidiary of 73 MSEK which is exempt from corporate taxation.

### Earnings per share

Basic earnings per share for the year amounted to 8.98 SEK (7.82), and diluted earnings per share amounted to 8.96 SEK (7.80).

### Liquid funds

Cash and cash equivalents amounted to 3,178 MSEK at the end of the period, compared with 3,439 MSEK at the beginning of 2008. As of December 31, 2008, Swedish Match had 3,238 MSEK in unutilized committed credit lines.

### Financing and cash flow

Cash flow from operations for the year decreased to 1,979 MSEK compared with 2,327 MSEK in 2007. Timing effects in purchase of strategic raw materials and high payments of tobacco taxes following the 2007 year end hoarding of tobacco products in the Swedish market adversely affected the cash flow for the year. Contributions for certain pension obligations and timing effects in relation to income tax payments also had a negative effect on cash flow for the year.

The net debt as per December 31, 2008 amounted to 7,640 MSEK compared to 7,127 MSEK at December 31, 2007. The increase of 513 MSEK includes dividend payments of 886 MSEK and share repurchases of, net, 934 MSEK. Investments in property, plant and equipments amounted to 331 MSEK (541). Changes in the value of net pension liabilities added 786 MSEK to net debt. The net pension liability included in net debt relates to post-employment defined benefit obligations and amounted to 1,165 MSEK (379) based on IAS 19 actuarial calculations as per December 31, 2008. A decline in the market value of plan assets and a somewhat higher obligation valuation, resulting in

#### Summary of consolidated balance sheet

MSEK	2008	2007
Fixed assets	9,444	7,818
Inventories	3,202	2,520
Other current assets	2,530	2,685
Cash and cash equivalents and other investments	3,179	3,444
<b>Total assets</b>	<b>18,355</b>	<b>16,467</b>
Equity	1,381	724
Non-current liabilities and provisions	2,618	1,859
Non-current loans	9,975	8,768
Current liabilities and provisions	3,638	3,845
Current loans	743	1,271
<b>Total equity and liabilities</b>	<b>18,355</b>	<b>16,467</b>

#### Summary of consolidated cash flow statement

MSEK	2008	2007
Net cash from operating activities	1,979	2,327
Net cash used in investing activities	-48	-490
Net cash used in financing activities	-2,226	-1,426
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-295</b>	<b>410</b>
Cash and cash equivalents at the beginning of year	3,439	3,042
Effect of exchange rate fluctuations on cash and cash equivalents	34	-13
<b>Cash and cash equivalents at end of year</b>	<b>3,178</b>	<b>3,439</b>



an actuarial loss including payroll taxes of 952 MSEK, are the main reasons for the increase in the net pension liability of 786 MSEK.

During the year new loans of 843 MSEK were issued. Repayments of loans for the same period amounted to 1,284 MSEK. As at December 31, 2008 Swedish Match had 9,654 MSEK of interest bearing debt excluding retirement benefit obligations. During 2009, 662 MSEK of this debt falls due for repayment. Swedish Match plans to meet its payback obligations during 2009 from internally generated funds from operations and available cash.

### Capital expenditure and depreciation

The Group's direct investment in property, plant and equipment amounted to 331 MSEK (541) primarily in the moist snuff and cigars product areas. Proceeds from the sale of fixed assets amounted to 135 MSEK (1,165). Total depreciation and amortization amounted to 449 MSEK (435), of which depreciation on property, plant and equipment amounted to 310 MSEK (300) and amortization of intangible assets amounted to 139 MSEK (135).

### Dividend and financial policy

The dividend policy of the Company is a pay-out ratio of 40 to 60 percent of the earnings per share, subject to adjustments for larger one time items. The Board has further determined that the financial policy should be that the Group will strive to maintain a net debt that does not exceed three times EBITA.

The Board continually reviews the financial position of the Company, and the actual level of net debt will be assessed against anticipated future profitability and cash flow, investment and expansion plans, acquisition opportunities as well as the development of interest rates and credit markets. The Board is committed to maintain an investment grade credit rating.

### Proposed dividend per share

The Board proposes an increased dividend to 4.10 SEK (3.50), equivalent to 46 percent (45) of the earnings per share for the year. The proposed dividend amounts to 1,022 MSEK based on the 249.2 million shares outstanding at the end of the year.

### Share structure

The Annual General Meeting on April 22, 2008 approved a mandate to repurchase shares for a maximum amount of 3,000 MSEK until the next Annual General Meeting with the condition that the Company at any time does not hold more than ten percent of the shares of the Company. In addition, in accordance with the resolution at the annual General Meeting, 12.0 million shares held in treasury have been cancelled. The total amount of registered shares in the Company after the cancellation of shares is 255,000,000 shares with a quotient value of 1.5275 SEK representing a share capital of 389.5 MSEK. Each share carries one vote. In June, after Annual General Meeting approval, the Company issued 1,592,851 call options to senior Company officials and key employees for the stock option program for

2007. These call options can be exercised from March 1, 2011 to February 28, 2013. The exercise price is 172.68 SEK.

In line with the Company's financial policy 7.5 million shares were repurchased during 2008 for 996 MSEK representing an average price of 132.63 SEK. Total shares bought back by Swedish Match since the buyback programs started have been purchased at an average price of 79.36 SEK. During the year the Company sold 0.8 million treasury shares at an average price of 78.22 SEK as a result of option holders exercising options. As per December 31, 2008 Swedish Match held 5.8 million shares in its treasury, corresponding to 2.3 percent of the total number of shares. The number of shares outstanding, net after repurchase and after the sale of treasury shares, as per December 31, 2008 amounted to 249.2 million. In addition, the Company has call options outstanding as of December 31, 2008 corresponding to 4.2 million shares exercisable in gradual stages from 2009–2013.

The Board will propose to the Annual General Meeting in April 2009 a renewed mandate to repurchase shares of the Company up to an amount of 3 billion SEK until the next Annual Meeting in 2010. In addition, a proposal will be made to cancel 4 million shares held in treasury with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the reduction of share capital through the cancellation of shares.

### Average number of Group employees

The average number of employees in the Group during 2008 was 11,866 compared with 12,075 for the full year 2007.

### Environmental impact

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

To support its 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 program. The progress of the remedial actions according to the program is monitored centrally. Swedish Match strives to make improvement in areas with environmental impact, such as water and energy consumption and waste management.

Swedish Match works to have its production plants certified according to ISO 14001. At present, plants representing 90 percent of sales are certified.

### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2008. 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 surface 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 waste water, 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

Swedish Match faces intense competition in all of its markets and for each of its products and such competition may increase in the future. In order to be successful, the Group must promote its brands successfully and anticipate and respond to new customer trends. Restrictions on advertising and promotion may, however, make it more difficult to counteract loss of consumer loyalty. Competitors may develop and promote new products which could be successful, and could thereby have an adverse effect on Swedish Match's results of operations.

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 are 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.

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.

Changes in the regulatory landscape might affect the demand for Swedish Match products in the market place.

Swedish Match has a substantial part of its production and sales in EMU member countries as well as South Africa, Brazil and the US. Consequently, changes in exchange rates of euro, South African rand, Brazilian real and the US dollar in particular may adversely affect the Group's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting.

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

For a more detailed description of the Group's financial risk management and holdings of financial instruments, see Note 26 *Financial instruments and financial risks*, page 82.

### Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Swedish Match's 1,250 MEUR Global Medium Term Note Program, the Swedish 4,000 MSEK Term Note Program and the 250 MEUR Revolving Credit Facility contain clauses that can force the Company to pay back loans in a change of control situation. Subsidiaries in the Group are parties to agreements primarily related to distribution. The distribution agreements with third parties in the Swedish tobacco distribution business can be terminated should there be a change of control of Swedish Match. Also sales companies in the Group in South Africa and France have distribution agreements with third parties that include change of control clauses. A Danish contract manufacturer of pipe tobacco for the Group can give 24 months notice should there be a change of control of Swedish Match. The agreement with Philip Morris International to jointly commercialize Swedish Snus and other smokefree products worldwide outside Scandinavia and the United States also includes a change of control clause in which the non change of control party may exercise a call option to purchase all of the shares in the joint venture from the change of control party at fair value.

The President and CEO may initiate termination of the employment if the Company is delisted or in the event of a major change of ownership of the Company provided such change has a significant impact on the President and CEO's duties and responsibility compared with the duties and responsibility immediately prior to such change. In such an event the President and CEO has the right to a notice period of six months and severance pay for 18 months. Also some executives in the US operations have change of control clauses which may be triggered by certain events.

### Other events and events following the close of the reporting period

In September 2008, Swedish Match signed a contract manufacturing agreement with National Tobacco Company whereby Swedish Match will produce chewing tobacco for National Tobacco Company. National Tobacco Company will continue to market, sell and distribute its brands in the US. Contract manufacturing production will be phased in during the first half of 2009.

In February 2009, legislation was signed in the US to fund the State Children's Health Care Insurance Programs (SCHIP) through tobacco tax revenues (Federal Excise Tax increases). The

new tax rates are scheduled to become effective on April 1, 2009, and could impact both shipment volumes and consumption during 2009.

On February 3, 2009, Swedish Match and Philip Morris International announced that they have entered into an agreement to establish an exclusive joint venture company to commercialize Swedish Snus and other smokefree tobacco products worldwide outside Scandinavia and the United States. The joint venture will be based in Stockholm, Sweden and the board of directors will consist of six members, with three nominated by each company.

### **Proposal to the Annual General Meeting for principles of remuneration to management**

The Board of Directors propose that the following principles for remuneration and other terms of employment for the President and other members of the Group management (i.e. currently the President, Divisional Presidents and Senior Vice Presidents in charge of Group functions reporting directly to the President) be adopted by the Annual General Meeting 2009. The members of the Group management are to be referred below as the "Group Management Team".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the Group Management Team. The principles shall apply to remuneration and other terms of employment for the Group Management Team and apply to employment agreements entered into after the approval of the principles by the Annual General Meeting 2009 and for changes made to existing employment agreements thereafter. The Annual Report for 2008 sets out details of the remuneration and benefits of the Group Management Team during 2008.

The total remuneration paid to Group Management Team consists of fixed salary, annual variable salary, pension benefits, other benefits, terms related to termination of employment and, subject to approval by the Annual General Meeting for each year, a long-term share-related incentive program.

#### *1. Fixed salary*

The fixed salary for the Group Management Team shall correspond to market rates and shall be based on each member's competence, responsibility and performance.

#### *2. Variable salary*

The members of the Group Management Team may be entitled to a variable salary in addition to the fixed salary. The variable salary shall primarily be based on specific, clear and measurable financial or operational objectives set by the Board of Directors from year to year. A maximum of 25

percent of the variable salary may be based on individual objectives set by the President (and in relation to the President by the Board of Directors). Variable salary shall, for each member of the Group Management Team, be capped in relation to the fixed salary and shall reflect the market practice in the country of residence.

The Group Management Team may, subject to decision by the Annual General Meeting, be covered by a long term share related incentive program.

It is estimated that the Company's maximum cost for variable salary for 2009 will amount to 14.3 MSEK.

#### *3. Profit Sharing System*

All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS"). For 2008 the contribution for each employee to PSS amounted to SEK 31,876.

#### *4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the Group Management Team is resident. Members of the Group Management Team residing 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 Team residing outside Sweden shall preferably be through defined contribution pensions based on the fixed salary.

#### *5. Severance pay, etc*

A mutual period of notice of six months shall apply. Severance pay shall normally 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 assignments, but by no more than 50 percent thereof and no more than half of the severance pay. In individual cases the Board of Directors may approve severance arrangements where notice of termination given by the employee due to significant structural changes in certain circumstances is equated with notice of termination served by the Company.

#### *6. Other benefits*

Other benefits shall be payable 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.

#### *7. The Board's right to deviate from the principles*

The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.



#### 8. *Committee work and decisions*

Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the Group Management Team, except those regarding the President. The Committee shall also prepare and present proposals for the Board's decisions on issues relating to share related incentive schemes and for salary and other remuneration and employment terms for the President. In addition hereto, the Committee is authorized to decide (and in relation to the President to propose to the Board of Directors) the further details of how to set the criteria and targets on which the variable salary is based for the Group Management Team.

#### 9. *Previous undertakings not yet due*

The Company has no previous undertaking not yet due besides what is evident from the Annual Report 2008.

For the principles of remuneration at the Annual General Meeting in April 2008, see Note 6 *Personnel*, page 69.

#### **Outlook**

During 2009, Swedish Match will take further steps to drive value creation and growth to strengthen our position as a leading smokefree tobacco company, while maintaining our strong commitment to profitability in other product categories. For 2009 we expect both the snuff market in Scandinavia and in the US to grow.

Tax and regulatory changes could have impacts on the Group's tobacco sales. In Sweden, the maintenance of the excise tax at 2008 levels should help to stabilize the snus market. In the US, the recently enacted federal excise tax increases could negatively impact consumption, especially cigars. We will take

decisive measures to mitigate the effects of possible volume declines for US cigars. For US machine made cigars we expect significant trade hoarding in the first quarter, followed by destocking effects in the second quarter.

The Company maintains its long term financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders. Securing long term financing at reasonable costs is challenging in the current credit environment, which will be taken into account in determining the timing and amount of cash returns.

The tax rate for 2009 is estimated to be in the range of 22 to 24 percent.

#### **Swedish Match AB (publ)**

Swedish Match AB (publ) is the Parent Company of the Swedish Match Group.

Sales in the Parent Company for the full year amounted to 1 MSEK (6). Profit before tax amounted to 1,907 MSEK (17,009) and net profit for the year amounted to 1,914 MSEK (17,039). The main sources of revenues for the Parent Company are dividends and Group contributions from subsidiaries.

Part of the Group's treasury operations are included in the operations of the Parent Company and include the major part of the Group's external borrowings. Some of these loans have variable interest rates and a change of interest rates could impact the result of the Parent Company.

Capital expenditures for the year amounted to 1 MSEK (2). The cash flow for the period was a negative 106 MSEK (1,124). Cash and bank at the end of the period amounted to 2,702 MSEK (2,808). During the year the Parent Company made share repurchases, net, of 934 MSEK (2,453) and paid dividends of 886 MSEK (664).

The Board's proposed distribution of earnings is presented on page 98.

# Consolidated income statement

MSEK	Note	2008	2007
<b>Sales, including tobacco tax</b>		<b>23,718</b>	<b>22,852</b>
Less tobacco tax		-10,556	-10,301
<b>Sales</b>	2, 3	<b>13,162</b>	<b>12,551</b>
Cost of goods sold		-6,685	-6,578
<b>Gross profit</b>		<b>6,477</b>	<b>5,973</b>
Other income	5	10	7
Selling expenses		-2,480	-2,260
Administrative expenses		-987	-987
Other expenses	5	-14	-4
Share of profit in associates	14	11	1
Gain on sale of subsidiary and related assets		73	-
Gain on sale of real estate		-	267
<b>Operating profit</b>	3, 5, 7, 8	<b>3,090</b>	<b>2,997</b>
Finance income		163	165
Finance costs		-607	-501
Net finance cost	9	-443	-336
<b>Profit before income tax</b>		<b>2,646</b>	<b>2,662</b>
Income tax expense	10	-385	-606
<b>Profit for the year</b>		<b>2,261</b>	<b>2,056</b>
Attributable to			
Equity holders of the Parent		2,261	2,055
Minority interest		1	1
<b>Profit for the year</b>		<b>2,261</b>	<b>2,056</b>
Earnings per share	20		
basic, SEK		8.98	7.82
diluted, SEK		8.96	7.80

# Consolidated balance sheet

MSEK	Note	December 31, 2008	December 31, 2007
<b>Assets</b>			
Intangible assets	11	4,702	4,419
Property, plant and equipment	12	2,372	2,297
Forest plantations	13	86	91
Investments in associates	14	117	89
Non-current receivables	15	1,575	558
Deferred tax assets	10	592	365
<b>Total non-current assets</b>		<b>9,444</b>	<b>7,818</b>
Inventories	16	3,202	2,520
Trade receivables	17	1,828	2,022
Prepaid expenses and accrued income		193	132
Income tax receivables		160	145
Other receivables	15	348	386
Other investments	18	1	5
Cash and cash equivalents <sup>1)</sup>	18	3,178	3,439
<b>Total current assets</b>		<b>8,911</b>	<b>8,649</b>
<b>TOTAL ASSETS</b>		<b>18,355</b>	<b>16,467</b>
<b>Equity</b>			
Share capital	19	390	390
Reserves		204	-486
Retained earnings		782	816
<b>Equity attributable to equity holders of the Parent</b>		<b>1,377</b>	<b>720</b>
Minority interest		4	4
<b>TOTAL EQUITY</b>		<b>1,381</b>	<b>724</b>
<b>Liabilities</b>			
Loans and borrowings	21, 26	9,975	8,768
Other liabilities	24	39	12
Provision for pensions and similar obligations	22	1,298	555
Other provisions	23	522	597
Deferred tax liabilities	10	759	695
<b>Total non-current liabilities</b>		<b>12,593</b>	<b>10,627</b>
Loans and borrowings	21, 26	743	1,271
Trade payables		754	738
Income tax liabilities	10	183	258
Other liabilities	24	1,672	2,007
Accrued expenses and deferred income	25	999	782
Provisions	23	29	60
<b>Total current liabilities</b>		<b>4,381</b>	<b>5,117</b>
<b>TOTAL LIABILITIES</b>		<b>16,975</b>	<b>15,743</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,355</b>	<b>16,467</b>

For information on the Group's pledged assets and contingent liabilities, see Note 28 and Note 29.

<sup>1)</sup> Cash and cash equivalents include current investments with maturity of less than 90 days from acquisition.



# Statement of recognized income and expense

<b>MSEK</b>	<b>2008</b>	<b>2007</b>
Profit for the year recognized in the income statement	2,261	2,056
<i>Income and expenses recognized in equity:</i>		
Actuarial gains and losses related to pensions, incl. payroll tax	-952	-57
Effective portion of changes in fair value of cash flow hedges	-184	38
Translation difference in foreign operations	826	-258
Tax on items taken to/transferred from equity	344	-5
<b>Total transactions taken to equity</b>	<b>34</b>	<b>-282</b>
<b>Total income and expense recognized for the year</b>	<b>2,296</b>	<b>1,773</b>
<i>Attributable to:</i>		
Equity holders of the Parent	2,295	1,772
Minority interest	1	1

# Consolidated cash flow statement

MSEK	Note	2008	2007
	31		
<b>Operating activities</b>			
Profit before income tax		2,646	2,662
Adjustments for non-cash items and other		218	120
Income tax paid		-523	-410
<b>Cash flow from operating activities before changes in working capital</b>		<b>2,341</b>	<b>2,372</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		-158	59
Increase (-)/Decrease (+) in operating receivables		191	-122
Increase (+)/Decrease (-) in operating liabilities		-395	18
<b>Net cash from operating activities</b>		<b>1,979</b>	<b>2,327</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment <sup>1)</sup>		-331	-541
Proceeds from sale of property, plant and equipment		135	1,165
Purchase of intangible assets		-8	-68
Acquisition of subsidiaries, net of cash acquired		-7	-1,209
Proceeds from sale of subsidiaries, net of cash disposed of		155	-
Change in non-current receivables		3	112
Change in other current investments		5	51
<b>Net cash used in investing activities</b>		<b>-48</b>	<b>-490</b>
<b>Financing activities</b>			
Repurchase of own shares		-996	-2,575
Stock options exercised		62	122
Proceeds from non-current borrowing		843	2,239
Repayment of borrowings		-1,284	-437
Dividends paid to equity holders of the Parent		-886	-664
Other		35	-111
<b>Net cash used in financing activities</b>		<b>-2,226</b>	<b>-1,426</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-295</b>	<b>410</b>
Cash and cash equivalents at the beginning of the year		3,439	3,042
Effect of exchange rate fluctuations on cash and cash equivalents		34	-13
<b>Cash and cash equivalent at end of year</b>		<b>3,178</b>	<b>3,439</b>

<sup>1)</sup> Includes investments in forest plantations and assets held for sale in 2007.

# Notes for the Group

## 1. Accounting principles

All amounts referred to in the notes of the Group financial statements 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, RFR 1.1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

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".

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

The financial reports are presented in Swedish kronas (SEK), which is the functional currency of the Parent Company. 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.

### Evaluations and estimates in the financial reports

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 32 *Critical estimates and judgements*.

### New Interpretations

A number of new Interpretations of accounting standards have been applied in 2008.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction addresses the issue when refunds or reductions in future contributions should be regarded as available, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to a liability. The interpretation has not had a material impact on the financial reports.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions has not had an impact on the financial reports.

### New IFRSs and Interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2009 or later and have not been applied in these financial reports:

IFRS 8 Operating Segments sets out the definition of an operating segment and the requirements for disclosure in the financial reports. The standard will be effective for the Company as of January 1, 2009. Swedish Match is evaluating the standard for its impact on its financial reports.

Amendment to IAS 23 Borrowing Costs sets out that borrowing costs directly pertaining to acquisition, construction or production of an asset that take a substantial period of time to complete shall be capitalised. The standard will be effective for the Company as of January 1, 2009. Swedish Match does not expect this change to the standard to have a material impact on its financial reports.

Amendments to IAS 1 Presentation of Financial Statements: A revised Presentation affects the presentation of owner changes in equity and of comprehensive income. The revision does not change the recognition, measurement or disclosure of specific transactions. The amendment is effective from January 1, 2009.

Revised IFRS 3 Business combination and revised IAS 27 consolidated and separate financial statements entails changes to consolidation and the accounting for acquisitions. The revised standards are expected to be applicable for the Group from January 1, 2010. Swedish Match is evaluating the revised standards for their impact on its financial reports.

Amendments to IFRS 2 Share based payments: Vesting conditions and cancellations, and IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation and also IFRIC 13 Customer Loyalty Programmes are not expected to have a material impact on the financial reports.

### Reporting by segment

Swedish Match's operations comprise 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 control 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 and joint ventures are reported in accordance with the equity method.

All acquisitions of subsidiaries 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.

### (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. The translation difference relating to a specific subsidiary is recycled through the income statement when the subsidiary is divested.

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

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

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2008	2007	2008	2007
USA	USD	6.58	6.76	7.77	6.43
Euro zone	EUR	9.61	9.25	10.95	9.45
Brazil	BRL	3.62	3.47	3.31	3.66
South Africa	ZAR	0.80	0.96	0.82	0.95

## 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 and interest expense is calculated in accordance with the effective interest method which is a method of calculating the amortized cost of the financial asset or the financial liability and of allocating the interest income or interest expense over the relevant period. Interest income or expense include accrued amounts of

transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable or liability and the amount received or paid at maturity.

## Financial instruments

Financial instruments are valued and reported within the Group in accordance with the rules contained in IAS 39.

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 and is determined 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 at fair value through profit and loss

Financial assets in this category which include financial investments reported as other investments or cash equivalents and certain non-current receivables, other receivables, prepaid expenses and accrued income 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. Swedish Match presently has no assets classified as available for sale.

### Other financial liabilities

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



## NOTE 1 CONTINUED

### *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.

### *Loans and 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.

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.

### **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. 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 accounting 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.

### *Cash flow hedges*

When derivatives are used in order to convert floating interest rate bindings into fixed interest rate bindings or to convert a stream of interest payments in foreign currency in to a stream of interest payments in SEK, hedge accounting according to the cash flow hedge technique is applied. Fair value changes arising from the revaluation of derivatives that are part in a cash flow hedge relationship and are considered to be effective as described in IAS 39 are recognized in equity and any ineffective portion is recognized directly in earnings.

### *Fair value hedges*

In cases where fixed interest rate binding is converted in to floating interest rate binding, hedge accounting according to the fair value hedge technique is applied. The fair value change arising from revaluation of derivatives are recognized directly in earnings, and the related value change from the hedge item is similarly recognized in earnings thus offsetting the effective portion in the hedge relationship.

### **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 11 *Intangible assets*.

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) Trade marks and other intangible assets*

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

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 other intangible 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. Other intangible assets also include software, customer lists etc.

#### *(iii) 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 has an indefinite useful life and is 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

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

### **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 and construction in progress are not depreciated. The estimated useful life periods are normally:

- 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 tangible asset's residual value and useful life is performed annually.

## NOTE 1 CONTINUED

**Forest plantations**

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. Net realisable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

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 forest plantations.

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.

**Impairments**

The carrying amounts for the Group's assets, with the exception of forest plantations, 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.

Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to actuarial gains and losses. These arise when actual outcome deviate from projected outcome or when assumptions earlier made are changed. Actuarial gains and losses are reported directly in equity and are not reported on the Income statement.

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 the options are earned. 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.

## NOTE 1 CONTINUED

### 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 Securities Markets Act which is in accordance with the rules of RFR 2.1 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2.1 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.

#### *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. Sales

The Group's sales relate mainly to 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 and corporate overheads.

Product area assets consist primarily of property, plant and equipment, intangible assets, inventories and operating receivables. Product area liabilities consist 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	2008	2007
Snuff	3,829	3,289
Cigars	3,657	3,411
Chewing tobacco	934	956
Pipe tobacco and accessories	817	851
Lights	1,534	1,473
Other operations	2,390	2,571
<b>Total</b>	<b>13,162</b>	<b>12,551</b>

Operating profit/loss	Operating profit/loss		Share of profit in associates		Total operating profit/loss	
	2008	2007	2008	2007	2008	2007
Snuff	1,689	1,368	0	-3	1,689	1,366
Cigars	679	734	10	3	689	737
Chewing tobacco	329	312	-	-	329	312
Pipe tobacco and accessories	210	201	-	-	210	201
Lights	275	252	1	0	276	252
Other operations	-176	-137	-	-	-176	-137
<b>Subtotal</b>	<b>3,006</b>	<b>2,730</b>	<b>11</b>	<b>1</b>	<b>3,017</b>	<b>2,730</b>
Gain on sale of subsidiary and related assets	73	-	-	-	73	-
Gain on sale of real estate	-	267	-	-	-	267
<b>Total</b>	<b>3,079</b>	<b>2,997</b>	<b>11</b>	<b>1</b>	<b>3,090</b>	<b>2,997</b>

Unallocated items	2008	2007
Financial income	163	165
Financial expenses	-606	-501
Income taxes	-385	-606
<b>Profit for the year</b>	<b>2,261</b>	<b>2,056</b>
Attributable to		
Equity holders of the Parent	2,261	2,055
Minority interest	1	1
<b>Profit for the year</b>	<b>2,261</b>	<b>2,056</b>

Assets	Assets		Share of profit in associates		Total assets	
	2008	2007	2008	2007	2008	2007
Snuff	2,292	2,092	-	-	2,292	2,092
Cigars	7,231	6,248	105	79	7,336	6,327
Chewing tobacco	437	410	-	-	437	410
Pipe tobacco and accessories	817	962	-	-	817	962
Lights	1,272	1,259	12	9	1,284	1,268
Other operations	830	1,035	-	-	830	1,035
Unallocated assets <sup>1)</sup>	5,359	4,374	-	-	5,359	4,374
<b>Total</b>	<b>18,238</b>	<b>16,380</b>	<b>117</b>	<b>89</b>	<b>18,355</b>	<b>16,467</b>

<sup>1)</sup> Unallocated assets mainly pertain to taxes and interest-bearing receivables.



NOTE 3 CONTINUED

<b>Liabilities and equity</b>		
<b>Liabilities</b>	<b>2008</b>	<b>2007</b>
Snuff	449	424
Cigars	602	578
Chewing tobacco	156	129
Pipe tobacco and accessories	137	176
Lights	428	410
Other operations	1,640	1,938
Unallocated liabilities <sup>1)</sup>	13,563	12,090
<b>Equity</b>	<b>1,381</b>	<b>724</b>
<b>Total</b>	<b>18,355</b>	<b>16,467</b>

<sup>1)</sup> Unallocated liabilities mainly pertain to taxes and interest-bearing liabilities.

<b>Investments</b>	<b>Property, plant and equipment<sup>1)</sup></b>		<b>Intangible assets</b>		<b>Total investments</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Snuff	173	233	4	–	177	233
Cigars	53	99	2	0	55	99
Chewing tobacco	14	25	–	–	14	25
Pipe tobacco and accessories	13	20	–	–	13	20
Lights	74	92	0	–	75	92
Other operations	3	6	2	1	5	7
<b>Total</b>	<b>331</b>	<b>475</b>	<b>8</b>	<b>1</b>	<b>339</b>	<b>476</b>

<sup>1)</sup> Investments in property, plant and equipment include investments in forest plantations in the Lights operations.

<b>Depreciation and amortization</b>	<b>Property, plant and equipment</b>		<b>Intangible assets</b>		<b>Total depreciation and amortization</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Snuff	136	130	15	15	151	145
Cigars	95	86	103	92	198	178
Chewing tobacco	17	17	0	0	17	18
Pipe tobacco and accessories	14	13	18	21	31	34
Lights	38	44	3	3	41	47
Other operations	5	5	1	3	6	8
<b>Total</b>	<b>304</b>	<b>295</b>	<b>139</b>	<b>135</b>	<b>444</b>	<b>430</b>

During 2008, as well as in 2007, there were no impairment losses for intangible assets. Impairment losses with respect to property, plant and equipment were charged to product area Cigars by 5 MSEK (5).

### 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 based on location of the assets. Unallocated assets mainly consist of financial items and taxes.

<b>External sales</b>	<b>2008</b>	<b>2007</b>
Nordic region	5,437	5,205
North America	4,167	3,918
Rest of the world	3,558	3,428
<b>Total</b>	<b>13,162</b>	<b>12,551</b>

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Nordic region	3,416	3,606
North America	5,264	4,377
Rest of the world	4,316	4,111
Unallocated assets <sup>1)</sup>	5,359	4,373
<b>Total</b>	<b>18,355</b>	<b>16,467</b>

<sup>1)</sup> Unallocated assets mainly pertain to taxes and interest-bearing receivables.

<b>Investments</b>	<b>Property, plant and equipment<sup>1)</sup></b>		<b>Intangible assets</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Nordic region	167	222	6	1
North America	50	82	–	–
Rest of the world	114	171	2	–
<b>Total</b>	<b>331</b>	<b>475</b>	<b>8</b>	<b>1</b>

<sup>1)</sup> Investments in property, plant and equipment include investments in forest plantations in the Lights operations.

## 4. Business combinations

No business acquisitions have been made during 2008.

On June 30, 2007, Swedish Match acquired 100 percent of the shares in Bogaert Cigars for 43 MEUR or 409 MSEK in cash. At the date of the acquisition the SEK/EUR currency rate was 9.44. Bogaert Cigars is a cigar company headquartered in Belgium with production facilities in Belgium and Indonesia. During the six months that followed the acquisition, Bogaert Cigars had a negative contribution of 17 MSEK to the Group's overall profit for 2007. The profit during 2007 has been impacted negatively from a provision for the closing of a production facility in Belgium and from other integration costs. If the acquisition had taken place on January 1, 2007, the Group's net sales is estimated to have been 85 MSEK higher and the operating profit is estimated to have been 20 MSEK higher. In addition to the 11 MSEK already recognized in the acquired business, 34 MSEK of the purchase price was allocated to trademarks and the remaining 375 MSEK was allocated to goodwill. The trademarks of 34 MSEK gave rise to a deferred tax liability amounting to 11 MSEK. The goodwill includes synergies which can come from overlaps in distribution and rationalizations.

On August 31, 2007, Swedish Match acquired 100 percent of the shares in Cigars International for 117 MUSD or 807 MSEK in cash. At the

date of the acquisition the SEK/USD currency rate was 6.89. The company is a US based distributor of premium cigars specializing in mail order and internet sales. During the four months that followed the acquisition, Cigars International contributed 18 MSEK to the Group's overall profit for 2007. If the acquisition had taken place on January 1, 2007, the Group's net sales is estimated to have been 300 MSEK higher and the operating profit is estimated to have increased by 45 MSEK. In addition to the 221 MSEK already recognized in the acquired business, 149 MSEK of the purchase price was allocated to separable intangible assets, consisting of customer lists, computer systems, Internet websites, trade names, cigar trademarks and wholesale relationships, and the remaining 493 MSEK was allocated to goodwill. The separable intangible assets gave rise to a deferred tax liability amounting to 56 MSEK. The goodwill includes supplier agreements, a skilled work force, business processes and routines as well as synergies which can come from decreased administrative costs, increased profits from Swedish Match's own brands and benefits from a larger organization.

During 2008, additional intangibles of 7 MSEK were recognized due to additional considerations to the former owners of CI, resulting from certain targets stipulated in the purchase agreement having been achieved. Additional amounts will be recognized if certain targets are achieved for 2009 and 2010.

### Effects of acquisitions 2007

The acquisitions have had the following effect on the Group's assets and liabilities.

The acquired companies' net assets at the time of the acquisition:

	Reported value prior to acquisition		Fair value adjustment		Fair value reported in the Group
	Bogaert Cigars	Cigars International	Bogaert Cigars	Cigars International	
Property, plant and equipment	49	11	-	-	60
Intangible assets	0	161	409	642	1,212
Non-current receivables other non-current assets	4	0	-	-	4
Inventories	68	88	-	-	156
Trade receivables and other current assets	49	10	-	-	59
Total liquid funds	2	-1	-	-	1
Non-current liabilities	-56	-3	-	-	-59
Trade liabilities and other current liabilities	-98	-44	-	0	-143
Deferred tax liabilities	-7	-	-11	-56	-74
<b>Net identifiable assets and liabilities</b>	<b>11</b>	<b>221</b>	<b>398</b>	<b>586</b>	<b>1,215</b>
Group goodwill					922
<b>Total purchase price<sup>1)</sup></b>					<b>1,216</b>
Cash (acquired)					1
Net purchase price					1,215

<sup>1)</sup> Both acquisitions are settled through cash payments. The purchase price includes consultancy fees and other acquisition costs amounting to 5 MSEK attributable to the Bogaert Cigars acquisition and 8 MSEK attributable to the Cigars International acquisition. Purchase consideration not paid during 2007 amounts to 38 MSEK pertaining to Bogaert Cigars.

On December 6, 2007, Swedish Match acquired certain assets from Havana Honeys, Inc. for 6 MUSD or 39 MSEK settled through a cash transaction. 1 MUSD or 6 MSEK of the purchase price is to be settled within a year of the acquisition. At the time of the acquisition the SEK/USD currency rate was 6,35. Havana Honeys, Inc. is a privately-held company that manufactures and markets flavored cigars under the Havana Honeys brand. The Havana Honeys business' contribution to the Group's overall profit was immaterial. If the acquisition had taken place on January 1, 2007 the contribution to the Group's net sales is estimated to have been 9 MSEK and the contribution to the Group's profit is estimated to have been 1 MSEK. The acquired assets are inventory and intangible assets. The purchase price was allocated to; trademarks 23 MSEK, inventory 4 MSEK and goodwill 13 MSEK. The goodwill includes inseparable intangible assets (intellectual property) and synergies which can come from overlaps in production and distribution.

Acquisition balances are reported in accordance with IFRS.

## 5. Other operating income and other operating expenses

Other operating income includes foreign exchange gains of 10 MSEK (9)

Other operating expenses include foreign exchange losses of 14 MSEK (4).

## 6. Personnel

The average number of employees in the Parent Company during 2008 was 59, and in the Group 11,866. The corresponding numbers in 2007 were 50 and 12,075 respectively.

Group employees by country are summarized in the table below:

	2008		2007	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	59	58	50	56
<b>Subsidiaries</b>				
Australia	52	58	52	58
Austria	–	–	5	60
Belgium	407	36	365	33
Brazil	748	69	766	71
Bulgaria	96	39	102	38
Dominican Republic	3,429	39	3,942	48
France	82	71	65	65
Honduras	1,817	50	1,893	53
Indonesia	1,983	17	1,686	15
Italy	7	57	7	57
Netherlands	230	79	261	77
New Zealand	7	43	9	56
Norway	42	69	42	69
Philippines	153	46	171	59
Poland	14	57	14	57
Portugal	19	74	19	74
Slovenia	14	86	14	86
South Africa	383	84	389	84
Spain	45	80	45	76
Sweden	898	54	857	55
Turkey	23	78	25	80
United Kingdom	26	65	28	66
United States	1,325	64	1,259	64
Other countries	7	43	7	92
<b>Group total</b>	<b>11,866</b>	<b>46</b>	<b>12,075</b>	<b>50</b>

Board and management by gender<sup>1)</sup>:

	2008		2007	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members	10	60	11	73
President and other management	7	100	7	100
<b>Group</b>				
Board members	140	77	145	86
President and other management	160	84	150	86

<sup>1)</sup> Deputy Board members are not included in the table. Presidents who are part of the Board are included in both the categories, Board members and President and other management.

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

	2008			2007		
	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>
Parent Company	106	50	12	85	37	11
Subsidiaries	1,656	416	100	1,646	487	119
<b>Group</b>	<b>1,762</b>	<b>466</b>	<b>112</b>	<b>1,731</b>	<b>524</b>	<b>130</b>

<sup>1)</sup> Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding special employer contributions).

The pension costs for the Parent Company include 6 MSEK (5) attributable to the current and former President as well as other management consisting of eight persons during 2008 and seven persons in 2007. The defined benefit obligations for the Parent Company related to the current and former President amounts to 23 MSEK (20) and other management amounts to 43 MSEK (38). The pension costs for the subsidiaries include 14 MSEK (17) attributable to Board members, Presidents and other management consisting of 115 persons (90 persons). The defined benefit obligations related to these persons amount to 217 MSEK (84).

## NOTE 6 CONTINUED

Wages, salaries and other remunerations split by Board members, President and other management and other employees, are summarized below:

	2008			2007		
	Board, President and other Management <sup>1)</sup>	of which, bonuses, etc.	Other employees	Board, President and other Management <sup>1)</sup>	of which, bonuses, etc.	Other employees
<b>Parent Company</b>						
Sweden	56	19	51	42	16	42
<b>Subsidiaries</b>						
Total in subsidiaries	149	32	1,507	152	34	1,494
<b>Group total</b>	<b>204</b>	<b>51</b>	<b>1,558</b>	<b>194</b>	<b>50</b>	<b>1,536</b>

<sup>1)</sup> The Board, President (current and former) and other management employed by the Parent Company consist of 15 persons (16) and 115 persons (93) in the subsidiaries, whereof three persons are members of the Group Management Team. For further information about remunerations to Group Management Team members see table "Remunerations and other benefits to Group Management Team".

During 2008, 39 MSEK (34) to a profit-sharing foundation on behalf of Group personnel in Sweden were expensed including social charges.

### Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 22, 2008 decided, for the period up to and including April 28, 2009, when the next Annual General Meeting is held, that the Chairman of the Board shall receive a fee of 1,575,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 630,000 SEK and that compensation for committee work shall amount to a maximum of 920,000 SEK in total, of which the Chairmen of the Compensation Committee and the Audit Committee shall receive 230,000 SEK respectively and the other members of these committees shall each receive 115,000 SEK. No Board fee shall be paid to Board members employed by the Group.

There are no variable salaries or other benefits paid to the Board members for Board work during 2008. In 2008 a study fee in the amount of 51,170 SEK was paid to each of the three employee representatives on the Board, and in the amount of 38,300 SEK to each of the three deputy members. The fees to Board members elected by the Annual General Meeting charged to the income statement for Board work during 2008 and 2007 are shown in the tables below:

#### Fees to Board members

TSEK	2008			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	1,527	222	–	1,749
Andrew Cripps Board member	639	–	116	754
Arne Jurbrant Board member	639	116	–	754
Karen Guerra Board member	473	–	–	473
Charles A. Blixt Board member	593	86	–	679
Kersti Strandqvist Board member	639	–	116	754
Meg Tivéus Board member	639	22	230	890
<b>Total</b>	<b>5,146</b>	<b>446</b>	<b>461</b>	<b>6,053</b>

TSEK	2007			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Conny Karlsson Board chairman	1,384	198	–	1,582
Andrew Cripps Board member	664	–	118	782
Arne Jurbrant Board member	664	118	–	782
Bernt Magnusson Board member	460	60	–	520
Charles A. Blixt Board member	480	–	–	480
John P. Bridendall Board member	480	–	–	480
Karsten Slotte Board member	184	–	30	214
Kersti Strandqvist Board member	664	–	118	782
Meg Tivéus Board member	664	88	228	980
<b>Total</b>	<b>5,644</b>	<b>463</b>	<b>493</b>	<b>6,600</b>

### Remuneration and other benefits to Group Management Team

#### Principles adopted by the 2008 Annual General Meeting

The Annual General Meeting on April 22, 2008 adopted the following principles for remuneration and other terms of employment for the President and other members of Group Management Team (i.e. the President, Divisional Managers and Senior Vice Presidents in charge of Group functions reporting directly to the President):

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 shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the home country of each member of the Group Management Team.

The principles shall apply to remuneration and other terms of employment for the Group Management Team and apply to employment agreements entered into after the approval of the principles by the Annual General Meeting 2008 and for changes made to existing employment agreements thereafter.

The total remuneration paid to the Group Management Team consists of fixed salary, annual variable salary, pension benefits, other benefits, terms related to termination of employment and, subject to approval by the Annual General Meeting for each year, a long-term share-related incentive program.



NOTE 6 CONTINUED

- The principles for fixed salary:* The fixed salary for the Group Management Team shall correspond to market rates and shall be based on each member's competence, responsibility and performance.
- The relative importance of fixed and variable components of the remuneration and the linkage between performance and remuneration:* The members of the Group Management Team may be entitled to a variable salary in addition to the fixed salary. The variable salary for the President and the Senior Vice Presidents in charge of Group functions shall be based on the result of two mutual independent criteria, with one target based on the Group's earnings per share and one target based on the return on operating capital. Part of the total variable salary for the Divisional Managers shall be based on the same criteria and targets as for the rest of the Group Management Team, with the other part based on the outcome in relation to targets approved by the Compensation Committee for the Division in question. The maximum annual variable salary shall be capped at 50 percent of the fixed salary for the President and 40 percent of the fixed salary for members of the Group Management Team other than the President. Members of the Group Management Team residing outside Sweden may be offered additional variable salary to ensure the compensation's competitiveness in each country. Such additional variable salary shall also be capped in relation to the Group Management Team member's fixed salary.  
The Group Management Team may, subject to decision by the Annual General Meeting, be covered by a long term share related incentive program.
- Profit Sharing System:* All employees in Sweden are also participating in Swedish Match's profit sharing system ("PSS"). For 2007 the individual result amounted to 29,355 SEK. Results under the PSS are primarily placed in Swedish Match shares and can be disposed of on the individual level after three years at the earliest.
- Pension:* Members of Group Management Team residing 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 Team residing outside Sweden shall preferably be through defined-contribution pensions with a premium based on the fixed salary.
- Severance pay, etc:* 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 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 Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:* Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the Group Management Team, except those regarding the President. The Committee shall also prepare and present proposals for the Board's decision on issues relating to share related incentive schemes and for salary and other remuneration and employment terms for the President. In addition hereto, the Committee is authorized to decide (and in relation to the President to propose to the Board of Directors) the further details of how to set the criteria and targets on which the variable salary is based for the Group Management Team.

Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Options <sup>2)</sup>	Other benefits	Pension costs	Total	Defined benefit obligations	Other <sup>3)</sup>
<b>President<sup>1)</sup></b>	2008	6,991	3,474	1,783	145	2,514	14,907	23,601	9,630
	2007	6,165	2,158	4,007	172	2,216	14,719	19,931	-
<b>Other members of Group Management Team employed by the Parent Company</b>	2008	12,646	5,452	8,378	953	3,816	31,245	42,670	-
	2007	11,082	3,747	5,865	671	2,957	24,322	37,830	-
<b>Other members of Group Management Team employed by subsidiaries</b>	2008	10,655	3,534	5,757	2,178	3,679	25,803	16,506	11,400
	2007	7,957	4,006	6,316	993	2,930	22,202	7,340	-
<b>Total</b>	2008	30,293	12,460	15,918	3,276	10,009	71,956	82,777	21,030
	2007	25,205	9,910	16,187	1,836	8,104	61,242	65,101	-

<sup>1)</sup> Includes costs for both Lars Dahlgren and Sven Hindrikes during 2008.

<sup>2)</sup> Options costs are recognized in accordance with IFRS 2, excluding social security charges.

<sup>3)</sup> Includes stay bonus to former president and severance costs respectively relating to one other member of Group Management.

Comments to the table

In the end of 2008, the Group Management Team consisted of ten persons including the President. During 2008, thirteen persons, including the President, have been assigned to the Group Management Team. However, during the year, the Group Management Team has never consisted of more than ten members at the same time. As of June 1, 2008, Lars Dahlgren replaced Sven Hindrikes as President.

The President and six other members of the Group Management Team are employed by the Parent Company and three members are employed by subsidiaries.

During 2007, the Group Management Team consisted of ten persons including the President. The President and six members were

employed by the Parent Company and three members were employed by subsidiaries. Each respective subsidiary pays salary and other remuneration to the members of the Group Management Team employed by that subsidiary.

- Variable salary pertains to accruals charged to the consolidated income statement based on the achieved results in 2008 and 2007 respectively. The variable salary accrued in 2007 is paid in 2008 and variable salary accrued in 2008 is paid in 2009.
- Options relate to the costs according to IFRS. Options accrued in 2007 are allotted in 2008 and options accrued in 2008 are allotted in 2009.

## NOTE 6 CONTINUED

- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and contributions for defined contribution pension plans (excluding payroll taxes).

*Variable salary*

In 2008, Group Management Team 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, the President of Swedish Match North America Division 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. During 2008, the current and the former President of Swedish Match North America, both members of the Group Management Team, participated in the local program.

*Options*

The Group has an option program that can result in an allotment of call options on shares in Swedish Match AB. The allotment is subject to the fulfillment of the result of two mutually independent criteria: the improvement of the rolling three year average in the Group's earning per share and the result of the return after tax on operating adjusted capital compared to the previous three years average. In addition, the employees need to retain their employments at the end of the year in which the options are earned. The options are granted at the beginning of the year following the year in which they are earned and are immediately vested. The lifetime of the call options is five years and the

options cannot be exercised until three years have elapsed from the date of grant, thus the exercise period is year four and five. In 2008 options were allotted to 67 senior executives, including the President and other members of Group Management Team, based on the results in 2007. In countries, such as Sweden, where the call options are taxed as income at allotment the participant receive options net after deduction for tax. Other participants receive options to the value of the gross allotment.

In 2008, 1,592,851 (931,702) options were allotted. These can be exercised between March 1, 2011 and February 28, 2013. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 172.68 SEK (145.50) per share. The options are valued by an external institution in accordance with the Black & Scholes model. The value at the time of distribution was 17.10 SEK (19.90) per option, corresponding to a total of 27 MSEK (19). The valuation was based on the following conditions: the average share price for the ten trading days starting with the day the annual results 2007 was published which was 143.90 SEK (121.29), expected volatility was 22.0 percent (24.5) and the risk-free interest rate was 3.78 percent (4.21). The expected volatility is mainly based on historic volatility of the Swedish Match AB share. An assumption about dividend growth is also made to compute the value of the options. Based on the results 2008, options to a maximum value of 49 MSEK will be allotted in 2009 to maximum 74 participants. The exercise price will be 120 percent of the average share price ten trading days starting with the day the annual results 2008 were published.

During 2008, the Group's consolidated income statement was charged with 41 MSEK (41), excluding social charges, and the Parent Company's income statement was charged with 15 MSEK (15), excluding social charges, pertaining to options vested during the year. All options are vested immediately. For program participants in Sweden, the allotment of options constitutes a taxable income.

Number and weighted average of exercise prices for shares under options, SEK	2008		2007	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at beginning of period	109.68	3,352,295	87.93	4,027,327
Granted during period	172.68	1,592,851	145.50	931,702
Exercised during period	78.22	792,505	75.95	1,606,734
Expired during period	–	–	–	–
<b>Outstanding at period-end</b>	<b>139.85</b>	<b>4,152,641</b>	<b>109.68</b>	<b>3,352,295</b>
Exercisable at period-end	93.76	1,104,271	80.58	1,234,905

The average share price for share options exercised in 2008 was 142.95 SEK (123.47).

The options outstanding at December 31, 2008 of which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2007-03-01–2009-02-27	84.80	865,259	422,859	442,400
2008-03-03–2010-03-01	99.75	661,871	–	661,871
2009-03-02–2011-02-28	127.10	523,817	–	523,817
2010-03-01–2012-02-29	145.50	931,702	–	931,702
2011-03-01–2013-02-28	172.68	1,592,851	–	1,592,851
		<b>4,575,500</b>	<b>422,859</b>	<b>4,152,641</b>

NOTE 6 CONTINUED

**Pensions**

*President*

The President's retirement age is 62 and he is covered by the ITP plan on salary up to 30 times the income base amount. The President's ITP plan shall be fully funded at age 62. In addition, the Company pays a pension premium amounting to 40 percent of fixed salary above 30 times the income base amounts to a pension plan of his choice.

*Other members of Group Management Team*

For those seven members of Group Management Team who are residents in Sweden, all but one are subject to terms and conditions in accordance with the principles noted above under the principles for remuneration. The Company pays a pension premium amounting to 35 percent of fixed salary above 30 times the income base amount. One Group Management Team member is covered by a defined benefit plan with the retirement age of 60. In addition to this, the Company pays a premium that is equal to 35 percent of his fixed salary between the age 60 and 61. Two members of Group Management Team, who are residents abroad, are covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary (bonus) is capped at 30 percent of the fixed salary in the calculation of retirement benefits for one of the Group Management Team members resident abroad.

**Funding of pension commitments**

For members of Group Management Team resident in Sweden, pensions on salary portions of up to 30 income base amounts are funded in PSF, the Swedish Match Superannuation Fund. For members of Group Management Team 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 Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract. With the exemption of one member of the Group Management Team 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. Two members of the Group Management Team, who reside abroad, are entitled to terminate their employments in a change of control situation, provided their employment conditions are significantly changed, with 6 months notice and up to 24 months severance pay.

## 7. Audit fees

Expenses for auditor's fees are included in the administrative expenses as set out in the table below:

	2008	2007
KPMG AB		
Audit	12	15
Other services	3	7
<b>Total</b>	<b>16</b>	<b>22</b>

Other services include assisting with testing of IT-controls, due-diligence reports and tax services.

## 8. Operating expenses classified by nature

	2008	2007
Personnel expenses	2,244	2,302
Depreciation/amortization	444	430
Impairment losses	5	5
Other operating expenses	7,464	7,084
<b>Total</b>	<b>10,157</b>	<b>9,822</b>

## 9. Net finance cost

	2008	2007
Interest income relating to pension receivables	16	5
Interest income relating to financial instruments recognized according to fair value option	104	56
Interest income relating to cash and bank	43	98
Net gain on financial receivables revalued to fair value	-	6
<b>Total financial income</b>	<b>163</b>	<b>165</b>

	2008	2007
Interest expense relating to pension liabilities	-34	-35
Interest expense relating to financial liabilities measured at amortized cost	-483	-413
Interest expense relating to financial liabilities revalued to fair value	-66	-36
Net loss on financial liabilities revalued to fair value	-2	-
Net foreign exchange losses	-5	-7
Other financial expenses	-16	-10
<b>Total financial expenses</b>	<b>-607</b>	<b>-501</b>
<b>Net finance cost</b>	<b>-443</b>	<b>-336</b>

## 10. Income tax

Income taxes in 2008 and 2007 were distributed as follows:

	2008	2007
Current income taxes	-277	-493
Deferred income taxes	-106	-108
Deferred withholding tax on unremitted earnings of subsidiaries	-2	-5
<b>Total</b>	<b>-385</b>	<b>-606</b>

## NOTE 10 CONTINUED

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

	Current		Non-current		Total	
	2008	2007	2008	2007	2008	2007
<b>Deferred income tax liabilities</b>						
Pension and medical benefits	0	0	39	89	39	89
Accelerated depreciation	5	6	736	556	741	562
Inventory reserves	57	44	–	–	57	44
Deferred withholding tax on unremitted earnings of subsidiaries	–	–	54	46	54	46
Revaluation of financial items	–	12	–	–	–	12
Other	2	0	42	41	44	41
Netting of assets and liabilities	–	–	–	–	–176	–99
<b>Net deferred income tax liabilities</b>					<b>759</b>	<b>695</b>

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

	Current		Non-current		Total	
	2008	2007	2008	2007	2008	2007
<b>Deferred income tax assets</b>						
Tax losses carried forward	4	0	6	0	10	0
Provisions for bad debts	6	7	0	0	6	7
Restructuring provisions	–	8	–	–	–	8
Revaluation of financial items	–	2	40	–	40	2
Pension and medical benefits	10	1	435	320	445	321
Accelerated depreciation	8	6	13	3	21	9
Inventory reserves	11	8	1	1	12	9
Other	59	52	175	56	234	108
Netting of assets and liabilities	–	–	–	–	–176	–99
<b>Net deferred income tax assets</b>					<b>592</b>	<b>365</b>

During the year, the net of deferred tax liabilities and assets decreased by 163 MSEK. An increase of 106 MSEK originated from the income statement. A decrease of 344 MSEK was reported against equity and an increase of 12 MSEK originated from translation differences, divested unit and other movements. The decrease of 344 MSEK relates to a change in hedge reserves of 49 (negative 10) and change in recognized actuarial gains and losses of 295 MSEK (5). An increase of 60 MSEK is related to a multi employer plan being entirely assumed by Swedish Match and thereby reclassified from a post-employment contribution plan to a post-employment defined benefit plan. The reclassification of pension plan has affected the opening balance of equity and deferred tax liabilities accordingly.

At 31 December 2008, the Group had deductible tax losses carried forward of 111 MSEK for which no deferred tax asset was recognized and tax losses carried forward in total of 149 MSEK. The tax losses carried forward expire as follows:

Year	Amount
2009	9
2010	22
2011	27
2012	21
2013	10
Thereafter	60
<b>Total deductible tax losses carried forward</b>	<b>149</b>
<b>Total deductible tax losses carried forward where no tax asset was recognized</b>	<b>111</b>

In 2008 and 2007, the Group's effective tax rates were 14.5 percent and 22.8 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:

	2008		2007	
	%	MSEK	%	MSEK
Income before tax		2,646		2,662
Swedish tax rate	28.0	741	28.0	745
Effect of tax rates in foreign jurisdictions	–10.8	–285	–2.2	–57
Effect of enacted change of tax rate	–0.8	–20		
Effect of unrecognized tax losses	0.0	0	0.0	–1
Tax exempt items	–2.4	–63	–6.7	–179
Non-deductible amortization of intangible assets	0.3	8	0.3	7
Adjustments of taxes for prior years	–1.9	–49	0.9	24
Non-deductible expenses	1.7	44	2.4	63
Other items	0.4	9	0.1	4
<b>Reported effective tax</b>	<b>14.5</b>	<b>385</b>	<b>22.8</b>	<b>606</b>



# 11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Cost at beginning of year</b>	<b>2,848</b>	<b>2,039</b>	<b>2,487</b>	<b>2,295</b>	<b>167</b>	<b>116</b>	<b>5,503</b>	<b>4,450</b>
Purchases/investments	–	–	0	–	7	1	8	1
Companies acquired <sup>1)</sup>	7	917	–	250	–	59	7	1,226
Sales/disposals	–	–	–	–	–2	–1	–2	–1
Translation differences, etc.	360	–108	50	–58	24	–9	435	–174
<b>Cost at end of year</b>	<b>3,215</b>	<b>2,848</b>	<b>2,538</b>	<b>2,487</b>	<b>197</b>	<b>167</b>	<b>5,950</b>	<b>5,503</b>
<b>Accumulated amortization and impairment losses at beginning of year</b>	<b>–50</b>	<b>–49</b>	<b>–934</b>	<b>–840</b>	<b>–100</b>	<b>–93</b>	<b>–1,084</b>	<b>–981</b>
Amortization for the year	–	–	–122	–121	–18	–14	–139	–135
Sales/disposals	–	–	–	–	2	1	2	1
Translation differences, etc.	0	–1	–11	26	–15	6	–26	31
<b>Accumulated amortization and impairment losses at end of year</b>	<b>–50</b>	<b>–50</b>	<b>–1,067</b>	<b>–934</b>	<b>–131</b>	<b>–100</b>	<b>–1,248</b>	<b>–1,084</b>
<b>Net book value at end of year</b>	<b>3,166</b>	<b>2,799</b>	<b>1,470</b>	<b>1,553</b>	<b>66</b>	<b>67</b>	<b>4,702</b>	<b>4,419</b>

<sup>1)</sup> An Earn-out of 7 MSEK (1 MUSD) based on pre-determined performance targets pertaining to the acquisition of Cigars International in 2007 has increased Goodwill during 2008.

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.

The amortization for the year totaling 139 MSEK (135) was charged to the administrative expenses in the income statement in an amount of 137 MSEK (133) and to the cost of goods sold in an amount of 2 MSEK (2). During 2008 and 2007 there were no impairment losses for intangible assets.

Costs for research and development are expensed and charged to selling expenses in an amount of 79 MSEK (73) and cost of goods sold in an amount of 9 MSEK (9).

The Group's goodwill is tested for impairment annually and whenever there is an indication of impairment. For the purpose of impairment testing, goodwill is allocated to the lowest level of groups of cash generating units at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their values in use. If the carrying value is higher, the difference is charged to the income statement. The value in use is calculated by using a valuation model based on discounted expected future cash flows. The cash flows used in the valuation model are projected considering current market conditions and historical market performance, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new facts become known. Calculations of value in use are sensitive to changes in market interest rates, as these are included in the calculations of discount rates. When goodwill was tested for impairment in 2008, the value in use exceeded the carrying values for all cash generating units. When performing sensitivity analyses by increasing the discount rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. However, for Continental Europe cigar operations, the lighters operations and the matches operations the values in use were close to the carrying values.

The carrying values of the Continental Europe cigar operations, the lighters operations and the matches operations are 563 MSEK, 158 MSEK and 155 MSEK respectively.

Group goodwill largely relates to three main areas: the US cigar operations, the Continental Europe cigar operations and the pipe operations. The goodwill in the US cigar operations to a large extent relates to the acquisitions of General Cigar and Cigars International. As of 31 December, 2008, the goodwill attributable to the acquisition of the General Cigar was 782 MSEK (648) and the goodwill attributable to the acquisition of Cigars International was 616 MSEK (510). The goodwill in the Continental Europe cigar operations mainly relates to the acquisition of Bogaert Cigars. The goodwill attributable to the Continental Europe cigar operations was 563 MSEK (504) as of December 31, 2008, of which 382 MSEK (375) relates to the acquisition of Bogaert Cigars. The goodwill attributable to the pipe operations amounts to 355 MSEK. Goodwill amounts attributable to other units are not individually considered significant and total 849 MSEK (754).

The cash flows underlying the value in use calculation of a cash generating unit is explicitly forecasted for the coming five years, after which a growth factor is applied to calculate the terminal value. The first year in the forecast in the 2008 testing is equal to the budget for 2009. Sales growth and cost structure, which are the key assumptions for the projected cash flows during the explicit forecast period, are in line with historic development. For the US cigar operations excluding General Cigar and Cigar International a growth rate after the forecast period of 2.5 percent has been assumed and a pre-tax discount rate of 6.7 percent has been used. For General Cigar and Cigars International a growth factor of 1.7 percent has been applied to calculate the value of subsequent cash flows, and the pre-tax discount was 6.9 percent. For the Continental Europe cigar operations the growth rate was 0 percent, the pre-tax discount rate used was 8.5 percent. For the pipe operations a decrease in sale of 2.0 percent has been applied for the coming years after the projected five years, and the pre-tax discount rate used was 17.6 percent.

## 12. Property, plant and equipment

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

	Buildings and land <sup>2)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>1)</sup>	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Cost at beginning of year</b>	<b>1,212</b>	<b>1,120</b>	<b>3,227</b>	<b>3,160</b>	<b>676</b>	<b>607</b>	<b>219</b>	<b>144</b>	<b>5,334</b>	<b>5,030</b>
Purchases/investments	8	89	120	93	57	84	126	192	311	459
Companies acquired	–	9	–	47	–	2	–	–	–	58
Divestments	–	–	–1	–	–19	–2	–	–	–20	–2
Sales/disposals	–56	–28	–62	–122	–34	–19	–	–	–152	–169
Reclassifications <sup>3)</sup>	44	36	71	54	1	–5	–115	–115	0	–30
Translation differences, etc.	88	–13	320	–5	–4	8	17	–2	421	–12
<b>Cost at end of year</b>	<b>1,296</b>	<b>1,212</b>	<b>3,674</b>	<b>3,227</b>	<b>678</b>	<b>676</b>	<b>246</b>	<b>219</b>	<b>5,894</b>	<b>5,334</b>
<b>Accumulated depreciation and impairment losses at beginning of year</b>	<b>–445</b>	<b>–431</b>	<b>–2,187</b>	<b>–2,127</b>	<b>–404</b>	<b>–334</b>	<b>–1</b>	<b>–1</b>	<b>–3,037</b>	<b>–2,893</b>
Depreciation for the year	–40	–38	–192	–182	–73	–75	–	–	–304	–295
Impairment losses during year	–	–	–5	–4	–	–2	–	–	–5	–5
Divestments	–	–	1	–	15	2	–	–	17	2
Sales/disposals	40	14	44	116	32	17	–	–	116	147
Reclassifications <sup>3)</sup>	–	–	–	20	–	–6	–	–	–	14
Translation differences, etc.	–50	9	–260	–11	2	–5	0	0	–308	–7
<b>Accumulated depreciation and impairment losses at end of year</b>	<b>–495</b>	<b>–445</b>	<b>–2,598</b>	<b>–2,187</b>	<b>–428</b>	<b>–404</b>	<b>–1</b>	<b>–1</b>	<b>–3,522</b>	<b>–3,037</b>
<b>Net book value at end of year</b>	<b>801</b>	<b>767</b>	<b>1,076</b>	<b>1,040</b>	<b>249</b>	<b>272</b>	<b>246</b>	<b>219</b>	<b>2,372</b>	<b>2,297</b>

<sup>1)</sup> Total Property, plant and equipment exclude forest plantations and assets held for sale 2007.

<sup>2)</sup> Buildings and land include land at a book value of 145 MSEK (157).

<sup>3)</sup> Reclassifications include property, plant and equipment reclassified from construction in progress.

Construction in progress primarily relates to investments in production facilities.

Depreciation for the year totaling 304 MSEK (295) was charged to cost of goods sold in the income statement in an amount of 219 MSEK (208), to administrative expenses in an amount of 8 MSEK (6), and to selling expenses in an amount of 78 MSEK (82). Impairment losses were charged to cost of cost of goods sold in an amount of 5 MSEK. During 2007 impairment losses were charged to cost of goods sold in an amount of 5 MSEK and to cost of administration in an amount of 1 MSEK. The total impairment losses of 5 MSEK (5) affected the result of Cigars.

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

	2008	2007
Buildings	360	343
Land	28	27
<b>Total tax assessment values</b>	<b>388</b>	<b>370</b>

## 13. Forest plantations

Forest plantations at December 31 comprised the following:

	Forest plantations	
	2008	2007
<b>Balance at beginning of year</b>	<b>91</b>	<b>83</b>
Purchases/investments/new planting	19	16
Change in fair value	–3	–7
Transfer to inventories	–14	–12
Translation differences, etc.	–8	11
<b>Balance at end of year</b>	<b>86</b>	<b>91</b>

The Group's forest plantations comprise poplar and pine forests with a total area of 6,100 hectares at December 31, 2008. 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 14 MSEK at the time of felling, and made up 116,700 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.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2008, 447 hectares (220) 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.

## 14. Investments in associates and joint ventures

Investments in associates are reported in subsidiaries. The numbers in the table below represent the change in carrying value.

	2008	2007
<b>Carrying value at beginning of year</b>	<b>89</b>	<b>90</b>
Net profit of associated companies	11	3
Dividends from associated companies	-	-10
Translation differences	17	5
<b>Carrying value at end of year</b>	<b>117</b>	<b>89</b>

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

2008	Country	Sales	Profit	Assets	Liabilities	Equity interest	Ownership, %	Book value
Arnold André GmbH & Co. KG	Germany	191	11	177	75	101	40	105
Malaysian Match Co. SDN. BHD.	Malaysia	17	1	14	6	8	32	12
<b>Total shares in associated companies</b>		<b>209</b>	<b>11</b>	<b>190</b>	<b>82</b>	<b>109</b>	<b>-</b>	<b>117</b>
2007								
Arnold André GmbH & Co. KG	Germany	180	3	165	84	81	40	79
Malaysian Match Co. SDN. BHD.	Malaysia	16	0	11	5	6	32	9
<b>Total shares in associated companies</b>		<b>196</b>	<b>3</b>	<b>176</b>	<b>89</b>	<b>87</b>	<b>-</b>	<b>89</b>

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 11 MSEK (12). Total sales to associated companies amounted to 42 MSEK (43). Payables to these companies totaled 1 MSEK (1). Total purchases from associated companies amounted to 9 MSEK (6).

### Investment in joint ventures

Swedish Match has entered into a joint venture agreement with a 50 percent holding with Lorillard Tobacco Company, with the main activities pertaining to marketing of Scandinavian type of moist snuff on the US market. The Swedish Match proportion of the net loss during 2008 is 7 MSEK .

	2008	2007
<b>Carrying value at beginning of year</b>	<b>-1</b>	<b>-</b>
Investment in joint venture	7	2
Net loss of joint venture	-7	-3
Translation differences	0	0
<b>Carrying value at end of year</b>	<b>0</b>	<b>-1</b>

## 15. Non-current receivables and other receivables

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

	2008	2007
Non-current financial receivables	1,131	56
Finance lease <sup>1)</sup>	5	5
Net assets in pension plans	134	176
Other non-current receivables	305	320
<b>Total</b>	<b>1,575</b>	<b>558</b>

<sup>1)</sup> The finance lease amount pertains to a sale-lease back agreement of a production line. This lease agreement generated an income of less than 1 MSEK during the year and will generate an income of 1 MSEK per year during the coming four years.

A large part of non-current receivables pertains to foreign exchange derivatives used to hedge the Parent Company's bond loans denominated in EUR.

Other current receivables at December 31 comprised the following items:

	2008	2007
Current financial receivables	122	182
VAT receivables	62	60
Other current receivables	164	145
<b>Total</b>	<b>348</b>	<b>386</b>

## 16. 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:

	2008			2007		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	1,110	–	1,110	848	1	849
Work in progress	112	–	112	113	–	113
Leaf tobacco	1,198	507	1,705	1,079	268	1,347
Other input materials and consumables	276	–	276	209	2	210
<b>Total</b>	<b>2,695</b>	<b>507</b>	<b>3,202</b>	<b>2,250</b>	<b>271</b>	<b>2,520</b>

Felled timber is reported at fair value and constitutes an immaterial part of other input materials.

## 17. Allowance for bad debts and ageing analysis of trade receivable

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

	2008	2007
<b>Balance at beginning of year</b>	<b>–47</b>	<b>–54</b>
Provision	–11	–9
Recovery	10	14
Write-off	8	4
Companies acquired	–	–1
Companies divested	1	–
Translation differences, other deductions or additions, etc.	0	–2
<b>Balance at end of year</b>	<b>–38</b>	<b>–47</b>

Trade receivables split in accordance with ageing comprised the following:

	2008	2007
Current	1,663	1,868
Overdue <31 days	107	119
Overdue 31–60 days	30	19
Overdue >60 days	28	16
<b>Net trade receivables</b>	<b>1,828</b>	<b>2,022</b>
Allowance for bad debts	–38	–47
<b>Gross trade receivables</b>	<b>1,866</b>	<b>2,069</b>

Swedish Match does not generally hold collateral against trade receivables. The Group has a diverse custom base and the customer concentration level is insignificant.

## 18. Cash and cash equivalents, and other current 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	2008	2007
Other financial investments	1	5
	<b>1</b>	<b>5</b>
<b>Cash and cash equivalents</b>		
Cash and bank	1,835	1,260
Bank certificates	1,343	1,683
Mortgage certificates	–	496
	<b>3,178</b>	<b>3,439</b>
<b>Total on balance sheet</b>	<b>3,179</b>	<b>3,444</b>



# 19. Equity

	Equity attributable to equity holders of the Parent				Minority interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
<b>Equity at January 1, 2007</b>	<b>390</b>	<b>-256</b>	<b>1,903</b>	<b>2,037</b>	<b>3</b>	<b>2,041</b>
Translation differences for the year	-	-258	-	-258	-	-258
Net change in hedge reserve	-	38	-	38	-	38
Actuarial gains and losses, including payroll taxes	-	-	-57	-57	-	-57
Tax on items taken to/transferred from equity	-	-10	5	-5	-	-5
<b>Total income (expense) recognized directly in equity</b>	<b>-</b>	<b>-230</b>	<b>-52</b>	<b>-282</b>	<b>-</b>	<b>-282</b>
Net profit for the year	-	-	2,055	2,055	1	2,056
<b>Total recognized income and expense for the year</b>	<b>-</b>	<b>-230</b>	<b>2,003</b>	<b>1,773</b>	<b>1</b>	<b>1,773</b>
Dividends	-	-	-664	-664	0	-664
Cancellation of shares	-18	-	18	0	-	0
Bonus issue	18	-	-18	0	-	0
Repurchase of own shares	-	-	-2,575	-2,575	-	-2,575
Stock options exercised	-	-	122	122	-	122
Share-based payments, IFRS 2	-	-	28	28	-	28
<b>Equity at December 31, 2007</b>	<b>390</b>	<b>-486</b>	<b>816</b>	<b>720</b>	<b>4</b>	<b>724</b>

	Equity attributable to equity holders of the Parent				Minority interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
<b>Equity at January 1, 2008</b>	<b>390</b>	<b>-486</b>	<b>817</b>	<b>720</b>	<b>4</b>	<b>724</b>
Adjustment for reclassification of pension plan IAS 19, net after tax	-	-	152	152	-	152
<b>Adjusted equity at January 1, 2008</b>	<b>390</b>	<b>-486</b>	<b>968</b>	<b>872</b>	<b>4</b>	<b>876</b>
Translation differences for the year	-	820	-	820	-	820
Translation differences attributable to divested companies	-	6	-	6	-	6
Net change in hedge reserve	-	-184	-	-184	-	-184
Actuarial gains and losses, including payroll taxes	-	-	-952	-952	-	-952
Tax on items taken to/transferred from equity	-	49	295	344	-	344
<b>Total income (expense) recognized directly in equity</b>	<b>-</b>	<b>691</b>	<b>-657</b>	<b>34</b>	<b>-</b>	<b>34</b>
Net profit for the year	-	-	2,261	2,261	1	2,261
<b>Total recognized income and expense for the year</b>	<b>-</b>	<b>691</b>	<b>1,604</b>	<b>2,295</b>	<b>1</b>	<b>2,296</b>
Dividends	-	-	-886	-886	-1	-886
Cancellation of shares	-18	-	18	0	-	0
Bonus issue	18	-	-18	0	-	0
Repurchase of own shares	-	-	-996	-996	-	-996
Stock options exercised	-	-	62	62	-	62
Share-based payments, IFRS 2	-	-	28	28	-	28
<b>Equity at December 31, 2008</b>	<b>390</b>	<b>204</b>	<b>781</b>	<b>1,377</b>	<b>4</b>	<b>1,381</b>

## Details of equity reserves

	2008	2007
<b>Translation reserve<sup>1)</sup></b>		
<b>Translation reserve, January 1</b>	<b>-514</b>	<b>-256</b>
Translation difference for the year	820	-258
Less translation differences attributable to divested companies	6	-
<b>Translation reserve, December 31</b>	<b>311</b>	<b>-514</b>

	2008	2007
<b>Hedge reserve<sup>2)</sup></b>		
<b>Hedge reserve, January 1</b>	<b>28</b>	<b>-</b>
Change in cash flow hedges reported directly in equity	-184	38
Taxes attributable to change in hedge reserve	49	-10
<b>Hedge reserve, December 31</b>	<b>-107</b>	<b>28</b>

	2008	2007
<b>Total reserves</b>		
<b>Reserves, January 1</b>	<b>-486</b>	<b>-256</b>
Changes in reserves for the year		
Translation reserves	826	-258
Hedge reserve	-135	28
<b>Total reserves, December 31</b>	<b>204</b>	<b>-486</b>

<sup>1)</sup> Translation reserves 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).

<sup>2)</sup> The hedge reserve includes the accumulated changes in fair value of cashflow hedges attributable to interest rate hedges.

## NOTE 19 CONTINUED

**Objectives, policies and processes for managing capital**

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business as well as the additional contribution that recently acquired companies are expected to generate, the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. The Board of Directors has further concluded that the strategic position of Swedish Match supports a dividend policy with a targeted pay-out ratio to 40 to 60 percent of the earnings per share for the year, subject to adjustments for larger one time items. The Board of Directors propose a dividend of 4.10 SEK (3.50) per share, equivalent to 46 percent (45) of the earnings per share for the year.

Repurchase of own shares included in the equity item retained earnings is detailed below:

	2008	2007
Repurchase of own shares, January 1	-11,882	-9,447
Repurchase of own shares during the year	-996	-2,575
Stock options exercised during the year	62	122
Allocated to retained earnings by cancellation of shares	18	18
<b>Repurchase of own shares, December 31</b>	<b>-12,798</b>	<b>-11,882</b>

The Annual General Meeting on April 22, 2008 renewed the mandate to repurchase up to 10 percent of the shares of the Company up to an amount of 3,000 MSEK. In addition, a decision was made to cancel 12.0 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 18 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. The total number of registered shares of the Company, after the cancellations, is 255 million shares with a quotient value of 1.5275 SEK. During the year, the Company issued 1.6 million call options to senior management and key employees for the stock option program for 2007. These call options can be exercised from March 1, 2011 to February 28, 2013. The exercise price is 172.68 SEK.

During the year 7.5 million shares were repurchased at an average price of 132.63 SEK. As at December 31, 2008 Swedish Match held 5.8 million shares in its treasury, corresponding to 2.3 percent of the total number of shares. During the year the Company has also sold 0.8 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 249.2 million. In addition, the Company has call options outstanding at year end corresponding to 4.2 million shares exercisable in gradual stages from 2009–2013.

## 20. Earnings per share

	2008	2007
Profit for the year attributable to equity holders of the Parent	2,261	2,055

**Weighted average number of shares outstanding, basic**

Number of shares	2008	2007
Weighted average number of shares outstanding, basic	251,867,479	262,604,644

**Weighted average number of shares outstanding, diluted**

Number of shares	2008	2007
Weighted average number of shares outstanding, basic	251,867,479	262,604,644
Effect of issued options	344,254	800,993
<b>Weighted average number of shares outstanding, diluted</b>	<b>252,211,733</b>	<b>263,405,637</b>

Earnings per share, SEK	2008	2007
Basic	8.98	7.82
Diluted	8.96	7.80

The Company has issued call options to senior management and key employees. These call options are potentially dilutive. The weighted diluted average number of shares outstanding is calculated by adding the dilutive effect of outstanding call options to the weighted average number of ordinary shares outstanding. Call options have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the call options. The dilutive effect of outstanding call options is the number of new shares that would be issued if all options with an exercise price below the average share price during the year were exercised, less the number of shares that could be acquired at this average share price for the cash paid for the exercise of the call options.

Certain of the options issued have an exercise price above the average market price during 2008. For a table detailing options outstanding at December 31, 2008, see Note 6 *Personnel*, page 71.

## 21. Loans and borrowings

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

Year	2008	2007
2009	–	664
2010	1,682	1,566
2011	1,311	1,242
2012	2,192	2,018
2013	3,323	2,818
2014 and later	1,467	460
<b>Total</b>	<b>9,975</b>	<b>8,768</b>

Current interest-bearing liabilities:

	2008	2007
Current portion of non-current loans	696	1,235
Bank overdraft facilities utilized	47	18
Other current loans	–	18
<b>Total current interest-bearing liabilities</b>	<b>743</b>	<b>1,271</b>

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

## 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. In the US, plans are also in place to provide post-employment medical benefits to employees.

In accordance with the accounting principle for pension reporting, the Group records the full amounts of actuarial gains and losses immediately in equity, i.e. the net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

NOTE 22 CONTINUED

Obligations related to post-employment employee benefits as of December 31, 2008 are reported in the balance sheet under the following balance sheet items:

	2008	2007
Defined benefit plans, net liabilities	649	84
Post-employment medical benefits, net liabilities	634	461
Other long-term employee benefits, net liabilities	15	11
<b>Provision for pensions and similar obligations</b>	<b>1,298</b>	<b>555</b>
Defined benefit plans, net assets	-134	-176
<b>Included in non-current receivables</b>	<b>-134</b>	<b>-176</b>
<b>Net pension liabilities</b>	<b>1,165</b>	<b>379</b>

The table below specifies the net liability for defined benefit pension obligations:

	Defined-benefit pension plans		Post-employment medical benefits	
	2008	2007	2008	2007
Present value of funded obligations	4,180	3,329	-	-
Fair value of plan assets	-3,908	-3,506	-	-
<b>Deficit(+)/Surplus(-), net</b>	<b>272</b>	<b>-176</b>	<b>-</b>	<b>-</b>
Present value of unfunded obligations	96	61	634	457
Unrecognized past service costs	0	0	-	3
Unrecognized assets due to recoverability limit	148	23	-	-
<b>Net asset(-)/liability(+) in the balance sheet</b>	<b>516</b>	<b>-92</b>	<b>634</b>	<b>461</b>
Amounts in the balance sheet:				
Liabilities	650	84	634	461
Assets	-134	-176	-	-
<b>Net asset(-)/liability(+) in the balance sheet</b>	<b>516</b>	<b>-92</b>	<b>634</b>	<b>461</b>

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

	2008	2007	2008	2007
Current service costs	84	72	22	22
Interest on obligation	201	163	29	25
Expected return on plan assets	-260	-218	-	-
Recognized past service costs	0	0	-1	-1
Gains on curtailments and settlements	-12	-	-	-
<b>Net income(-)/expense(+) reported in the income statement</b>	<b>13</b>	<b>17</b>	<b>50</b>	<b>46</b>

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

	2008	2007	2008	2007
Cost of goods sold	-3	15	11	12
Administrative expenses	9	-18	2	-2
Selling expenses	20	18	9	9
Interest income	-19	-5	-	-
Interest expense	6	7	29	27
<b>Net income(-)/expense(+) reported in the income statement</b>	<b>13</b>	<b>17</b>	<b>50</b>	<b>46</b>

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

	Defined-benefit pension plans		Post-employment medical benefits	
	2008	2007	2008	2007
<b>Defined benefit obligation, January 1</b>	<b>3,390</b>	<b>3,486</b>	<b>457</b>	<b>456</b>
Reclassification	568	-	14	-
Current service cost	84	72	22	22
Interest cost	201	163	29	25
Contributions by plan participants	2	3	2	2
Actuarial losses/(gains)	108	-58	23	3
Benefits paid	-255	-186	-22	-17
Settlements (liability)	-1	0	-	-
Curtailments	-14	0	-	-
Translation differences	192	-90	110	-34
<b>Defined benefit obligation, December 31</b>	<b>4,276</b>	<b>3,390</b>	<b>634</b>	<b>457</b>

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

	2008	2007	2008	2007
<b>Fair value of plan assets, January 1</b>	<b>3,528</b>	<b>3,461</b>	<b>0</b>	<b>0</b>
Reclassification	855	-	-	-
Expected return on plan assets	260	218	-	-
Actuarial (losses)/gains	-766	-38	-	-
Employer contributions	191	160	21	15
Employee contributions	2	3	2	2
Benefits paid	-255	-186	-22	-17
Assets distributed on settlements	-5	0	-	-
Translation differences	97	-90	-	-
<b>Fair value of plan assets, December 31</b>	<b>3,908</b>	<b>3,528</b>	<b>0</b>	<b>0</b>

Cumulative actuarial gains and losses, recognised in equity	2008	2007
<b>Cumulative actuarial losses/(gains), January 1</b>	<b>320</b>	<b>315</b>
Actuarial losses/(gains) during year	897	-17
Translation differences	15	22
<b>Cumulative actuarial losses/(gains), December 31</b>	<b>1,232</b>	<b>320</b>

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 17 MSEK and the defined benefit obligation by 107 MSEK. A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 14 MSEK and the defined benefit obligation by 90 MSEK.

Historical information	2008	2007	2006	2005	2004
Present value of defined benefit obligation	4,180	3,329	3,423	3,718	3,158
Fair value of plan assets	-3,908	-3,506	-3,461	-3,313	-2,944
<b>Deficit/(surplus)</b>	<b>272</b>	<b>-176</b>	<b>-38</b>	<b>405</b>	<b>214</b>
Experience adjustments on plan liabilities (losses)/gains	-35	3	26	99	-
Experience adjustments on plan assets (losses)/gains	-768	-35	85	100	-

## NOTE 22 CONTINUED

Plan assets are comprised as follows:

	2008	2007
Equity securities	-1,351	-1,415
Debt instruments	-2,172	-1,462
Real Estate	-41	-66
Other	-343	-563
<b>Total</b>	<b>-3,908</b>	<b>-3,506</b>

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

	Defined-benefit pension plans		Post-employment medical benefits	
	2008	2007	2008	2007
Discount rate, %	5.2	5.3	6.3	6.3
Expected return on plan assets, %	5.7	6.3	-	-
Future salary increases, %	3.7	3.8	5.0	-
Future pension increases, %	3.0	3.2	-	-
Medical cost trend rate, %	-	-	9.5	9.5

Assumptions regarding future mortality expectations are set based on advice in accordance with published statistics and experience in each country. The mortality table used for the calculations of the Swedish plans was updated in 2007 to M90. Expected contributions to post-employment benefit plans for the year ending December 31, 2009 are 98 MSEK. The actual return on plan assets in 2008 was negative 506 MSEK (189). 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 recognized in equity as they occur in accordance with the yearend valuation. Obligations for retirement pension and family pension for

## NOTE 23 CONTINUED

Movements in provisions during the year were as follows:

	Total	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation
<b>Balance at January 1, 2008</b>	<b>657</b>	<b>286</b>	<b>51</b>	<b>220</b>	<b>99</b>
Provisions made during the year	114	28	4	48	34
Provisions used during the year	-88	-1	-40	-34	-13
Provisions reversed during the year and changes in estimates	-157	-163	8	-2	0
Divested companies	-2	-	-	-2	-
Reclassifications	-22	-21	13	2	-15
Translation differences, etc.	49	20	6	1	22
<b>Balance at December 31, 2008</b>	<b>551</b>	<b>150</b>	<b>42</b>	<b>234</b>	<b>126</b>

**Restructuring provisions**

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are generally expected to be settled within one year, but a certain portion is expected to be settled within a period 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 operating provisions is related to provisions 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 plan funded with PSA has been reclassified from a post-employment defined benefit plan. The reason for this is that PSA was previously a multi-employer plan that was entirely assumed by Swedish Match during 2008.

**Defined contribution plans**

The Group has certain obligations under defined contribution benefit plans. Contributions to these plans are determined by provisions in the respective plans.

	2008	2007
Costs for defined contribution plans	49	36

## 23. Provisions

Non-current and current provisions at December 31 comprised the following:

<b>Non-current provisions</b>	2008	2007
Income tax	150	286
Restructurings	26	22
Other operating provisions	220	190
Deferred compensation	126	99
<b>Total non-current provisions</b>	<b>522</b>	<b>597</b>
<b>Current provisions</b>	<b>2008</b>	<b>2007</b>
Restructurings	15	29
Other operating provisions	14	31
<b>Total current provisions</b>	<b>29</b>	<b>60</b>
<b>Total provisions</b>	<b>551</b>	<b>657</b>

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 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 select 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:

	2008	2007
Non-interest bearing non-current liabilities	39	12

Other current liabilities at December 31 comprised the following:

	2008	2007
Tobacco taxes	1,059	1,279
VAT liabilities	323	389
Other	290	339
<b>Total</b>	<b>1,672</b>	<b>2,007</b>

## 25. Accrued expenses and deferred income

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

	2008	2007
Accrued wage/salary-related expenses	145	159
Accrued vacation pay	71	62
Accrued social security charges	84	110
Other	699	451
<b>Total</b>	<b>999</b>	<b>782</b>

## 26. Financial instruments and financial risks

### 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 economies 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 arising 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 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 that affected the Group's balance sheet and income statement is provided below.

### Outstanding derivatives

	2008			2007		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	1,979	–	0	2,640	3	0
Interest-rate derivatives	9,588	1,064	146	9,640	90	8
<b>Total</b>	<b>11,567</b>	<b>1,064</b>	<b>146</b>	<b>12,280</b>	<b>93</b>	<b>8</b>

### Of which hedge accounted interest rate derivatives

#### Interest rate risk in financing

	2008			2007		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Fair value hedges	950	146	–	775	53	11
Hedged item	950	–	156	775	0	51

#### Cash flow risk in financing

	2008	2007
Cash flow hedges	7,336	36

### 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).
- Earnings – if loans and deposits are made in other currencies than the unit's functional currency (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement includes exchange rate losses of 5.5 MSEK (2.9 gain) in operating income and losses of 5.5 MSEK (7.0 loss) 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 effectively limits the Group's transaction exposure. Limited 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 lighters and matches in USD.

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 410 MSEK on an annual basis. At December 31, 2008, no transaction exposure for 2009 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 4.3 MSEK (4.6) for the year ending December 31, 2008.

### 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 130 MSEK, based on the exposure at December 31, 2008.

Approximately 53 percent relates to EUR, 33 percent relates to USD and 14 percent relates to other currencies.

## NOTE 26 CONTINUED

**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 expose the Group 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 be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate binding is to achieve an even and low cost of interest. At December 31, 2008, the average interest maturity period for Group loans was 2.3 years (2.8 years), taking into account interest rate swaps. At December 31, 2008, a general rise of 1 percent (100bp) in interest rates was estimated to reduce consolidated earnings before tax by approximately 5.3 MSEK (6.2) on an annual basis, and the net interest bearing debt (includes pension) at the same date amounted to 7,640 MSEK (7,127). The assumption is based on the present level of net debt and average interest maturity period.

If interest rates were to rise with 1 percent (100bp), the total effect on equity due to cash flow hedges would amount to 66.0 MSEK.

**Refinancing risk and liquidity**

Refinancing risk is defined as the risk that funds become scarce and thus more expensive than expected, and liquidity risk is defined as 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. Subsidiary borrowing can take place, however, in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and a certain length on its gross borrowing, and not to be dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of 250 MEUR, which matures in mid 2010. This was unutilized at year-end and contained no borrowing restrictions. In addition Swedish Match has one committed credit line, of the amount of 500 MSEK, maturing in 2009 with an extension possibility. At year-end 2008, available cash funds and committed credit facilities amounted to 6,417 MSEK. Of this amount, confirmed credit lines amounted to 3,238 MSEK and cash and cash equivalents making up the remaining 3,179 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 1,250 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2008, a total of 2,270 MSEK of the Swedish program and 7,862 MSEK of the global program were outstanding. In addition, Swedish Match established a short term Commercial Paper program during 2007. The limit is 2,000 MSEK and the program has not yet been utilized for any borrowings. At December 31, 2008, there was no outstanding debt under this program.

The average maturity of the Group's borrowing at December 31, 2008 was 3.3 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

Year	Swedish MTN	Global MTN	Other loans	Total
2009	400	219	1,445 <sup>1)</sup>	2,064
2010	500	721	462	1,683
2011	820	491	–	1,311
2012	550	1,642	–	2,192
2013	–	3,323	–	3,323
2014–	–	1,466	–	1,466
<b>Total</b>	<b>2,270</b>	<b>7,862</b>	<b>1,907</b>	<b>12,039</b>

<sup>1)</sup> Includes trade payables and negative derivatives.

Under the Swedish bond program, Swedish Match has issued bonds in SEK, and under the global program, in EUR and SEK. Borrowing in EUR is hedged by currency swaps and currency interest rate swaps. The

average interest costs for outstanding borrowings (including derivative instruments) on December 31, 2008 were as follows:

	2008	2007
Swedish MTN, %	4.5	4.9
Global MTN, %	5.0	5.0
Other loans, % <sup>1)</sup>	3.5	5.9

<sup>1)</sup> 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. Exceptions are only allowed when regulations prohibit cash pools or internal deposits.

**Accounting principles, measurement and hedge accounting**

Financial assets, excluding trade receivables, and derivatives are always measured at fair value and recognized in the balance sheet. Fair values are established using official market quotations for assets and liabilities that are quoted publicly on the financial markets. If publicly quoted market prices are not available for a particular financial asset or liability, the fair value is established by discounting all future cashflows at the relevant market interest rate for a similar instrument.

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. In those cases derivatives are entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39. When derivatives are used in order to convert floating interest rate bindings into fixed interest rate bindings or to convert a stream of interest payments in foreign currency into a stream of interest payments in SEK, hedge accounting according to the cashflow hedge technique is applied. Fair value changes arising from the revaluation of derivatives that are part in a cashflow hedge relationship and are considered to be effective as described in IAS39 are recognized in equity, and any ineffective portion is recognized directly in earnings.

	2008			2007		
	Jan. 1	Equity	Dec. 31	Jan. 1	Equity	Dec. 31
Hedging instruments, derivatives	38	-184	-146	–	38	38
<b>Total</b>	<b>38</b>	<b>-184</b>	<b>-146</b>	<b>–</b>	<b>38</b>	<b>38</b>

The maturity profile of interest payments from loans taking part in a cash-flow hedge, and the market-value for the derivatives are shown in the table below.

	2009	2010	2011	2012	2013	2014–
Interest payment from loans	230	230	230	201	162	26
Market-value derivatives	-39	-39	-33	-19	-10	-6

In cases where fixed interest rate binding is converted into floating interest rate binding, hedge accounting is applied according to the fair value hedge technique. The fair values arising from revaluation of derivatives are recognized directly in earnings, and the related value change from the hedged item is similarly recognized in earnings, thus offsetting the effective portion in the hedge relationship.

NOTE 26 CONTINUED

	2008			2007		
	Jan. 1	P&L	Dec. 31	Jan. 1	P&L	Dec. 31
Hedged item	-51	-105	-156	-87	36	-51
Hedging instruments, derivatives	43	103	146	76	-34	43
<b>Total</b>	<b>-9</b>	<b>-2</b>	<b>-10</b>	<b>-11</b>	<b>2</b>	<b>-9</b>

**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, 2008, the average interest maturity for the Group's current investments was approximately 0.8 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 equivalent from 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, 2008, credit exposure in derivative instruments amounted to 1,018

MSEK, and credit exposure due to current investments amounted to 1,344 MSEK. Swedish Match risk of its customers failing to fulfill their undertakings is low, since trade receivables are divided among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,828 MSEK.

**Credit ratings**

At December 31, 2008, 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	Baa2
Outlook:	Stable	Stable

**Carrying value and fair value**

The following table shows carrying value (including accrued interest) and fair value for each type of financial instruments at December 31, 2008. Trade receivables and trade liabilities have a short duration and are reported at nominal value without discounting. Estimated fair values are based on market prices at the balance sheet date. Loans have been measured by using the applicable benchmark interest rates at the balance sheet date, adding original credit spread and using these interest rates to estimate the present value of future cash flow. The values presented are indicative and may not necessarily be realized.

2008	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	1,828	-	-	-	-	1,828	1,828
Non-current receivables	150	-	-	733	147	545	1,575	1,575
Other receivables	76	-	-	-	-	272	348	348
Prepaid expenses and accrued income	7	-	-	9	19	158	193	193
Other investments	1	-	-	-	-	-	1	1
Cash and cash equivalents	3,178	-	-	-	-	-	3,178	3,178
<b>Total assets</b>	<b>3,412</b>	<b>1,828</b>	<b>-</b>	<b>742</b>	<b>166</b>	<b>975</b>	<b>7,123</b>	<b>7,123</b>
Loans and borrowings	-	-	10,718	-	-	-	10,718	10,728
Other liabilities	53	-	-	146	-	1,512	1,711	1,711
Accrued expenses and deferred income	50	-	-	115	29	805	999	999
Trade payables	-	754	-	-	-	-	754	754
<b>Total liabilities</b>	<b>103</b>	<b>754</b>	<b>10,718</b>	<b>261</b>	<b>29</b>	<b>2,317</b>	<b>14,182</b>	<b>14,192</b>

2007	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	2,022	-	-	-	-	2,022	2,022
Non-current receivables	-	-	-	-	-	558	558	558
Other receivables	30	-	-	33	65	258	386	386
Other investments	5	-	-	-	-	-	5	5
Cash and cash equivalents	3,439	-	-	-	-	-	3,439	3,439
<b>Total assets</b>	<b>3,474</b>	<b>2,022</b>	<b>-</b>	<b>33</b>	<b>65</b>	<b>816</b>	<b>6,410</b>	<b>6,410</b>
Loans and borrowings	-	-	10,039	-	-	-	10,039	10,044
Other liabilities	72	-	-	96	28	1,823	2,019	2,019
Trade payables	-	738	-	-	-	-	738	738
<b>Total liabilities</b>	<b>72</b>	<b>738</b>	<b>10,039</b>	<b>96</b>	<b>28</b>	<b>1,823</b>	<b>12,796</b>	<b>12,801</b>

## 27. 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:

	2008	2007
Within one year	70	67
Between 1–5 years	155	153
Later than 5 years	15	72
<b>Total minimum lease payments</b>	<b>240</b>	<b>292</b>

The Group's leasing expenses for operating lease agreements amounted to 86 MSEK (87). The operating lease agreements are mainly attributable to the rental of real estate.

## 28. Pledged assets

Pledged assets	2008	2007
Cash, temporary investments, receivables etc. <sup>1)</sup>	15	2
<b>Total</b>	<b>15</b>	<b>2</b>

<sup>1)</sup> Of the amount 2008, 13 MSEK pertains to endowment insurance policies pledged as security for pension obligations. A corresponding amount is recognized as an operating liability in the balance sheet.

## 29. Contingent liabilities and assets

Contingent liabilities	2008	2007
Guarantees on behalf of subsidiaries	647	343
Guarantees to external companies	6	12
Other guarantees and contingent liabilities	201	164
<b>Total</b>	<b>854</b>	<b>519</b>

Guarantees on behalf of subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with

imports and payment of tobacco taxes, and to additional payments for the acquisition of Cigars International conditioned on certain targets being achieved.

### Legal disputes

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

Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US in a proceeding started in 1997 in Federal District Court in New York. The District Court ruled in favor of Cubatabaco but 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. In 2008 the District Court reopened the case on the basis that there had been a change in New York State law and again ruled in favor of Cubatabaco. Cubatabaco has sought an injunction against General Cigar selling Cohiba cigars and the disgorgement of General Cigar's profits from the sale of Cohiba cigars. Further, Cubatabaco has asked the Office of Foreign Asset 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 and will appeal against the District Court's decision to re-open the case. There are in the opinion of management good defenses against Cubatabaco's claims and the case will be vigorously defended.

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. The cases against Pinkerton, however, have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these cases intend to pursue their claims separately against Pinkerton. Swedish Match North America, Inc. and Pinkerton Tobacco Company are named as defendants in a lawsuit filed in Florida in November 2002 against several companies active in the American market for smokeless tobacco and their joint interest association. The claim was originally instituted as a class-action suit, but was changed during 2005 to an individual claim. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

### Contingent assets

The Parent Company has a claim of 8 MSEK on tax authorities regarding a dispute for a group contribution given in 2005.



## 30. Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2008	2007
SM Australia Pty Ltd.	Australia	100	100
SM Belgium NV	Belgium	100	100
SM Cigars NV	Belgium	100	100
Humphrey Investments NV	Belgium	100	100
Bogaert Cigars NV	Belgium	100	100
SM Treasury SEK NV	Belgium	100	100
SM Treasury EUR NV	Belgium	100	100
SM Treasury USD NV	Belgium	100	100
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99.4	99.4
SM Plam Bulgaria JSC	Bulgaria	99.9	99.9
SM d.o.o. Zagreb	Croatia	100	100
General Cigar Dominicana S.A.	Dominican Republic	100	100
SM France SARL	France	100	100
SM Deutschland GmbH	Germany	100	100
Honduras American Tabaco, S.A. de C.V	Honduras	100	100
SM Hungaria KFT	Hungary	100	100
PT SM Cigars Indonesia	Indonesia	100	100
PT Java Cigar Manufacturing	Indonesia	-	100
Maga T.E.A.M. S.r.L	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 Holdings 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

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2008	2007
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
SM Polska Sp z o.o.	Poland	100	100
SM Fosforos Portugal S.A.	Portugal	97	97
CYAN import-export d.o.o.	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 S.A.	Spain	-	100
SM Tabaco Espana S.L.	Spain	100	100
SM Fireproducts Espana S.L.	Spain	100	100
GC Sweden AB	Sweden	100	100
Intermatch Sweden Aktiebolag	Sweden	100	100
SM Distribution AB	Sweden	100	100
SM Industries Aktiebolag	Sweden	100	100
SM North Europe AB	Sweden	100	100
SM United Brands AB	Sweden	100	100
Svenska Tändsticks Aktiebolaget	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
Tobak Fastighetsaktiebolaget	Sweden	100	100
Swedish Match US AB	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri Anonim Sirketi A.S.	Turkey	100	100
SM UK Ltd.	United Kingdom	-	100
General Cigar Co. Inc.	USA	100	100
General Cigar Holdings Inc.	USA	100	100
SM Cigars Inc.	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100
DM Holding USA Inc.	USA	100	100
Cigars International Holding	USA	100	100
Cigars International	USA	100	100

<sup>1)</sup> The designation includes both directly and indirectly owned companies. Dormant companies are not included.

## 31. Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is presented in Note 18 *Cash and cash equivalents and other current investments*.

Interest paid and interest received	2008	2007
Interest received	132	219
Interest paid	-525	-377
<b>Total</b>	<b>-393</b>	<b>-158</b>

Interest payments and interest receipts are reflected in cash flow from operations.

Adjustments for non cash items and other	2008	2007
Depreciation and amortization	444	430
Impairment losses	5	5
Share of profit in associates	-12	-4
Capital gain/loss from sale of non-current assets	-176	-303
Dividend received from associates	21	-
Additional payment from divested subsidiaries	-	-5
Expense for share-based payments	49	47
Change in fair value of forest plantations	3	12
Change in provisions	-145	-169
Change in accrued interest	9	0
Change in market value revaluations and unrealized exchange rate differences	55	-8
Realized exchange rate differences	-35	111
Other	0	4
<b>Total</b>	<b>218</b>	<b>120</b>

## NOTE 31 CONTINUED

<b>Acquisitions of subsidiaries and other business units</b>	<b>2007</b>
<b>Acquired assets and liabilities</b>	
Property, plant and equipment	-60
Intangible assets	-1,247
Inventories	-160
Trade receivables	-31
Other receivables	-32
Accounts payable	53
Other liabilities	110
Loans in acquired operations	113
<b>Purchase consideration paid</b>	<b>-1,254</b>
Less cash and cash equivalents acquired	1
Purchase consideration not paid	44
<b>Effect on cash and cash equivalents</b>	<b>-1,209</b>

No subsidiaries were acquired during 2008. The acquisitions of subsidiaries during 2007 pertain to the acquisition of Bogaert Cigars, Cigars International and Havana Honeys. For further information about the acquisitions see Note 4 *Business Combinations*.

<b>Divestments of subsidiaries and other business units</b>	<b>2008</b>
<b>Divested assets and liabilities</b>	
Intangible fixed assets	6
Tangible fixed assets	22
Inventories	26
Trade receivables	53
Deferred income tax receivables	21
Other receivables	6
Cash and cash equivalents	13
<b>Total assets</b>	<b>147</b>
Accounts payable	-46
Other liabilities	-16
<b>Total liabilities</b>	<b>-62</b>
<b>Divested assets, net</b>	<b>85</b>
<b>Purchase price consideration received</b>	<b>168</b>
Less cash and cash equivalents in divested operations	-13
<b>Effect on cash and cash equivalents</b>	<b>155</b>

The cash flows from sale of subsidiaries during 2008 pertain to the disposal of Swedish Match UK Ltd and related assets of 163 MSEK and additional payment received of 5 MSEK attributable to the disposal of the Arenco Group in 2006. No subsidiaries were divested in 2007.

## 32. Critical estimates and judgments

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 of the 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 at December 31, 2008 amounted to 4,702 MSEK and amortization amounted to 139 MSEK. Reported goodwill, which is included in intangible assets, amounts to 3,166 MSEK.

As explained in Note 29 *Contingent liabilities and assets*, 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 earnings capacity.

Calculation of the pension liability relating to defined-benefit plans requires management to make assumptions on the discount rate, mortality rates, expected return on plan assets and rate of compensation increase etc. as explained in Note 22 *Employee benefits*. Actual result could differ from the assumptions made. The net benefit obligations of the Company's defined-benefit-pension plans and post employment medical benefit plans as of December 31, 2008 were estimated to exceed the fair value of plan assets by 1,165 MSEK.

## 33. 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 NASDAQ OMX Stockholm. The address of the head office is Rosenlundsgatan 36, SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2008 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	2008	2007
<b>Net Sales</b>	1	<b>1</b>	<b>6</b>
Cost of sales		-	-3
<b>Gross profit</b>		<b>1</b>	<b>3</b>
Selling expenses		-11	-12
Administrative expenses	2, 3	-300	-376
Other operating income	4	27	37
Other operating expense	4	-1	-
<b>Operating loss</b>		<b>-284</b>	<b>-348</b>
Result from participation in group companies	5	3,651	17,714
Gain on sale of shares		-	340
Income from other investments and receivables carried as fixed assets	5	20	1
Other interest income and similar items	5	215	311
Other interest expense and similar items	5	-1,706	-1,020
<b>Profit after financial items</b>		<b>1,896</b>	<b>16,998</b>
Appropriations	6	11	11
<b>Profit before income tax</b>		<b>1,907</b>	<b>17,009</b>
Income tax	7	7	30
<b>Profit for the year</b>		<b>1,914</b>	<b>17,039</b>

# Parent Company balance sheet

MSEK	Note	December 31, 2008	December 31, 2007
<b>Assets</b>			
Intangible assets	8	4	17
Property, plant and equipment	9	2	2
Financial fixed assets			
Participations in group companies	21	50,351	52,001
Receivables from group companies	10	83	70
Other non-current receivables	11	1,043	8
Deferred tax assets	7	51	3
<b>Total financial fixed assets</b>		<b>51,528</b>	<b>52,082</b>
<b>Total fixed assets</b>		<b>51,534</b>	<b>52,101</b>
<b>Current receivables</b>			
Receivables from group companies		2,250	4,348
Income tax receivables	7	13	67
Other receivables	12	83	114
Prepaid expenses and accrued income	13	64	43
<b>Total current receivables</b>		<b>2,410</b>	<b>4,572</b>
Cash and cash equivalents <sup>1)</sup>		2,702	2,808
<b>Total current assets</b>		<b>5,112</b>	<b>7,381</b>
<b>TOTAL ASSETS</b>		<b>56,646</b>	<b>59,482</b>
<b>Equity</b>			
Restricted equity	14		
Share capital, 255,000,000 shares at 1:5275 and 267,000,000 at 1:4589 respectively		390	390
Unrestricted equity			
Hedge reserve		-107	28
Retained earnings		19,952	4,725
Profit for the year		1,914	17,039
<b>TOTAL EQUITY</b>		<b>22,148</b>	<b>22,182</b>
<b>Untaxed reserves</b>	15	<b>2</b>	<b>13</b>
<b>Income tax provision</b>		<b>-</b>	<b>11</b>
<b>Other provisions</b>		<b>16</b>	<b>9</b>
Non-current liabilities			
Bond loans	16	9,514	8,321
Liabilities to group companies	17	18,100	18,100
<b>Total non-current liabilities</b>		<b>27,614</b>	<b>26,421</b>
<b>Current liabilities</b>			
Liabilities to credit institutes	16	619	1,172
Trade payables		18	16
Liabilities to group companies		5,759	9,373
Current tax liabilities		8	8
Other liabilities		211	37
Accrued expenses and prepaid income	18	251	240
<b>Total current liabilities</b>		<b>6,866</b>	<b>10,846</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>56,646</b>	<b>59,482</b>
Contingent assets	19	8	-
Pledged assets	19	15	2
Contingent liabilities	19	1,197	900

<sup>1)</sup> Cash and cash equivalents include current investments with maturity of less than 90 days from acquisition.



# Statement of changes in Parent Company equity

MSEK	Note	Restricted equity	Unrestricted equity			Total equity
		Share Capital	Hedge reserve	Retained earnings	Profit for the year	
	14					
<b>Equity at January 1, 2007</b>		<b>390</b>	<b>-</b>	<b>1,244</b>	<b>6,619</b>	<b>8,253</b>
Allocation of profit		-	-	6,619	-6,619	-
Group contributions paid		-	-	-36	-	-36
Valuation of financial instruments to fair market value		-	38	-	-	38
Tax effect on items reported directly in equity		-	-10	10	-	-1
<b>Total income (expense) recognized directly in equity</b>		<b>-</b>	<b>28</b>	<b>6,593</b>	<b>-6,619</b>	<b>1</b>
Profit for the year		-	-	-	17,039	17,039
<b>Total recognized income and expense for the year</b>		<b>-</b>	<b>28</b>	<b>6,593</b>	<b>10,420</b>	<b>17,040</b>
Dividends		-	-	-664	-	-664
Cancellation of shares		-18	-	18	-	-
Bonus issue		18	-	-18	-	-
Repurchase of own shares		-	-	-2,575	-	-2,575
Stock options exercised		-	-	122	-	122
Share-based payments, IFRS 2		-	-	6	-	6
<b>Equity at December 31, 2007</b>		<b>390</b>	<b>28</b>	<b>4,725</b>	<b>17,039</b>	<b>22,182</b>
<b>Equity at January 1, 2008</b>		<b>390</b>	<b>28</b>	<b>4,725</b>	<b>17,039</b>	<b>22,182</b>
Allocation of profit		-	-	17,039	-17,039	-
Valuation of financial instruments to fair market value		-	-184	-	-	-184
Tax effect on items reported directly in equity		-	49	-	-	49
<b>Total income (expense) recognized directly in equity</b>		<b>-</b>	<b>-135</b>	<b>17,039</b>	<b>-17,039</b>	<b>-135</b>
Profit for the year		-	-	-	1,914	1,914
<b>Total recognized income and expense for the year</b>		<b>-</b>	<b>-135</b>	<b>17,039</b>	<b>-15,125</b>	<b>1,779</b>
Dividends		-	-	-886	-	-886
Cancellation of shares		-18	-	18	-	-
Bonus issue		18	-	-18	-	-
Repurchase of own shares		-	-	-996	-	-996
Stock options exercised		-	-	62	-	62
Share-based payments, IFRS 2		-	-	6	-	6
<b>Equity at December 31, 2008</b>		<b>390</b>	<b>-107</b>	<b>19,952</b>	<b>1,914</b>	<b>22,148</b>

# Cash flow statement for the Parent Company

MSEK	Note	2008	2007
	22		
<b>Operating activities</b>			
Profit after financial items		1,896	16,998
Adjustments for non-cash items and other		2,760	-16,712
Income tax received		51	25
<b>Cash flow from operating activities before changes in working capital</b>		<b>4,707</b>	<b>311</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-2	-12
Increase (+)/Decrease (-) in operating liabilities		-25	-12
<b>Cash flow from operating activities</b>		<b>4,680</b>	<b>287</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-1	-2
Purchase of intangible assets		-	-1
Acquisition of subsidiaries		-	-413
Liquidation of subsidiaries		31	-
Proceeds from sale of subsidiaries		-	335
Shareholders contribution paid		-1,100	-1,325
Change in other investments		3	53
<b>Cash flow used in investing activities</b>		<b>-1,067</b>	<b>-1,353</b>
<b>Financing activities</b>			
Repurchase of own shares		-996	-2,575
Stock options exercised		62	122
Proceeds from non-current borrowings		786	2,248
Repayment of borrowings		-1,176	-298
Dividends paid		-886	-664
Group contributions paid		-	-36
Changes in financial receivables/liabilities group companies		-1,544	3,504
Other		35	-111
<b>Net cash from/used in financing activities</b>		<b>-3,719</b>	<b>2,190</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-106</b>	<b>1,124</b>
Cash and cash equivalents at the beginning of the year		2,808	1,684
<b>Cash and cash equivalents at end of year</b>		<b>2,702</b>	<b>2,808</b>

# Notes for the Parent Company financial statements

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

For remuneration and other benefits to Parent Company President and other members of Group management, see Note 6 *Personnel*, page 68.

## 1. Sales

As of 2008 the sale of nasal snuff was transferred to a Dutch subsidiary. From that date the Parent Company receives a royalty based on sales. The royalty based on sales for 2008 amounted to 1 MSEK. During 2007 the Parent Company's revenue consisted of sales of nasal snuff in Europe amounting to 6 MSEK.

## 2. Audit fees

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

	2008	2007
KPMG AB		
Audit assignments	6	6
Other assignments	2	5
<b>Total</b>	<b>8</b>	<b>11</b>

Audit assignments refer to the examination of the annual report and accounts, the Board of Director's and the President's report, 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. Sick leave within the Parent Company

Percent	2008	2007
Total sick leave	0.98	0.97
of which long-term sick leave	0.88	–
Sick leave for men	1.09	1.20
Sick leave for women	0.84	0.68
Sick leave for employees under 29	– <sup>1)</sup>	– <sup>1)</sup>
Sick leave for employees age 30–49	1.15	0.88
Sick leave for employees age 50+	0.88	1.23

<sup>1)</sup> No data provided if the group comprises less than 10 persons.

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

## 4. Other operating income and expense

Other income mainly pertains to the portion of administration costs charged to group companies 27 MSEK (37). Other expense consists of foreign exchange losses amounting to 1 MSEK (–).

## 5. Financial items

Result from participations in group companies	2008	2007
Dividends received	4,673	23,166
Liquidation group companies	–	–91
Impairment losses	–2,720	–6,552
Group contribution	1,698	1,191
<b>Total</b>	<b>3,651</b>	<b>17,714</b>

	Income from other investments and receivables carried as fixed assets		Other interest income and similar items	
	2008	2007	2008	2007
Interest income relating to group companies	6	6	109	211
Interest income relating to financial instruments held for trading	–	–	104	56
Interest income relating to cash and bank	–	–	13	35
Net foreign exchange gains/losses	14	–5	–11	9
<b>Total</b>	<b>20</b>	<b>1</b>	<b>215</b>	<b>311</b>

	Other interest expense and similar items	
	2008	2007
Interest expense relating to group companies	–1,193	–631
Interest expense relating to financial liabilities measured at amortized cost	–442	–351
Interest expense relating to financial liabilities revalued to fair value	–66	–36
Net loss on financial liabilities revalued to fair value	–2	–
Other financial expenses	–3	–2
<b>Total</b>	<b>–1,706</b>	<b>–1,020</b>

## 6. Appropriations

	2008	2007
Difference between reported amortization and amortization according to plan:		
Trademarks	11	11
<b>Total</b>	<b>11</b>	<b>11</b>

## 7. Income tax

Reported in Income Statement	2008	2007
Tax expense for the period	-	-18
Adjustment of taxes attributable to prior years	-3	48
Deferred tax due to temporary differences	10	1
<b>Total income tax</b>	<b>7</b>	<b>30</b>

Reconciliation of effective tax rate	2008		2007	
	(%)		(%)	
Income before tax		1,907		17,009
Swedish tax rate	28.0	-534	28.0	-4,763
Non-deductible expenses	0.1	-2	0.0	-6
Non-deductible impairment losses	40.0	-762	10.8	-1,834
Non-taxable revenue	-68.6	1,309	-38.7	6,583
Tax attributable to prior years	0.2	-3	-0.3	48
Other	0.0	-1	-0.0	2
<b>Reported effective tax</b>	<b>-0.4</b>	<b>7</b>	<b>-0.2</b>	<b>30</b>

Tax items reported directly against equity	2008	2007
Current tax in paid group contributions	-	10
Hedge reserve	38	-11
<b>Total</b>	<b>38</b>	<b>-1</b>

Tax receivable amounts to 13 MSEK (67). In 2008, 13 MSEK (67) represents amount to be recovered on income for the year.

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

Reported in Balance sheet	Deferred tax assets		Deferred tax liabilities	
	2008	2007	2008	2007
Hedge reserve	38	-	-	11
Tax-loss carryforwards	6	-	-	-
Provision	4	3	-	-
Other	3	-	-	-
<b>Total deferred income tax assets/liabilities</b>	<b>51</b>	<b>3</b>	<b>-</b>	<b>11</b>

## 8. Intangible assets

	Trademarks		Other intangibles		Total	
	2008	2007	2008	2007	2008	2007
<b>Cost at beginning of year</b>	<b>114</b>	<b>114</b>	<b>6</b>	<b>6</b>	<b>120</b>	<b>120</b>
Purchase	-	-	-	1	-	1
Sales/disposals	-	-	-2	-	-2	-
<b>Cost at end of year</b>	<b>114</b>	<b>114</b>	<b>4</b>	<b>6</b>	<b>118</b>	<b>120</b>
<b>Accumulated amortization at beginning of year</b>	<b>-100</b>	<b>-88</b>	<b>-4</b>	<b>-3</b>	<b>-104</b>	<b>-91</b>
Amortization for the year	-11	-11	-1	-1	-12	-12
Sales/disposals	-	-	2	-	2	-
<b>Accumulated amortization at end of year</b>	<b>-111</b>	<b>-100</b>	<b>-3</b>	<b>-4</b>	<b>-114</b>	<b>-104</b>
<b>Net book value at end of year</b>	<b>3</b>	<b>14</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>17</b>

Amortization is included in the following lines of the Income Statement:

	2008	2007
Administrative expenses	-1	-1
Selling expenses	-11	-11
<b>Total</b>	<b>-12</b>	<b>-12</b>

All intangible assets are acquired.

Trademarks are amortized according to plan over ten years. Other intangibles are amortized over three to five years. Other intangibles mainly consist of licenses and software. The acquisition value of assets does not include any interest expenses.

## 9. Property, plant and equipment

Equipment, tools and fixtures	2008	2007
<b>Cost at beginning of year</b>	<b>7</b>	<b>6</b>
Purchase	1	2
Sales/disposals	-1	-1
<b>Cost at end of year</b>	<b>6</b>	<b>7</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-5</b>	<b>-5</b>
Depreciation for the year	-1	-1
Sales/disposals	1	1
<b>Accumulated depreciation at end of year</b>	<b>-4</b>	<b>-5</b>
<b>Net book value at end of year</b>	<b>2</b>	<b>2</b>

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

## 10. Receivables from group companies

	2008	2007
<b>Opening balance, January 1</b>	<b>70</b>	<b>76</b>
Repayments	-1	-1
Foreign exchange loss	14	-5
<b>Closing balance, December 31</b>	<b>83</b>	<b>70</b>



## 11. Other non-current receivables

	2008	2007
Pledged assets	13	–
Other non-current receivables	1,030	8
<b>Closing balance, December 31</b>	<b>1,043</b>	<b>8</b>

Large part of non-current receivables pertains to foreign exchange derivatives used to hedge the Parent Company's bond loans denominated in EUR.

## 12. Other receivables

	2008	2007
Derivatives related to current loans	33	90
Currency forwards	41	12
VAT receivables	3	4
Other current receivables	6	8
<b>Closing balance, December 31</b>	<b>83</b>	<b>114</b>

## 13. Prepaid expenses and accrued income

	2008	2007
Accrued interest income, non-group companies	36	21
Accrued compensation for pension costs	3	–
Prepaid rent	3	3
Prepaid insurance premiums	2	2
Other prepaid expenses	20	17
<b>Closing balance, December 31</b>	<b>64</b>	<b>43</b>

## 14. Equity

For information regarding the change in Parent Company equity see Changes in Parent Company equity on page 90.

### Number of registered shares in the Parent Company

	2008	2007
Issued, as of January 1	267,000,000	280,000,000
Cancellation	–12,000,000	–13,000,000
Issued, as of December 31	255,000,000	267,000,000

### Buy-back of shares

Buy-back of shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2008, the Parent Company's holding of treasury shares amounted to 5,840,000 shares (11,125,200).

### Dividend

After the Balance-sheet date, the Board proposed that the dividend for the year amount to 4.10 SEK (3.50) per share. The dividend then amounts to 1,022 MSEK based on the number of shares outstanding at the end of 2008. Prior year total dividend amounted to 886 MSEK.

## 15. Untaxed reserves

	2008	2007
<b>Excess amortization</b>		
Intangible assets		
Opening balance January 1	13	24
Excess amortization for the year	–11	–11
<b>Closing balance, December 31</b>	<b>2</b>	<b>13</b>

## 16. Liabilities to credit institutions/bond loans

Liabilities due for payment later than five years after the balance-sheet date amount to 1,467 MSEK (3,278). Liabilities to credit institutions consist of the current portion of bond loans 619 MSEK (1,172).

## 17. Liabilities to group companies

Liabilities due for payment later than five years after the balance-sheet date amount to 18,100 MSEK (18,100).

## 18. Accrued expenses and prepaid income

	2008	2007
Accrued interest expenses	194	169
Personnel expenses	30	50
Accrued bonus incl. social security charges	18	13
Other accrued expenses	9	8
<b>Closing balance, December 31</b>	<b>251</b>	<b>240</b>

## 19. Pledged assets and contingent liabilities/assets

	2008	2007
<b>Pledged assets</b>		
Cash, temporary investments, receivables etc. <sup>1)</sup>	15	2
<b>Total</b>	<b>15</b>	<b>2</b>

<sup>1)</sup> Of the amount 2008, 13 MSEK pertains to endowment insurance policies pledged as security for pension obligations. A corresponding amount is recognized as an operating liability in the balance sheet.

	2008	2007
<b>Contingent liabilities</b>		
Guarantees on behalf of subsidiaries	1,191	888
Guarantees to external companies	6	12
<b>Total</b>	<b>1,197</b>	<b>900</b>

The Parent Company has a contingent asset of 8 MSEK relating to a dispute with tax authorities regarding a group contribution given in 2005.

## 20. Related parties

### Summary of transactions with related parties

Nature of relations	Year	Sale of goods	Sale of services	Purchase of goods	Purchase of services	Net interest	Dividends and group contributions	Receivables	Liabilities	Contingent liabilities
Subsidiary	2008	–	44	1	9	–1,078	6,371	2,333	23,859	1,191
Subsidiary	2007	0	45	0	23	–414	24,322	4,418	27,473	888
Associated company	2008	–	–	–	–	–	–	–	–	–
Associated company	2007	4	–	–	–	–	–	–	–	–

Transactions with related parties are determined at an arms-length basis. For remunerations to leading executives, see Note 6 *Personnel*, for the Group.

## 21. Group companies

	2008	2007
<b>Cost at beginning of year</b>	<b>58,691</b>	<b>15,779</b>
Acquisitions	–	18,513
Acquisitions through distribution	–	23,166
Divestments	–	0
Shareholder's contribution	1,100	1,325
Liquidation	–31	–91
<b>Cost at end of year</b>	<b>59,761</b>	<b>58,691</b>

	2008	2007
<b>Revaluations at beginning of year</b>	<b>1,645</b>	<b>3,045</b>
Impairments	–	–1,400
<b>Revaluations at end of year</b>	<b>1,645</b>	<b>1,645</b>
<b>Impairments at beginning of year</b>	<b>–8,335</b>	<b>–3,183</b>
Impairments	–2,720	–5,152
<b>Impairments at end of year</b>	<b>–11,055</b>	<b>–8,335</b>
<b>Net book value at end of year</b>	<b>50,351</b>	<b>52,001</b>

Impairments for the year are reported in the result from participations in group companies in the income statement. The impairment of 2,720 MSEK is due to a dividend of 2,849 MSEK paid from a group company. The decrease in equity following this dividend is the reason to the impairment loss.

### Shares in subsidiaries, directly owned

Subsidiary/Corp. Reg.no./Reg. Office	Number of shares	Ownership, %	Dec. 31, 2008 Net book value	Dec. 31, 2007 Net book value
Swedish Match North Europe AB, 556571-6924, Stockholm	1,000	100	15,750	15,750
Svenska Tändsticksbolaget försäljningsaktiebolag, 556012-2730, Stockholm	34,403,000	100	286	3,006
Swedish Match Distribution AB, 556571-7039, Stockholm	1,000	100	2,350	2,350
Intermatch Sweden AB, 556018-0423, Stockholm	710,000	100	167	167
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
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	1,100	0
Swedish Match Treasury SEK NV	9,999,999	99.99	18,101	18,101
Swedish Match Treasury USD NV	999,999	99.99	5,065	5,065
Swedish Match Treasury EUR NV	20,169	99.99	429	429
Swedish Match Group BV	20,900,000	100	3,931	3,931
General Cigar Holdings, Inc. <sup>1)</sup>	11,204,918	63.52	1,573	1,573
Swedish Match North America Inc	100	100	849	849
General Cigar Dominicana, S.A.	8,972,394	99.99	387	387
DM Holding USA Inc.	1,000	100	207	207
Swedish Match Sales.com B.V. under liquidation	100	100	9	40
Honduras American Tabaco, S.A. de C.V.	226,972	99.77	18	18
Nitedals Taendstiker A/S	500	100	1	1
SA Allumettiére Causemille <sup>2)</sup>	10,000	100	0	0
The Burma Match Co Ltd <sup>3)</sup>	300,000	100	0	0
Vulcan Trading Co. Ltd <sup>4)</sup>	4,000	100	0	0
<b>Net book value at end of year</b>			<b>50,351</b>	<b>52,001</b>

<sup>1)</sup> Remaining shares owned by subsidiary.

<sup>2)</sup> Nationalized in 1963.

<sup>3)</sup> Nationalized in 1968.

<sup>4)</sup> Nationalized in 1969.

In addition, shares are owned in:

– Union Allumettiére Marocaine S.A.

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

## 22. Supplementary information to 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:

	2008	2007
Cash and bank	1,359	627
Deposits	-	2
Other investments equivalent to cash	1,343	2,179
<b>Total cash and cash equivalents</b>	<b>2,702</b>	<b>2,808</b>

Interest paid and received and dividend received	2008	2007
Dividend received <sup>1)</sup>	4,673	23,166
Interest received, non-group companies	122	83
Interest paid, non-group companies	-506	-251
Interest received, group companies	116	212
Interest paid, group companies	-1,195	-628
<b>Total</b>	<b>3,210</b>	<b>22,582</b>

<sup>1)</sup> Amount for 2007 includes 23,166 MSEK in the form of distributed subsidiaries.

### NOTE 23 CONTINUED

2008	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Other non-current receivables	150	-	-	733	146	14	1,043	1,043
Other receivables	76	-	-	-	-	7	83	83
Prepaid expenses and accrued income	7	-	-	9	20	28	64	64
Cash and cash equivalents	2,702	-	-	-	-	-	2,702	2,702
<b>Total assets</b>	<b>2,935</b>	<b>-</b>	<b>-</b>	<b>742</b>	<b>166</b>	<b>49</b>	<b>3,892</b>	<b>3,892</b>
Loans and borrowings	-	-	10,133	-	-	-	10,133	10,143
Other liabilities	53	-	-	146	-	12	211	211
Accrued expenses and prepaid income	50	-	-	115	29	57	251	251
Trade payables	-	18	-	-	-	-	18	18
<b>Total liabilities</b>	<b>103</b>	<b>18</b>	<b>10,133</b>	<b>261</b>	<b>29</b>	<b>69</b>	<b>10,613</b>	<b>10,623</b>

Adjustments for non cash items and other	2008	2007
Depreciation and amortization	13	13
Impairment losses	2,720	6,552
Unrealized exchange rate differences	31	-130
Changes in the value of financial instruments	1	15
Share based payments, IFRS 2	20	20
Dividends received	-	-23,166
Change in accrued interest	6	127
Change in market value revaluations	3	-6
Realized exchange rate differences	-35	111
Gain on sale of shares	-	-340
Liquidation group company	-	91
Other	1	1
<b>Total</b>	<b>2,760</b>	<b>-16,712</b>

## 23. Carrying value and fair value of financial instruments

### Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each type of financial instruments at December 31, 2008. Trade receivables and trade payables have a short duration and are reported at nominal value without discounting. Estimated fair values are based on market prices at the balance sheet date. Loans have been measured by using the applicable benchmark interest rates at the balance sheet date, adding original credit spread and using these interest rates to estimate the present value of future cash flow. The values presented are indicative and may not necessarily be realized.

## NOTE 23 CONTINUED

2007	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Other non-current receivables	–	–	–	–	–	8	8	8
Other receivables	20	–	–	36	53	5	114	114
Prepaid expenses and accrued income	11	–	–	–2	12	22	43	43
Cash and cash equivalents	2,808	–	–	–	–	–	2,808	2,808
<b>Total assets</b>	<b>2,839</b>	<b>–</b>	<b>–</b>	<b>34</b>	<b>65</b>	<b>35</b>	<b>2,973</b>	<b>2,973</b>
Loans and borrowings	–	–	9,493	–	–	–	9,493	9,498
Other liabilities	19	–	–	–3	11	10	37	37
Accrued expenses and prepaid income	53	–	–	99	17	71	240	240
Trade payables	–	16	–	–	–	–	16	16
<b>Total liabilities</b>	<b>72</b>	<b>16</b>	<b>9,493</b>	<b>96</b>	<b>28</b>	<b>81</b>	<b>9,786</b>	<b>9,791</b>

## 24. Employee benefits

### Post-employment employee benefits

Certain pensions are covered by a Swedish pension trust and as of December 2008 Swedish Match AB assumed a pension trust for employees in the divested Swedish Match UK Ltd. The tables below specifies the pension obligations pertaining to these two pension arrangements.

	Defined-benefit pension plan	
	2008	2007
Present value of funded obligations	–539	–66
Fair value of separately held assets	693	95
<b>Surplus, net</b>	<b>154</b>	<b>29</b>
Net surplus in pension trust not recognized in balance sheet	–154	–29
<b>Net pension liability recognized in the balance sheet</b>	<b>0</b>	<b>0</b>

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

	2008	2007
<b>Net pension liability, January 1</b>	<b>0</b>	<b>0</b>
Costs recognized in income statement attributable to pension	0	3
Benefits paid	–3	–3
Contribution received from pension trust	3	–
<b>Net pension liability, December 31</b>	<b>0</b>	<b>0</b>

32 MSEK (29) of the total net pension asset is covered by “Tryggandelagen”.

Specification of expenses and income attributable to pension:

	2008	2007
Current service costs	2	0
Differens between contribution received from pension trust and benefits paid	0	3
Interest cost on obligation	35	3
Actual return on separately held assets	19	–1
<b>Net expenses for pension</b>	<b>56</b>	<b>5</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	29	24
Increase in surplus in pension trust	–56	–5
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>29</b>	<b>24</b>

The expenses attributable to pension are recognized in the income statement under administration costs.

The actual return on separately held assets expressed in percentage is negative 3 percent (1 percent).

Separately held assets of the pension trusts are comprised as follows:

	2008	2007
Equity securities	180	–
Debt instruments	513	95
<b>Total</b>	<b>693</b>	<b>95</b>

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 6.4 percent (3.5 percent) and current salary level at the reporting date for the Swedish pension trust and salary increases of 4.0 percent for the UK pension trust.

No contributions attributable to the pension plans above are expected to be paid for the coming year.



# Proposed distribution of earnings

According to the Parent Company's balance sheet, the funds available for distribution by the Annual General Meeting amount to 21,758 MSEK, of which 1,914 MSEK is net profit for the year.

The Board of Directors and the President propose that the 21,758 MSEK which is at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 4.10 SEK per share, amounting to a total of 1,022 MSEK, based on the number of shares at end of year, and that the remaining earnings be carried forward.

The income statements and balance sheets will be presented to the Annual General Meeting on April 28, 2009 for

adoption. The Board of Directors also proposes May 4, 2009 as the record date for shareholders listed in the Swedish Securities Register Center (Euroclear Sweden AB former VPC AB).

The results of operations of the Parent Company, Swedish Match AB, and of the Group during the 2008 fiscal year, and their respective positions at the close of 2008, are set forth in the income statements and balance sheets and accompanying notes.

The Board of Directors and the President declare that the Annual Report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have

been prepared in accordance with accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The Annual Report and the consolidated accounts give a true and fair view of the position and earnings of the Parent Company and the Group.

The Board of Directors report for the Parent Company and the Group gives a true and fair view of the operations, position and earnings and describes significant risks and uncertainties facing the Parent Company and companies included in the Group.

Stockholm, February 17, 2009

Conny Karlsson  
Chairman of the Board

Andrew Cripps  
Deputy Chairman

Charles A. Blixt  
Board member

Kenneth Ek  
Board member

Karen Guerra  
Board member

Arne Jurbrant  
Board member

Eva Larsson  
Board member

Joakim Lindström  
Board member

Kersti Strandqvist  
Board member

Meg Tivéus  
Board member

Lars Dahlgren  
President and CEO

Our Auditor's report was submitted on March 11, 2009

KPMG AB

Thomas Thiel

Authorized Public Accountant

# Auditor's report

To the annual 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 2008. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 50–98. 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 reasonable 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, 11 March 2009  
KPMG AB

Thomas Thiel  
Authorized Public Accountant

# Corporate governance report

Swedish Match AB (publ) is a public Swedish limited liability company listed on the NASDAQ OMX Stockholm. The objective of the Company's operations, as stated in the Company's Articles of Association, is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches and lighters and to carry out other activities that are related to these businesses.

The Company and the Group are governed on the basis of the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on the NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance and other applicable laws and regulations. The Articles of Association, adopted by the general meeting of shareholders, are available on the Company's website at [www.swedishmatch.com](http://www.swedishmatch.com).

Swedish Match applies the Swedish Code of Corporate Governance, which is available on the NASDAQ OMX website at [www.nasdaqomx.com](http://www.nasdaqomx.com). The Company is not reporting any deviations from the Code for 2008, except with regard to the Code's regulation that auditors shall review the Company's half-year or nine-month report. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review was not warranted.

This Corporate governance report, with the exception of the report on internal control, has been examined by the Company's auditors but does not represent part of the formal Annual Report.

## General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders were informed of their legal rights to have issues addressed at General Meetings through the Company's website at [www.swedishmatch.com](http://www.swedishmatch.com). Each share

entitles the holder to one vote at a General Meeting. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be decided by a qualified majority.

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

The Annual General Meeting for 2008 was held on April 22, 2008. The minutes of the meeting are available on the Company's website at [www.swedishmatch.com](http://www.swedishmatch.com).

## Nominating Committee

The Nominating Committee is established according to the principles resolved by the Annual General Meeting.

Pursuant to a resolution adopted at the 2008 Annual General Meeting, the Nominating Committee shall consist of five members. The Annual General Meeting resolved to empower the Chairman of the Board to contact the largest known shareholders of the Company in order of size and, until four representatives had been appointed, ask each of them to appoint a representative who, together with the Chairman of the Board, would constitute the Nominating Committee until the time

of the appointment of a new Nominating Committee pursuant to the authorization received from the following year's Annual General Meeting. After the Chairman of the Board, Conny Karlsson, had contacted the Company's largest shareholders, the Nominating Committee was constituted on November 4, 2008 with William N. Booth (Wellington Management Company), Mads Eg Gensmann (Parvus Asset Management), Michael Allison (Morgan Stanley Investment Management) and Andy Brown (Cedar Rock Capital) as members, in addition to the Chairman of the Board.

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

As part of the process for nominating Board members and proposing Board fees prior to the 2008 Annual General Meeting, the Nominating Committee was informed of the result of an evaluation of the work of the Board of Directors conducted late in 2007 with the assistance of an independent consultant. During the year, the Nominating Committee also addressed the issue of auditors to be elected at the Annual General Meeting 2008 and their fees. The Audit Committee assisted the Nominating Committee in the assessment of auditors and their fees.

Until the 2008 Annual General Meeting, the Nominating Committee consisted of the members specified above. Of the members of the Nominating Committee, only Conny Karlsson was also a member of the Board. Mads Eg Gensmann served as Chairman of the Nominating Committee. The Company's General Counsel, Fredrik Peyron, served as secretary to the Nominating Committee.

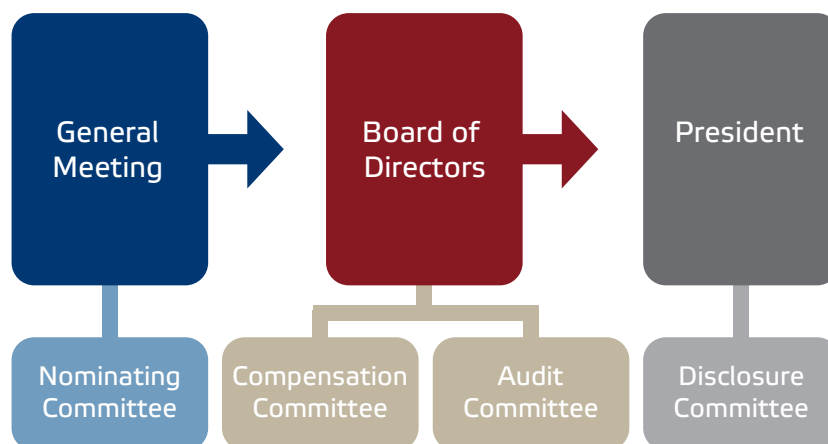
The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, Fredrik Peyron. During 2008, the Nominating Committee held one meeting prior to the Annual General Meeting and two meetings thereafter. The 2008 Annual General Meeting decided that no fees should be paid to the members of the Nominating Committee, but that any expenses of the Nominating Committee were to be borne by the Company.

## Board of Directors Composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2008, Swedish Match's Board of Directors consisted of seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

During the year, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Sven Hindrikes (until the Annual General Meeting on April 22, 2008), Charles A. Blixt, John P. Bridendall (until the Annual General Meeting on April 22, 2008), Andrew Cripps, Arne Jurbrant, Kersti Strandqvist, Meg Tivéus, and Karen Guerra, who was elected as a new member at the 2008 Annual General Meeting. During the year, Kenneth Ek, Eva Larsson and Joakim Lindström served as employee representatives on the Board, with Håkan Johansson, Eeva Kazemi Vala and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on page 106–107.

## GOVERNANCE OF THE SWEDISH MATCH GROUP



### Meetings

The Board of Directors convenes for seven ordinary meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is called to additional meetings convened at the discretion of any director or of the President.

The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also met with the Board without the presence of the President or any other member of the executive management.

### Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for establishing Swedish Match's strategic and financial Long-Range Plan, monitoring the performance of the operations on an ongoing basis, ensuring that there is a satisfactory process for monitoring the Company's compliance with laws and regulations, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

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

guidelines established at General Meetings.

The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose, and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of Company funds. The Board also safeguards the Company's financial accounting, internal control and the quality of its financial reporting through the system for internal control described in detail in the section entitled "Report on internal control" on page 105.

### Working procedures for the Board of Directors

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

### Activities of the Board of Directors during 2008

The number of Board meetings during 2008 was nine, of which seven were scheduled meetings and one was a statutory meeting.

The Board of Directors elected at the 2008 Annual General Meeting held its 2008 statutory meeting on the same day as the Annual General Meeting, when decisions were made concerning the working procedures for the Board and instructions for the Compensation and Audit Committees. In addition, customary decisions were made concerning the election of the secretary (General Counsel Fredrik Peyron) and authorized signatories, and the appointment of members of the Compensation and Audit Committees.

In addition to a financial review of the business, the Board devoted considerable time to the recruitment of a new CEO to replace Sven Hindrikes, the Company's strategic orientation, structural issues, external issues, follow-up of acquisitions, distribution of surplus funds, and structures for incentives and benefits.

In conjunction with the Board's meetings in August and December, the Board visited the Group's facilities in Gothenburg and Richmond respectively. All of the meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to every point on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February to present the audit report and observations from the audit.

### Chairman of the Board

The Chairman of the Board is responsible for organizing and directing the Board's work and for ensuring that the Board fulfils its obligations. Through regular contact with the President, the Chairman of the Board monitors the Company's operations and development, ensures that the Board of Directors continuously receives the information required for upholding the quality of the Board's work, and confirms that this work is performed in compliance with the Swedish Companies Act.

The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors. During 2008, Conny Karlsson served as Chairman of the Board.

### Audit Committee

The Audit Committee is appointed annually by the Board of Directors. In 2008, the members were Meg Tivéus, (Chairman), Andrew Cripps, and Kersti Strandqvist. Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegate decision-making authority on specific issues to the Committee. The Committee is responsible for overseeing procedures for accounting and financial reporting and for the organization of internal control. It also oversees the audit of the Group's accounting records. Its reviews focus on the quality and integrity of the Group's financial statements and related disclosure,

the performance of the Company's internal control function and independent auditors, the independent auditors' qualifications and independence, the Group's compliance with applicable laws and regulations and, as required, transactions between the Group and related parties. In conjunction with the Audit Committee's review of the financial reports, the members of the Audit Committee also discuss accounting issues relating to the Company's financial reporting. The Audit Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

Decision-making powers have been delegated to the Committee by the Board pertaining to:

- (i) advance approval of non-audit services to be provided by the auditors;
- (ii) advance approval of transactions between the Company and related parties;
- (iii) matters pertaining to special review of interim reports by auditors, and
- (iv) the need for a separate review function (internal audit).

The Chairman of the Committee kept the Board of Directors informed on an ongoing basis of the work and decisions of the Committee throughout the year. Prior to the 2008 Annual General Meeting, the Audit Committee evaluated the auditors' work and informed the Nominating Committee of the results of the evaluation. In addition, the Audit Committee assisted the Nominating Committee in preparing nominations for the post of auditor and recommendations on fees for auditing services.

In consultation with Committee members, the Chairman of the Committee shall decide where and how frequently the Committee shall meet. The number of meetings in 2008 was five. The Company's auditors participated in all of the meetings of the Audit Committee in 2008 and, in connection with one of these meetings, also met with the Committee without the presence of Company representatives.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AND NUMBER OF MEETINGS AND ATTENDANCE DURING 2008

	Audit Committee	Compensation Committee	Board of Directors
<b>Total number of meetings</b>	<b>5</b>	<b>4</b>	<b>9</b>
Conny Karlsson		4	8
Sven Hindrikes (resigned in April 2008)			1
Charles A. Blixt		2	9
John P. Bridendall (resigned in April 2008)			1
Andrew Cripps	5		9
Karen Guerra (newly elected in April 2008)			8
Arne Jurbrant		4	9
Kersti Strandqvist	5		9
Meg Tivéus	5	2	9
Kenneth Ek			8
Eva Larsson			8
Joakim Lindström			8
Håkan Johansson			7
Eeva Kazemi Vala			8
Gert-Inge Rang			8



### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors.

Members in 2008 were Conny Karlsson, Chairman, Arne Jurbrant, Meg Tivéus (until April 22) and Charles A. Blixt (from April 22). The Company's President presents reports on certain issues, but is not a member of the Committee and is not present when the Committee prepares decisions regarding compensation to the President.

The Committee's duties are to prepare and submit to the Board proposals for decisions on the following issues:

- (i) guidelines to be proposed to the Annual General Meeting, for determining salary and other compensation as well as other terms of employment for the Company's President and other members of Group Management Team;
- (ii) share-related incentive programs;
- (iii) salary and other compensation as well as other terms of employment for the Company's President, including annual salary review;
- (iv) other compensation and employment term matters which, by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.
- (v) approval of significant engagements outside the Company with respect to the President.

The Board of Directors has delegated decision-making authority to the Committee for the following issues:

- (i) calculation and payment of variable salary to the Company's President and other members of the Group Management Team;
- (ii) the allotment of options, within the framework for the call option program, as resolved by the Annual General Meeting;
- (iii) payment of funds to the Company's profit-sharing system in Sweden, pursuant to the rules stipulated by the Board for the Swedish profit-sharing system;
- (iv) salary and other compensation which, within the framework of the guidelines resolved by the Annual General Meeting, shall be paid to, and other

terms of employment that shall apply for, members of Group Management Team other than the President;

- (v) approval of significant engagements outside the Company with respect to other members of the Group Management Team than the President, and
- (vi) study fees paid to the employee representatives on the Board.

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

The Committee shall meet as often as necessary but at least twice annually. The number of meetings held during 2008 was four. In addition, a number of issues were dealt with by means of correspondence.

During 2008, the Committee devoted special attention to variable compensation for 2007 to be paid in 2008, establishing the structure and target parameters for variable compensation to the President and other members of the Group Management Team for 2008, proposals to the Board concerning adjustments to the President's salary and variable compensation for 2009, and determination of salaries for other members of the Group Management Team for 2009.

In addition, the Committee submitted a proposal to the Board, prior to the 2008 Annual General Meeting, to have the Company issue call options in respect of the 2007 options program and a proposal for guidelines for the determination of salary and other remuneration paid to the President and other members of Group Management Team.

### Evaluation of the work of the Board of Directors

The Board of Directors shall ensure that its work is evaluated annually. During late 2008, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

### Independence of Board members

All of the Board members are independent in relation to the Company's major shareholders as well as to the management and the Company.

### Compensation to the Board of Directors

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

Directors' fees were paid during 2008 pursuant to the resolution of the Annual General Meeting in 2008. No compensation for Directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2008 Annual General Meeting, compensation to the Board for the period from the 2008 Annual General Meeting up to and including the 2009 Annual General Meeting amounted to 1,575,000 SEK to the Chairman of the Board and 630,000 SEK to each member of the Board elected by the General Meeting. In addition, a total of 920,000 SEK was granted for committee work, with the Chairman of the Compensation and Audit Committees receiving 230,000 SEK each and other members serving on these committees receiving 115,000 SEK each.

For further information about Directors' fees for 2008, see Note 6 *Personnel*, page 68.

### Management President

The President is appointed by the Board of Directors, and manages the Company's operations within the framework established by the Board. The President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive and relevant information prior to Board meetings, enabling the Board to reach well-founded decisions. The President also submits reasoned proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Company and the Group, while also providing the Chairman with ongoing information regarding the operations of the Company and the Group.

Sven Hindrikes served as President and CEO until June 1, 2008, when he left his position and Lars Dahlgren was appointed new President and CEO.

### Group Management Team

In 2008, Swedish Match's Group Management Team consisted of Sven Hindrikes, President and CEO, until June 1, 2008; Lars Dahlgren, Senior Vice President Group Finance and IS/IT up to and including May 31, 2008 and thereafter President and CEO; Bo Aulin, Senior Executive Advisor; Mats Adamson, Senior Vice President Group Human Resources; Patrik Andersson, President of North Europe Division (up to and until June 14, 2008); Henrik Brehmer, Senior Vice President Corporate Communications; Rich Flaherty, President of North America Division (from November 12, 2008); Lennart Freeman, Executive Vice President and President of North America Division up to and until November 12, 2008 and thereafter President of the newly formed division Swedish Match International; Lars-Olof Löfman, Senior Vice President of Global Smokefree Products; Fredrik Peyron, Senior Vice President Legal Affairs; Joakim Tilly, Senior Vice President Group Finance and IS/IT (from June 1, 2008); Jarl Ugglå, President of International Division (up to and until November 11, 2008); and Torbjörn Åkeson, Acting President of North Europe Division (from June 15, 2008).

### Compensation to Group Management

The 2008 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see Note 6 *Personnel*, page 68.

For information concerning compensation and other benefits to the Group Management Team and the Company's options program, see Note 6 *Personnel*, page 68.

### Audit and auditors

The auditors are elected by the General Meeting. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2008 up to and including the Annual General Meeting in 2012. Thomas Thiel, authorized public accountant, serves as auditor in charge.

The duties of the external auditors include reviewing the management of the

Board and President and the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

During 2008, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to taxes. For information concerning compensation to Swedish Match's auditors during 2008, see Note 7 *Audit fees*, page 72.

### Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports and press releases whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing routines. Members of the Committee during 2008 were the Company's Senior Executive Advisor, Bo Aulin, who also served as the Chairman of the Committee, and the heads of Corporate Communications, Investor Relations, Internal Control and Legal Affairs.



## Report on internal control

The Board of Directors is responsible for internal control pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance. This report on internal control was prepared in accordance with the Swedish Code of Corporate Governance section 10.5 and 11.2, and is limited to internal control regarding financial reporting. The report is a separate section in the Corporate Governance Report. The report on internal control is not a part of the official Annual Report and has not been examined by the Company's auditors.

### Control environment

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

attestation rights and instructions for accounting and reporting.

### Risk assessment

The Group applies a risk assessment and risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Risks identified in connection with financial reporting are managed within the Group's control structure.

The Group has defined a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated.

### Control activities

The Group monitors compliance with governing documents in the form of internal policies, guidelines, manuals and codes, and evaluates the effectiveness of the control structure. The evaluation of internal controls is conducted through tests performed by internal control resources, the central department for internal control, external consultants or, in certain instances, through self-assessment. The central department for internal control, which fulfils the role of an Internal Audit function

as regards evaluation of controls and processes within the Group, reports the results from the evaluation and other internal control issues to the Audit Committee and Group Management.

### Information and communication

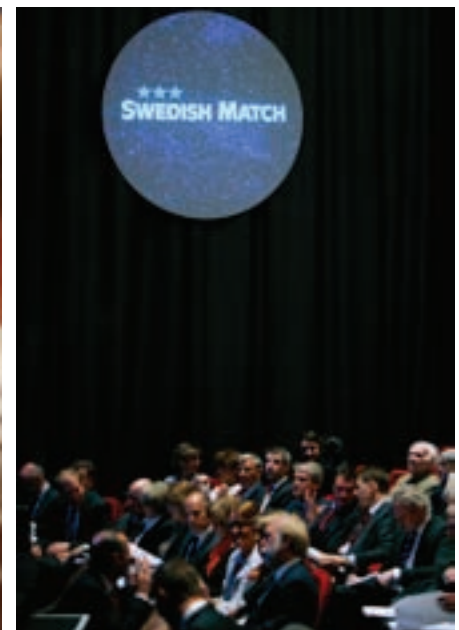
The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. In addition, the Board's various committees carry out important functions as part of the Board's monitoring activities and report to the Board.

### Monitoring

Monitoring of the Group's information and communication channels is performed to ensure that these are appropriate with regard to financial reporting. The disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

*Stockholm, February 17, 2009*

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





# Board of Directors



Conny Karlsson

**CONNY KARLSSON** Born 1955, MBA. Chairman since 2007. Board member since 2006. Chairman of the Compensation Committee. *Other Board assignments:* Board member of TeliaSonera AB and CapMan OYJ. Prior Board assignments for Zodiak Television AB and Carl Lamm AB. *Previous positions:* President, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&S.O. *Own and related parties' shares:* 15,000.



Charles A. Blixt

**CHARLES A. BLIXT** Born 1951. J.D. and B.A. Board member since 2007. Member of the Compensation Committee. *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:* Interim General Counsel at Krispy Kreme Doughnuts; Executive Vice President and General Counsel RJ Reynolds Tobacco Holdings; Executive Vice President and General Counsel Reynolds American Inc. *Own and related parties' shares:* 7,090.

**ANDREW CRIPPS** Born 1957, B.A., University of Cambridge. Board member since 2006. Deputy Chairman and member of the Audit Committee. *Other Board assignments:* Non-executive Director and Chairman of Audit Committee of Booker Group plc. Non-executive director and Chairman of the Remuneration Committee of Molins Plc. *Previous positions:* Non-executive director of Trifast Plc; Director, Carreras Group Ltd; Head of Acquisitions and Head of Strategy Development, British American Tobacco; Director of Corporate Finance, Rothmans International; Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA. Chartered Accountant. *Own and related parties' shares:* 8,200.



Andrew Cripps



Karen Guerra

Arne Jurbrandt

**KAREN GUERRA** Born 1956. BSc. Board member since 2008. *Other Board Assignments:* Non-executive Director position of Inchcape PLC a leading independent, international automotive retailer and Non Executive Director with Samlerhuset Group BV a private European direct marketing company. *Previous positions:* President of Colgate Palmolive SAS; Non Executive Director of More Group PLC; Chairman and Managing Director of Colgate Palmolive UK Ltd.; Pepsi-Cola International as Marketing Manager for Holland and Ireland. *Own and related parties' shares:* 2,100.

**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:* CEO, Kraft Foods Nordic Region; President Kraft Freia Marabou Nordic Region; President, General Foods Sweden/Denmark; President, General Foods Denmark; Sales Manager, General Foods Sweden; Marketing Manager, General Foods Sweden; Product Manager, Pripps Bryggerier; President's assistant, Pripps Bryggerier. *Own and related parties' shares:* 8,500.

Kersti Strandqvist



**KERSTI STRANDQVIST** Born 1963, M. Sci., Techn. Lic., Master of Strategic Marketing. Board member since 2005. Member of the Audit Committee. Vice President Feminine Care within SCA Personal Care. *Previous positions:* Business Area Manager for Baby Care within SCA Personal Care; Director of R&D for Incontinence Care, SCA Hygiene Products; Technical Manager Sourcing SCA Hygiene products, Marketing Manager Elf Atochem (France); various positions in R&D and sales Neste Chemicals (Sweden, Finland, Belgium). *Own and related parties' shares:* 5,630.

Meg Tivéus



**MEG TIVÉUS** Born 1943, MBA. Board member since 1999. Chairman of the Audit Committee. *Other Board assignments:* Chairman of Folkvandvården in Stockholm. Board member of Cloetta AB, Billerud AB, Apoteket Farmacci AB, Nordea Fonder AB and Frösunda LSS AB. Prior Board assignments for Boss Media, Danderyds Sjukhus AB, Statens Provingsanstalt AB, Operan AB, Postgirot AB, Kommentus AB, SNS, SJ and Framfab. *Previous positions:* President and CEO of Svenska Spel AB; Vice President of Posten AB; Division Manager at Holmen AB; Division Manager at Ähléns AB; Director of AB Nordiska Kompaniet; Product Manager at Modo AB; Project Manager at McCann Gunther & Bäck. *Own and related parties' shares:* 8,400.

BOARD OF DIRECTORS

## Changes in the Board of Directors during 2008

At the Annual General Meeting, Karen Guerra was elected as Board member while Sven Hindrikes, President and CEO of Swedish Match AB, and John B. Bridendall left their positions.

### INDEPENDENCE IN RELATION TO THE 2008 BOARD OF DIRECTORS

All Board members are, as defined in the NASDAQ OMX Stockholm Rule book for issuers, independent of the Company and its management and of the Company's major shareholders.

### SECRETARY TO THE BOARD OF DIRECTORS

Fredrik Peyron General Counsel. Senior Vice President, Legal Affairs since 2007.

## EMPLOYEE REPRESENTATIVES



Kenneth Ek

Eva Larsson

Joakim Lindström

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

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

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

## EMPLOYEE REPRESENTATIVES (DEPUTIES)



Håkan Johansson

Eeva Kazemi Vala

Gert-Inge Rang

**HÅKAN JOHANSSON** Born 1963. Deputy member since 2004. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Module Technician at Swedish Match's distribution facilities in Gothenburg. *Previous positions:* Module Technician, Swedish Match's distribution facilities in Malmö, Line Operator at Svenska Tobaks AB in Malmö. *Own and related parties' shares:* 0.

**EVA KAZEMI VALA** Born 1949. Deputy member since 2004. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Works with Market Analysis at Swedish Match North Europe Division. *Previous positions:* Market Coordinator Pipe tobacco, Market Research Manager, Marketing Assistant, Research Chemist, Bioanalyst, Swedish Match North Europe Division. Stockholm University, Casco AB and Karolinska Institutet. *Own and related parties' shares:* 1,500.

**GERT-INGE RANG** Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chairman of the Swedish Association of Management and Professional Staff (Ledarna) at the factory in Vetlanda, Sweden. Supervisor, Splint department at Swedish Match Industries in Vetlanda. *Previous positions:* Supervisor, Swedish Match Industries in Vetlanda. *Own and related parties' shares:* 1,000.

[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

For updated information on Board members and their shareholdings and options, please refer to the Group's website.

## AUDITORS

**KPMG AB** Senior Auditor: Thomas Thiel. Born 1947. Authorized Public Accountant. Swedish Match Auditor since 2004. Thomas Thiel's other auditing assignments include Atlas Copco, Axfood, PEAB Industri, Ratos, SKF and Stena.





# Group Management

Lars Dahlgren



**LARS DAHLGREN** President and CEO of Swedish Match AB since June 2008. Joined Swedish Match in 1996. Member of Group Management Team since 2004. Born 1970, MBA.  
*Previous positions:* Chief Financial Officer and Senior Vice President Swedish Match AB; Vice President Group Finance Swedish Match AB; Finance Director Swedish Match Philippines; Financial analyst at SBC Warburg.  
*Own and related parties' shares:* 4,400  
*Call options:* 74,416

Mats Adamson



**MATS ADAMSON** Senior Vice President, Group Human Resources since 2007. Joined Swedish Match in 1994. Member of Group Management Team since 2007. Born 1959, Human Resources Executives Program from Stockholm School of Economics Executive Education. He also holds a rank of Major within the Swedish Armed Forces.  
*Previous positions:* Vice President Human Resources Swedish Match North Europe Division; Director Human Resources Eesti Tubakas AS.  
*Own and related parties' shares:* 650  
*Call options:* 53,438

Bo Aulin



**BO AULIN** Senior Executive Advisor and Chairman of the Disclosure Committee. Joined Swedish Match in 1990. Member of Group Management Team since 1996. Born 1948, Bachelor of Laws (LLB).  
*Previous positions:* Senior Vice President Corporate Affairs, Secretary and General Counsel, Swedish Match AB; General Counsel Svenska Tobaks AB.  
*Own and related parties' shares:* 4,400  
*Call options:* 87,316

Fredrik Peyron



**FREDRIK PEYRON** General Counsel. Senior Vice President, Legal Affairs since 2007. Joined Swedish Match in 2000. Member of Group Management Team and Secretary to the Board since 2007. Born 1967, Bachelor of Laws (LLB).  
*Previous positions:* Vice President Corporate Affairs Swedish Match AB; Legal Counsel Akzo Nobel AB; Associate Mannheimer Swartling Advokatbyrå.  
*Own and related parties' shares:* 1,500  
*Call options:* 53,096

Joakim Tilly

**JOAKIM TILLY** Chief Financial Officer and Senior Vice President, Group Finance and IT since June 2008. Joined Swedish Match in 1994. Member of Group Management Team since 2008. Born 1970, MBA.  
*Previous positions:* Senior Vice President Group Finance Swedish Match AB; Vice President Group Finance Swedish Match AB; CEO and CFO Netgiro International; CFO Swedish Match Lighter Division.  
*Own and related parties' shares:* 0  
*Call options:* 30,939

Holdings of own and related parties shares and call options as of December 31, 2008. For a detailed report of remuneration and benefits to senior executives, refer to Note 6, page 68.

Henrik Brehmer



**HENRIK BREHMER** Senior Vice President, Corporate Communications since 2007. Employed and Member of Group Management Team since 2007. Born 1964, Bachelor Human Resources Management and Business Administration. Background as an Officer in the Swedish Armed Forces.

*Previous positions:* Vice President Corporate Communication Ericsson AB in Sweden and UK; Senior Vice President Investor Relations and Group Communication Securitas AB in UK.

*Own and related parties' shares:* 0  
*Call options:* 13,973

Richard Flaherty



**RICHARD FLAHERTY** President of North America Division as of November 12, 2008.

Joined Swedish Match in 2000. Member of Group Management Team since 2008. Born 1958, BA Economics, JD Law, LLM Taxation.

*Previous positions:* Chief Operating Officer at Swedish Match North America Division OTP, Chief Financial Officer at Swedish Match North America Division, Chief Financial Officer at Bumble Bee Seafoods, Commercial Director at Unilever.

*Own and related parties' shares:* 0  
*Call options:* 93,150

Lennart Freeman

Lars Olof Löfman



**LENNART FREEMAN** Executive Vice President of Swedish Match AB since 2005. President of Swedish Match International since November 12, 2008. Joined Swedish Match in 1975. Member of Group Management Team since 1999. Born 1951, MBA.

*Previous positions:* President Swedish Match North America; President Swedish Match Cigarette Division; Managing Director Cricket Lighters Swedish Match Lights Division. Several marketing and business development positions within various tobacco and lights operations at Swedish Match.

*Own and related parties' shares:* 300  
*Call options:* 169,032

**LARS OLOF LÖFMAN** Senior Vice President, Global Smokefree Products since 2007. Joined Swedish Match in 1987. Member of Group Management Team since 2004. Born 1956, MSc Eng, Controller DIHM.

*Previous positions:* President Swedish Match North Europe Division; Vice President Production & Development Swedish Match North Europe Division; Vice President Operations Swedish Match Snuff Division; Plant and Production Manager Swedish Match AB.

*Own and related parties' shares:* 1,400  
*Call options:* 92,959

## Changes in the Group Management Team during 2008

Lars Dahlgren assumed the position as CEO of Swedish Match, succeeding Sven Hindrikes, who retired in May. Lars Dahlgren was succeeded by Joakim Tilly, as Chief Financial Officer and Senior Vice President, Group Finance and IT. Patrik Andersson left his position as President of North Europe Division in August and was succeeded by Torbjörn Åkeson as Acting President of North Europe Division. As of November 12, 2008, Lennart Freeman is President of Swedish Match International and Richard Flaherty is President of North America Division. Jarl Uggla left his position as President of International Division following the establishment of the new division Swedish Match International.

**TORBJÖRN ÅKESON** Acting President of North Europe Division. Joined Swedish Match in 2001. Member of Group Management Team since 2008. Born 1958, Mechanical Engineer specializing in Production and Industry.

*Previous positions:* Vice President Operations/purchasing Swedish Match North Europe; Operations Manager special vehicles and services Volvo Car Corporations; Plant Manager Volvo Car Corporations and Production Manager Volvo Car Corporations.

*Own and related parties' shares:* 74  
*Call options:* 37,744

Torbjörn Åkeson



[WWW.SWEDISHMATCH.COM](http://WWW.SWEDISHMATCH.COM)

For updated information on members of the Group Management Team and their shareholdings and call options, refer to the Group's website.



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★★★  
**SWEDISH MATCH**