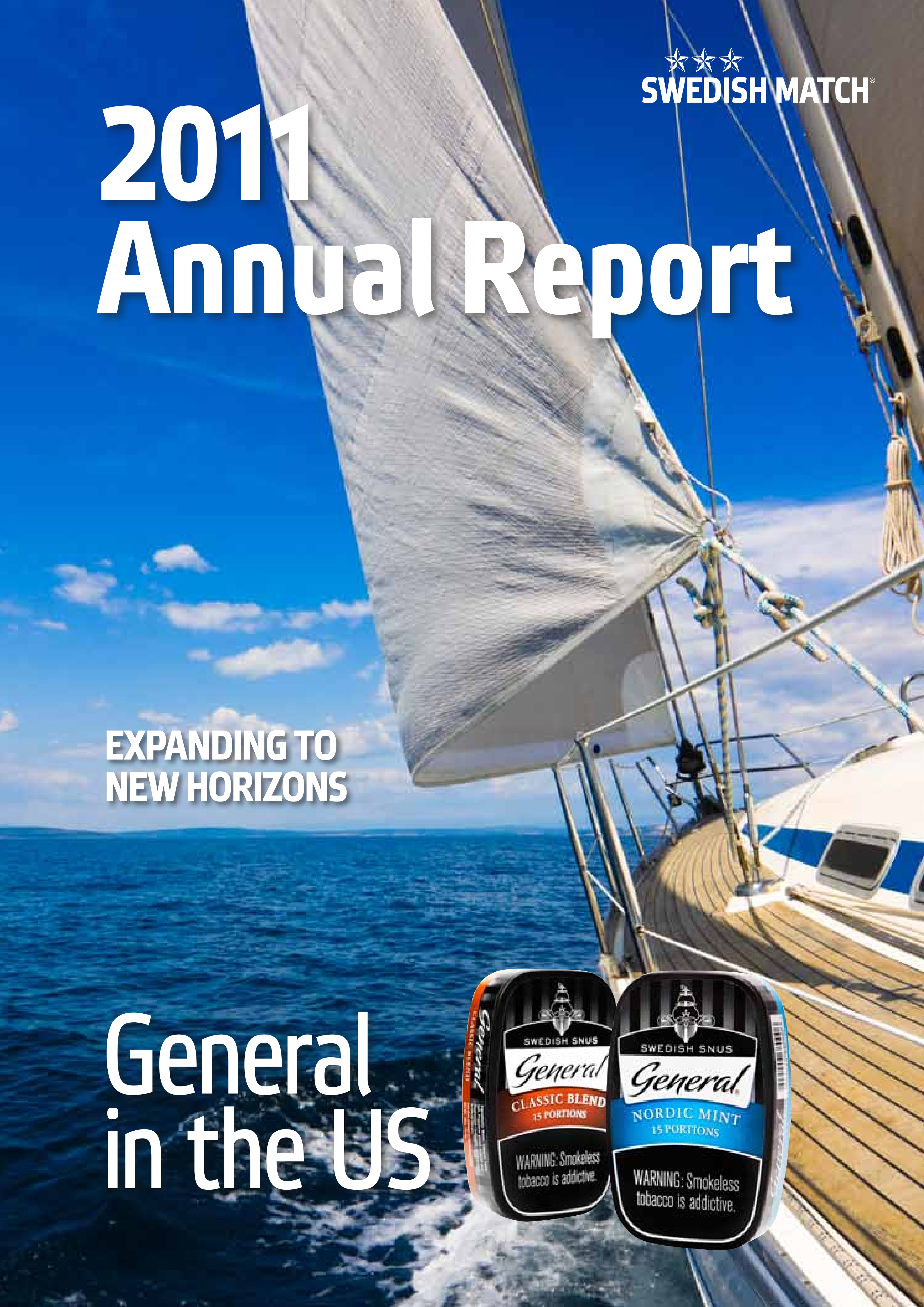
SWEDISH MATCH

2011 Annual Report

EXPANDING TO NEW HORIZONS

General in the US



THE NUMBERS 2011

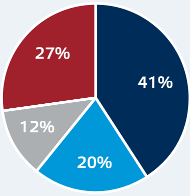
COMPARABLE GROUP SALES

11,666 MSEK

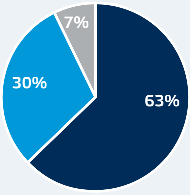
COMPARABLE GROUP OPERATING PROFIT

3,365 MSEK

COMPARABLE GROUP SALES BY PRODUCT AREA



COMPARABLE GROUP OPERATING PROFIT BY PRODUCT AREA[1)]



1) Excluding Other operations and share of net profit in STG.

Key data, MSEK	2011	2010	2009
Comparable Group sales[1)]	11,666	11,222	10,678
Sales	11,666	13,606	14,204
Comparable Group operating profit[2)]	3,365	3,158	2,900
Operating profit[3)]	3,702	4,169	3,417
Comparable Group operating margin, %[2)]	28.8	28.1	27.2
Comparable Group EBITDA[2)]	3,655	3,441	3,226
EBITDA	3,992	3,813	3,885
Profit for the year	2,538	2,958	3,146
Earnings per share, basic, excluding larger one time items, SEK	12.14	9.92	9.67
Earnings per share, basic, SEK	12.14	13.12	9.67
Dividend per share, SEK	6.50[4)]	5.50	4.75

1) Sales excluding businesses transferred to STG.
2) Excluding businesses transferred to STG, share of net profit/loss in STG and larger one time items.
3) Including operating profit from businesses transferred to STG (until October 1, 2010), as well as the share of net profit/loss in STG and larger one time items in 2010 and 2009.
4) Board proposal.

www.swedishmatch.com

More information is available on the Company website www.swedishmatch.com/ourcompany

Content

The world of Swedish Match

Swedish Match develops, manufactures, and sells market-leading brands in the product areas Snus and snuff, Other tobacco products (US mass market cigars and chewing tobacco), and Lights (matches and lighters). Well known brands include *General* snus, *Longhorn* moist snuff, *Red Man* chewing tobacco, *White Owl* cigars, *Cricket* lighters, and *Fiat Lux* matches. The Group sells products across the globe, with production units in six countries. The Group also has an independent distribution company in Sweden. In addition, Swedish Match holds a 49 percent ownership interest in Scandinavian Tobacco Group (STG). Swedish Match also owns 50 percent of SMPM International (a joint venture with Philip Morris International). Snus and snuff account for more than a third of total company sales and more than half of the operating profit. The Swedish Match share is listed on the NASDAQ OMX Stockholm.

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm. The organizational structure is divided among the following units: Smokefree Products Division, Scandinavia Division, US Division, Lights International, Lights Latin America, and Swedish Match Distribution AB.

Group sales for 2011 amounted to 11,666 MSEK and the average number of employees was 3,880. Production units are located in: Brazil, the Dominican Republic, the Netherlands, the Philippines, Sweden, and the US.

SNUS AND SNUFF

OPERATING PROFIT **2,181** MSEK

Swedish Match's vision and strategy:

Position the Company as the global smokefree leader

- Leverage Swedish Match's unique heritage, technological lead, talented organization, and strong brand portfolio
- Pursue growth opportunities on a global basis through SMPM International
- Be the preferred choice by consumers
- Be the most valued partner to the trade
- Remain the industry authority for regulators and opinion makers

Leverage the Company's strong platforms to maximize long term profitability in the product area Other tobacco products

- Drive profitable growth in US mass market cigars through consumer-driven innovation and strong sales execution
- Capitalize on the Company's leading position in the US chewing tobacco category and continuously drive productivity improvements

Continue to focus on operational excellence and profitability in the product area Lights, through

- Strong market positions
- Efficient supply chain

Realize the potential of STG through active ownership

- Leverage brand portfolio and scale to drive profitable growth
- Decisively pursue synergy opportunities

Expanding to new horizons

With experienced and skilled employees and the ability to capitalize on opportunities associated with changing consumer trends, Swedish Match can quickly respond to deliver quality products, in Scandinavia, the US and, along with its business partners, across the globe.

OTHER TOBACCO PRODUCTS

OPERATING PROFIT 1,049 MSEK

LIGHTS

OPERATING PROFIT 240 MSEK

Quality and commitment

The theme of this year's annual report is "expanding to new horizons," a phrase that aptly describes much of the activity that has taken place in 2011, and neatly points to our vision. In brief, our vision is to be the global smokefree leader, while also leveraging our strong platforms to maximize long term profitability for Other tobacco products (cigars and chewing tobacco), and maintaining a focus on operational excellence and profitability in our lights businesses.

From our firm foundation in the Scandinavian snus market, we are dedicating additional time, resources, and energy to building our position in what we believe to be a significant market opportunity – snus in the US, and in other markets outside of Scandinavia. This past year we made significant progress in the US with our flagship brand of snus, *General*. The Company is taking a deliberate approach to build its US snus presence, helping to further develop awareness and potential of the category, while ensuring that our trade partners can share in our enthusiasm and the understanding of what potential business opportunities this new category represents for them. From a store base of just over 1,000 outlets at the beginning of the year, the *General* brand was by year end available in more than 3,500 outlets nationwide, with store expansion continuing into 2012. We are encouraged by the positive responses we are receiving from customers and consumers for this exciting opportunity. While development of the US snus market is in its very early stage, we believe that the potential for snus in the US is worth additional investment in the coming years.

On the international front, we believe that there are also long term opportunities for snus in other countries. Together with Phillip Morris International, Swedish Match is testing snus concepts in a number of countries. Testing has been taking place in Taiwan, Canada, and, most recently, Russia. Through its activities, SMPM International (the 50/50 joint venture partnership company) is gaining valuable knowledge which will help us to exploit this future opportunity.

Closer to home, Swedish Match is also expanding to new horizons. Through a steady stream of innovation in packaging and new products, Swedish Match has further enhanced its presence in a number of market segments. In Norway, snus is enjoyed by more and more men and women who recognize the benefits snus offers over smoking tobacco products. In fact, among adults 18 to 25, a greater percentage of men and women use snus in Norway than in Sweden and this age group has experienced an unprecedented decline in cigarette consumption. New packaging, products, and varieties, such as under *The Lab Series* and *Nick and Johnny* brands, have a broad appeal among these Norwegian consumers. In Sweden, we saw an opportunity to develop a leading position in the fast growing deep discount end of the value price segment, and launched *Kaliber*, a brand which by year end was approaching the number one position in this subsegment.

In keeping with our sustainability efforts, Swedish Match introduced new snus packaging for our mini products, bringing improved consumer value, while reducing both plastics use and packaging costs. The Company also launched the first ever snus made exclusively with organically grown tobaccos.

In Other tobacco products (cigars and chewing tobacco), Swedish Match has had another banner year, a result of past and ongoing efforts to efficiently exploit

HIGHLIGHTS 2011

Q1 JANUARY–MARCH

- Comparable sales in local currencies increased for every product area[1)]
- Scandinavian and US snus and snuff shipments up[1)]
- US mass market cigar volumes up by 46 percent[1)]
- SMPM International test stores for snus expanded in Canada
- Comparable operating profit up by 17 percent in local currencies[1)]

[1)] Versus Q1 2010.

Q2 APRIL–JUNE

- Comparable sales increased by 11 percent in local currencies[1)]
- Sales and shipment volumes for snus and snuff higher in both Scandinavia and the US[1)]
- US mass market cigar sales up by 20 percent in local currency[1)]
- Strong mass market cigar volume growth from sweets cigars in FoilFresh® packaging
- Comparable operating profit up by 13 percent in local currencies[1)]

[1)] Versus Q2 2010.

new opportunities. For cigars in the US, we further expanded our market presence with our sweets cigar assortment, and our smaller cigars overall continued to gain in popularity, supported by our FoilFresh® concept. The year 2011 was exceptional for cigars, as we rapidly increased our shipment volumes from both higher sales in existing stores and added distribution of our popular products. Going forward, we expect continued outperformance versus the category, although at more sustainable levels than the extreme growth experienced in 2011. Our chewing tobacco business continued to be a strong profit generator for the Company, delivering solid cash flows.

Our lights businesses performed well, despite the negative impacts from increased raw material cost and a strongly valued Swedish krona in relation to the US dollar and the euro. For matches, a large proportion of production takes place in our highly efficient facility in Tidaholm, Sweden. Most of the costs are in Swedish kronor, while much of the sales from this facility are made in dollars and euro, thus negatively impacting profitability.

Scandinavian Tobacco Group, the Danish tobacco company in which Swedish Match owns 49 percent, completed its first full year of existence on September 30, 2011. This company, formed from the former Scandinavian Tobacco Group and the former Swedish Match premium US and mass market European cigar businesses, as well as some other businesses (including pipe tobacco), is the world's largest pipe tobacco company, the second largest cigar company, and a significant player in the fine cut tobacco segment. Scandinavian Tobacco Group has made substantial progress in reducing costs and restructuring its business to provide future enhanced profitability. Swedish Match's shareholders will benefit from the dividends paid to Swedish Match starting in 2012.

Basic earnings per share for the year reached 12.14 SEK, up 22 percent from the previous year excluding larger one time items. For 2011 the proposed dividend will be 6.50 SEK, an increase of 18 percent. The Company bought back 11.1 million shares as part of its ongoing share repurchase program.

Swedish Match has many stakeholders, one of the most important being our own employees. As I have mentioned many times before, they are the heart and soul of the Company. Without their dedication and drive, their ability to innovate and consistently find new ways to drive further value, Swedish Match would not be the outstanding company that it is today. To all the employees of Swedish Match worldwide, I extend my sincere thanks. I know that the committed work of our employees will be the critical driver for success in delivering value to our customers, our consumers, and to you, our shareholders.

Stockholm, March, 2012

Lars Dahlgren, President and CEO

Q3 JULY–SEPTEMBER

- Comparable sales increased by 6 percent in local currencies[1)]
- Expanded test of *General* snus begun in the US with new packaging format
- US mass market cigar sales up by 26 percent in local currency[1)]
- Strongest ever STG quarterly EBITDA, excluding restructuring charges
- Comparable operating profit up by 9 percent in local currencies[1)]

1) Versus Q3 2010.

Q4 OCTOBER–DECEMBER

- Sales increased by 10 percent in local currencies[1)]
- Full rollout of *General* snus in Dallas, Chicago, and Philadelphia in the US
- US mass market cigar sales up by 10 percent in local currency[1)]
- SMPM International expanded snus test to include Russia, with the Parliament brand
- Operating profit up by 7 percent in local currencies[1)]

1) Versus Q4 2010.

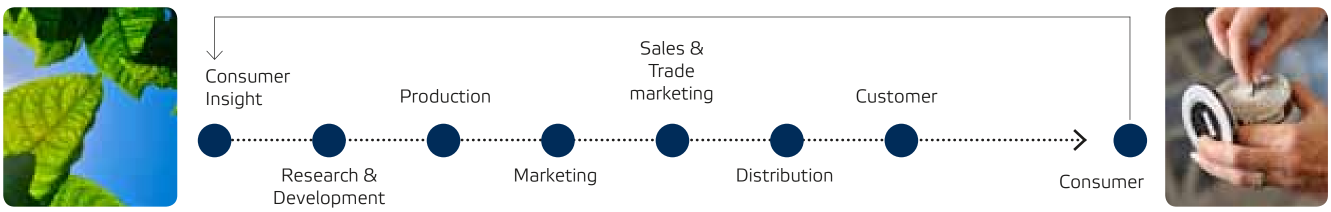
Excellence throughout the value chain

An organization designed to enhance progress

Swedish Match's organizational structure facilitates flexibility, innovative new products, good dialogue and partnerships with customers, providing opportunities to develop new concepts anytime, anywhere.

For smokeless tobacco products, supply chain management, including production and product development, is managed by the Smokefree Products Division. The US Division and the Scandinavia Division focus on local marketing and partnerships with customers in order to be close to both the customer and the consumer. Snus products outside Scandinavia and the US are marketed through SMPM International, a joint venture with Philip Morris International of which Swedish Match owns 50 percent. The Smokefree Products Division, in strong cooperation and consultation with the US Division, the Scandinavia Division, and SMPM International, helps to ensure that new products are developed and produced to meet changing consumer tastes and desires. The US Division and the Scandinavia Division strive to work as true partners with customers to build their businesses. Marketing and supply chain management for cigars is handled by the US Division, and for lighters and matches by the two operating units Lights International and Lights Latin America.

THE VALUE CHAIN



Production and distribution

Production of snus takes place in Gothenburg and Kungälv, Sweden. In the Gothenburg factory, loose and original portion-packed (pouch) products are manufactured. The Kungälv facility opened in 2003 and was expanded in 2009 and 2010. This state of the art unit specializes in portion-packed products utilizing the Swedish Match proprietary white-portion technology.

Production of moist snuff and chewing tobacco takes place in Owensboro, Kentucky, the US. The Owensboro factory has developed a flexible production platform that allows resources to be employed where needed. This flexible setup enables the Group to efficiently adapt to production changes as increases in snuff production typically offset declines in chewing tobacco. In addition to producing its own products, Swedish Match produces chewing tobacco for National Tobacco.

Mass market cigars for the US are produced both in Santiago, in the Dominican Republic, and in Dothan, Alabama, in the US.

All tobacco products in Sweden, including products from other manufacturers, are shipped from the Group's distribution company's facilities in Stockholm and Gothenburg. For the Norwegian market, Swedish Match's products are distributed through the same distribution facilities. In the US, Swedish Match ships products to both wholesaler and selected retailer locations throughout the country direct from its production facility and through both company owned and third party warehouses.

Production of matches takes place in Sweden (Tidaholm and Vetlanda) and in Brazil (Curitiba and Piraí do Sul).

Lighter facilities are located in the Philippines (Manila), in the Netherlands (Assen), and in Brazil (Manaus).

Swedish Match ships its lights products to distributors in many countries and also uses its own sales and distribution network where appropriate. As of October 1, 2010, distribution in a number of countries in Europe as well as in Australia and New Zealand is handled by Scandinavian Tobacco Group, a company of which Swedish Match has a 49 percent holding.

Point of sales and merchandising

The primary sales channels for Swedish Match products are supermarkets, convenience stores and tobacconists, as well as gasoline stations. Other important channels are bars, restaurants, and Scandinavian Travel Retail outlets, such as airports and ferries. Since retail prices are set by retailers, prices can vary.

Snus is merchandised from coolers to help ensure longer lasting freshness and quality. US moist snuff, cigars, and chewing tobacco, which do not require refrigeration, have attributes and packaging that provide long lasting freshness. Sales representatives work closely with retailers to optimize their business in selling Swedish Match products to consumers. Through in depth discussions and active dialogue, retailers can work together with Swedish Match to evaluate product assortment and display, along with shelf and floor plans, with the aim of improving their total non-cigarette tobacco and lights businesses. This partnership approach is very valuable to both parties, since it reinforces and deepens the commitment to the Company's customers.

During 2011, Swedish Match continued its consumer and retailer website efforts for the Swedish market. By logging on to: www.swedishmatch.com/konsument (for consumers) and http://kund.swedishmatch.com (for customers), Swedish consumers and customers can easily explore the Swedish Match product range.

SNUS – FROM SEED TO CAN

The entire production process for the Company's snus adheres to the Swedish Match quality standard, GothiaTek®. GothiaTek® is adopted as an industry standard in the manufacturing process of Swedish snus.

TOBACCO Swedish snus is produced using the highest quality air-dried tobacco. Systematic control of the composition of the tobacco is required in order to meet the **Gothia**Tek® specifications. Swedish Match has developed special methods for cultivating and drying tobacco.

INGREDIENTS The main ingredients in the preparation of snus are ground tobacco, water, salt (ordinary cooking salt), and sodium carbonate. Additional ingredients are aromatic compounds and moisture preserving agents.

PRODUCTION There are three main stages in the production of Swedish snus in accordance with the **Gothia**Tek® standard: grinding, preparation, and packing.

1. GRINDING The tobacco is broken up, dried and fed into a grinder, where it is ground. The ground tobacco is screened into coarse, intermediate and fine meal.

2. PREPARATION In the first stage of preparation, tobacco flour is weighed and transported to closed blenders. Water and salt are added while the mixture is stirred, after which the snus is heated. The temperature of the snus mixture and the stirring process is computer controlled. This part of the process can be compared with pasteurization. Thereafter, the snus is cooled and other ingredients are added. Samples are taken for quality control. If all measurement values are approved, the batch is ready for packing.

3. PACKING

Loose snus cans are filled in automatic packaging machines. After filling, the cans are closed with a lid, after which the cans are weighed and labeled.

Portion-packed snus requires a more complicated process. The portions are measured and inserted into a cellulose fiber tube. The portions are sealed and cut apart. The finished portion pouches are packed into a plastic can, which is then sealed with a lid, after which the cans are weighed and labeled.

Packaging materials: Loose snus is for the most part packaged in paraffin coated cardboard cans. When the cans are produced, two different grades of cardboard are used, one for the frame and one for the base of the can. The lid is made from polypropylene plastic. Polypropylene cans are used for portion-packed snus, which is more sensitive to drying out than loose snus. The use of plastic cans for portion-packed snus is primarily motivated by durability considerations.

COLD STORAGE All ready packaged snus is stored in cold storage rooms for a number of days before being released to retailers. Cold storage is important for allowing the snus to mature and acquire its characteristic aroma and flavor.

PRODUCT AREA OPERATIONAL HIGHLIGHTS

- *Scandinavian snus volumes up by 4 percent[1)]*
- *US moist snuff sales and volumes virtually unchanged[1)]*
- *Store distribution of General snus in the US more than doubled, to over 3,500 stores*
- *SMPM International engaged in market testing for snus in Taiwan, Canada, and Russia*
- *Operating profit up by 5 percent, up by 6 percent in local currencies[1)]*

1) Versus full year 2010.

Snus goes international

The global market for snus and moist snuff is estimated to be approximately 1.7 billion cans, and growing.[1)] The Scandinavian market, which includes Sweden, Norway and Travel Retail, is estimated by Swedish Match to amount to 285 million cans of snus, up approximately 6 percent from the preceding year.[2)] In Norway, snus consumption has risen rapidly in recent years, as more consumers are switching from cigarettes to snus. In the US, Swedish Match primarily sells moist snuff, but increased resources are now being dedicated to the snus category. In markets outside the US and Scandinavia, Swedish Match, through SMPM International (the joint venture with Philip Morris International), is engaged in test market snus activities in Taiwan, Canada, and Russia.

Strategy

Swedish Match endeavors to be the global smokefree leader. Success will come from dedicated employees working closely together in building on the strong brand portfolio, maintaining and improving technological leadership, leveraging the Company's unique Swedish heritage and market leadership in Scandinavia, and providing consumers with products they enjoy.

Swedish Match's strength in smokefree products lies in its high quality products and well established brands in combination with deep consumer insight. Swedish Match will continue to innovate and develop new and improved products while leveraging its brands' strengths in order to meet the ever-changing desires of the market.

The Group will pursue organic growth opportunities in its home markets, while also exploring growth opportunities (outside Scandinavia and the US) through SMPM International.

Swedish Match strives to be the preferred choice for consumers of smokefree products, the most valued partner to retailers and distributors, and the industry authority for regulators and opinion makers.

Financial development

Sales for the product area during the year increased by 5 percent to 4,726 MSEK (4,522). Operating profit for the year increased by 5 percent to 2,181 MSEK (2,080).

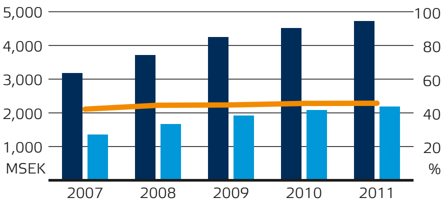
In the Scandinavian market, Swedish Match sales increased by 10 percent, from improved pricing and 4 percent higher shipment volumes. Shipment volumes increased in both Sweden and Norway during the year. In the US, Swedish Match moist snuff sales grew slightly despite declines in market share in a rapidly growing market. The US moist snuff market grew by 6 percent in 2011[3)], with intense pricing and promotional activity as well as a number of new product launches. Swedish Match's shipment volumes in the US were basically flat.

The operating margin was 46.1 percent for the year (46.0), impacted by higher spending levels for Swedish snus expansion projects in both the US and through the SMPM International.

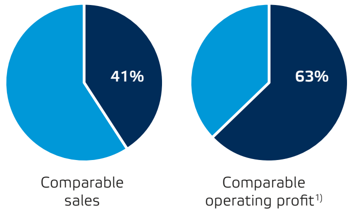
1) Source: Nielsen and Swedish Match estimates.
2) Adjusted for hoarding and other timing effects.
3) Source: Nielsen.

Key data, MSEK	2011	2010	2009
Sales	4,726	4,522	4,250
Operating profit	2,181	2,080	1,916
Operating margin, %	46.1	46.0	45.1
Investments in property, plant and equipment	123	192	317
Average operating capital	1,965	1,957	1,833
Average number of employees	972	969	959

Sales and operating profit



Share of Group total



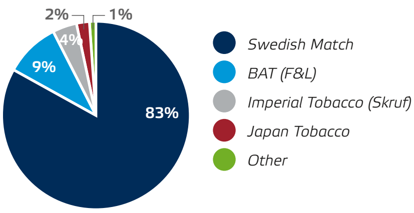
1) Excluding Other operations and share of net profit in STG.

SNUS IN SCANDINAVIA

Main brands:

Sweden: *General, Göteborgs Rapé, Ettan, Grovsnus, Catch, Kronan*
Norway: *General, Nick and Johnny, The Lab Series, Catch, Göteborgs Rapé*

COMPETITORS – SWEDEN



Source: Nielsen, 12 month data to January 1, 2012.

General is the best selling snus brand in Sweden and Norway. During 2011, the Group launched a number of new products, line extensions and product improvements. Launches included *Kaliber*, a new product designed to compete in the Swedish value (priced) segment. In Norway, *05* and *06* were introduced as line extensions to the popular brand *The Lab Series*. In the autumn, *General Green Harvest*, made only from ecologically grown tobaccos, was introduced to the Swedish market.

During the year, Swedish Match upgraded its white mini format products, now with the upscale star formation packing technique in both Sweden and Norway. These products are now packed in a smaller can that uses approximately 21 percent less plastic.

Kronan, one of the Group's value brands in Sweden, holds the number one position in the value segment.

In the Norwegian market, the Group has continued to grow volumes with such strong traditional brands as *General*, *Catch*, *Göteborgs Rapé*, *Röda Lacket*, as well as newer brands, including *Nick and Johnny*, and *The Lab Series*. In addition to its traditional snus products, Swedish Match offers the number one brand in the non-tobacco smokefree segment, *Onico*, providing consumers with a high quality nicotine free alternative.

Market development

In 2011, consumption in the Scandinavian snus market is estimated by Swedish Match to have grown to more than 285 million cans. It is estimated that one in five Swedish men use snus on a regular basis, while in Norway the percentage of men using the product is lower, but growing.[1] Swedish Match estimates that the number of men using snus has been relatively stable in Sweden and growing in Norway. The number of women using snus on a regular basis is increasing in Norway.

Swedish Match is the leading manufacturer of snus, with a volume share in Sweden of approximately 80 percent in December 2011.[2] In Norway, Swedish Match's volume share is estimated to be approximately 70 percent in December 2011.[2] The Swedish market is by far the largest market in Scandinavia, with approximately one million consumers. The Swedish market is estimated by Nielsen to have grown by approximately 7 percent in the last six months of 2011 versus prior year.[3] The Norwegian market has grown by 8–10 percent or more in recent years, and is estimated to have grown by 14 percent in the last six months of 2011 versus prior year.[3]

Over the past several years, consumers have moved from traditional loose products to portion-packed products, which by the end of 2011 accounted for more than 70 percent of volumes in Scandinavia.[4]

Tobacco excise taxes in Sweden remained stable in 2011. On January 1, 2012, Swedish excise taxes on snus were raised by 13.7 percent. As a result, additional snus volume was purchased at the end of 2011 in anticipation of this event. In Norway, the excise tax on snus was raised by 12.2 percent on January 1, 2011 and by 1.1 percent on January 1, 2012.

1) Source: Ipsos Sweden, Market Report, 2010.
2) Source: Nielsen, 4 week data to January 1, 2012.
3) Source: Nielsen, 6 month data to January 1, 2012.
4) Source: Nielsen and Swedish Match estimates.

"The Scandinavian snus market was extremely dynamic in 2011, propelled by robust growth in the value segment in Sweden. Our leadership in both the Swedish premium and value segments continues, and our volume growth was solid. In Norway, the market grew in excess of 10 percent, and, with successful new product introductions, during the latter part of the year we saw greater share stability. We are determined to participate in all segments of the market where we see good business opportunities, and to continue to deliver outstanding products and service to our customers."

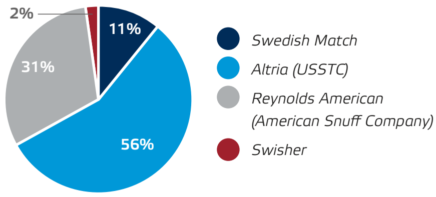
Jonas Nordquist, *President Scandinavia Division*

SNUS AND SNUFF IN THE US

Main brands:

US: *Longhorn, Timber Wolf, Red Man, General*

COMPETITORS – THE US



Source: Nielsen, YTD December 24, 2011.

The Swedish Match brand portfolio for moist snuff is almost exclusively in the value segment, with both traditional loose and pouch products. *Longhorn* is Swedish Match's largest deep discount brand. Swedish Match sells Swedish snus in the US under the *General* brand and in June, Swedish Match launched *General* incorporating innovative packaging and product, developed especially for the US consumer.

Market development

Moist snuff consumption in the US in 2011 is estimated by Swedish Match to be approximately 1.4 billion cans, making it the largest moist snuff market in the world. During the past five years, can volume in the moist snuff market has grown at an average rate of 7 percent annually.[1)] In 2011, the market growth rate was 6 percent.[2)] This growth came largely from new consumers, including cigarette smokers, who recognized the advantages of this smokefree product. Moist snuff is sold throughout the US and volumes are particularly strong in the southern and mid-Atlantic states.

The premium priced moist snuff segment declined in 2011, while the value segment grew. Combined with increased competitive activity for traditional value brands, the main reason for rapid growth in the value segment was that a major competitor began pricing many of its premium branded products at prices positioned in the value segment. For the full year 2011, the Swedish Match market share by volume was 10.9 percent, down from 12.0 percent in 2010.[2)]

[1)] Source: Nielsen and Swedish Match estimates.
[2)] Source: Nielsen.

Longhorn grew by 8.3 percent in volume terms during 2011, with its market share growing from 5.4 percent to 5.6 percent.[1] *Timber Wolf* and *Red Man* experienced market share declines in 2011, with *Timber Wolf* losing 0.9 percentage points of market share and *Red Man* losing 0.3 percentage points.[1] Swedish Match estimates the growth in the pouch segment to have been 16 percent in volume terms. The pouch segment accounts for approximately 10 percent of the cans of moist snuff sold in the US.

Swedish Match continued its efforts behind Swedish snus in the US market. Consumption in 2011 is estimated to be in the range of 40 million cans, an increase of approximately 7 million cans compared with the preceding year.[2] Still a small category in the US, Swedish snus is considered to have long term growth potential. The main Swedish Match snus brand in the US is *General*, the authentic Swedish snus, available in tobacconists, convenience stores, and other selected stores. In June, Swedish Match launched the *General* brand in a new packaging format and two flavors, developed especially for the US consumer. This new line of *General* products was placed into broader distribution in Chicago, Dallas, and Philadelphia during the fourth quarter. By the end of 2011, the *General* brand was available in more than 3,500 stores.

On June 22, 2010, the Food and Drug Administration introduced new regulations for tobacco products. From this date, the Company is no longer engaged in sponsorship activities. Also, product packaging was modified to comply with new labeling requirements. Promotional schedules were modified during 2010 to take into account the June 22 date, resulting in distortions in year-on-year quarterly shipments for the 2011 versus 2010 periods.

SNUS OUTSIDE SCANDINAVIA AND THE US

Through SMPM International, the joint venture company with Philip Morris International, Swedish Match is testing opportunities for snus to reach markets outside Scandinavia and the US. SMPM International, 50 percent owned by Swedish Match, sources its products from Swedish Match and sells them through Philip Morris International's sales and distribution network. SMPM International thereby has both state of the art products and outstanding distribution opportunities.

During 2011, SMPM International continued to test market snus in a selected number of stores in Taiwan and Canada under the *General* brand. In Russia a test launch of snus was initiated under the *Parliament* brand.

1) Source: Nielsen.
2) Source: Nielsen and Swedish Match estimates.

OTHER TOBACCO PRODUCTS: US MASS MARKET CIGARS AND CHEWING TOBACCO

PRODUCT AREA OPERATIONAL HIGHLIGHTS

- *US mass market cigar volumes up by 39 percent*[1)]
- *Sweets cigars with FoilFresh® packaging resulted in substantial market share gains*[2)]
- *Maintained market share leadership for chewing tobacco*[2)]
- *Sales up by 9 percent and operating profit up by 23 percent in local currency*[1)]

[1)] Versus full year 2010.
[2)] Source: Nielsen, YTD December 24, 2011 versus same period prior year.

Strong growth, with cigars leading the way

Swedish Match has experienced rapid growth with its US mass market cigars, including such well-known brands as *White Owl* and *Garcia y Vega*, with innovative products and packaging that deliver what consumers want most – quality, freshness, and value. In US chewing tobacco, Swedish Match maintains a leadership position, with solid performance in a declining product category.

Strategy

In the product area Other tobacco products, Swedish Match will leverage its strong platforms in order to maximize long term profitability.

For US mass market cigars, the Company will drive profitable growth through consumer-driven innovation and strong sales execution. The Company will continue to innovate, delivering high quality products in segments where Swedish Match already has a strong market position as well as in the mass market cigar segments where the Company currently is underrepresented.

For chewing tobacco, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. Chewing tobacco holds a unique position in the Company's portfolio as a genuine American product. With its efficient production, well known and trusted brands as well as category leadership, the Group has been able to leverage its strengths in a declining product category while sustaining profits over time.

Financial development

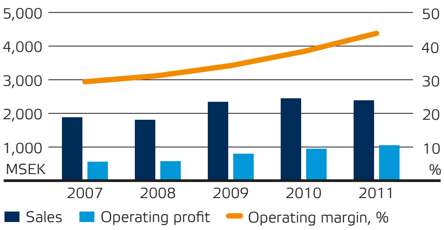
Sales for the product area for the year decreased by 2 percent to 2,388 MSEK (2,440), and operating profit increased by 11 percent to 1,049 MSEK (942). In local currency terms, sales grew by 9 percent. Mass market cigars experienced significant sales and volume growth. For chewing tobacco sales were flat in local currency terms. The operating margin for the product area was 44.0 percent (38.6).

"The US Division experienced a very exciting year. We started off 2011 by moving to new offices in the downtown area of Richmond, Virginia. Given the tremendous growth of our cigar business, investments were made to substantially increase our capacity to manufacture these products. Additional expansion of the sales force in key markets was put in place to both support our growing base business and prepare for the wider launch of snus in the US. Finally, we began the process of progressively expanding the distribution of General snus. While 2011 was a very successful year for the US Division, the future looks even brighter."

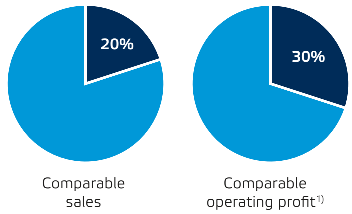
Richard Flaherty, *President US Division*

Key data, MSEK	2011	2010	2009
Sales	2,388	2,440	2,337
Operating profit	1,049	942	804
Operating margin, %	44.0	38.6	34.4
Investments in property, plant and equipment	61	30	39
Average operating capital	1,147	1,175	1,341
Average number of employees	1,470	1,407	1,351

Sales and operating profit



Share of Group total



1) Excluding Other operations and share of net profit in STG.

MASS MARKET CIGARS

Market development

The market for mass market cigars in the US excluding the little cigars[1] segment (where Swedish Match does not participate) is estimated by Swedish Match to amount to approximately 4.5 billion cigars and has been declining at an average rate of 3–4 percent annually in volume terms over the past few years.[2] It is estimated that the US mass market cigar market declined by approximately 3 percent in 2011 in volume terms,[2] with smaller cigars (cigarillos) outpacing volume in recent years relative to the larger cigar segment, which declined.

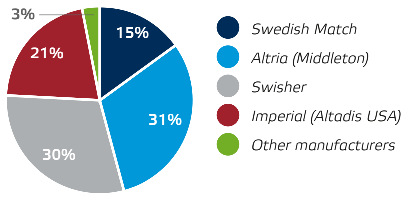
In the US, manufacturers typically introduce several new products every year using well established brands. During 2011, Swedish Match launched a number of new products under both the *Garcia y Vega* and *White Owl* brands using its FoilFresh® packaging concept. FoilFresh® cigars ensure that consumers can always find a softer, "fresher" cigar. In 2011, *White Owl Green Sweets* was launched, with outer wrapper made from green candela tobacco. The sweets cigar[3] segment is estimated by Swedish Match to be approximately 1 billion sticks. Swedish Match estimates its share of the small sweets cigar segment, which is the vast majority of the sweets cigar segment, to be approximately 18 percent at the end of 2011.

1) Little cigars are typically filter tipped and packaged in packs of 20 (similar cigarette packaging).
2) Source: Nielsen.
3) Sweets cigars is a category of mild, somewhat sweet cigars, generally without a characteristic flavor.

Main brands:

US mass market cigars: *White Owl, Garcia y Vega, Game by Garcia y Vega*

COMPETITORS – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Nielsen, YTD December 24, 2011.

CHEWING TOBACCO

Market development

The Group's best known brand, *Red Man*, is by far the largest in the US, accounting for approximately one third of all volumes sold.

The US market for chewing tobacco is in a long term state of decline. Volumes are typically declining by approximately 7–10 percent annually.[1] This occurs as consumers leave the category, some moving to moist snuff. The US chewing tobacco market declined by 6.8 percent in 2011[1], in line with prior years. *Red Man* gained share, however, as some smaller and slower moving proprietary and competitive brands have experienced reduced distribution to stores selling the product.

With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability.

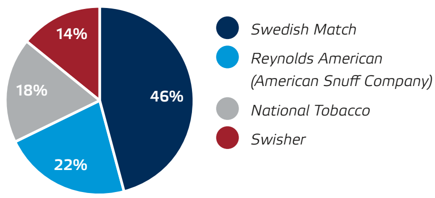
Since June 2010, the chewing tobacco, like other smokeless tobaccos, has been subject to Food and Drug Administration regulations, including many measures relating to marketing, such as product placement requirements at retail points, regulations on new products, labeling, advertising, and product sampling.

1) Source: Nielsen.

Main brands:

Chewing tobacco: *Red Man, Southern Pride, J.D.'s Blend, Granger Select*

COMPETITORS – CHEWING TOBACCO



Source: Nielsen, YTD December 24, 2011.

PRODUCT AREA OPERATIONAL HIGHLIGHTS

- Sales declined by 1 percent in local currencies[1)]
- Cricket lighter volumes grew in several Asian markets
- Significant currency fluctuations and a strong Swedish krona negatively impacted match operating profit
- Operating profit down by 14 percent, down by 9 percent in local currencies[1)]

1) Versus full year 2010.

Cricket expands in Asia

Cricket lighters and Swedish Match's iconic local brands for matches, are known for quality and reliability, and are staple products in homes across the world. In 2011, the lights business was impacted by significant currency fluctuations, negatively affecting profitability. Despite cost increases and currency shifts, the lighter and match businesses continue to deliver solid cash generation and profitability.

Strategy

With its portfolio of well known brands and strong market positions, Swedish Match works for continuous operational excellence in its lights business. The Group is committed to maintaining and improving its already efficient manufacturing operations and to tightly manage its supply chain in order to maintain solid levels of profitability, while providing consumers with the quality products they demand. The lights business is organized in two operating units: Lights Latin America and Lights International (covering all markets outside Latin America). Swedish Match sells matches and lighters through its own and third party distribution networks, including the distribution network of Scandinavian Tobacco Group.

Financial development

Sales for the product area for the year decreased 6 percent to 1,346 MSEK (1,429). Operating profit decreased by 14 percent to 240 MSEK (279). The operating margin was 17.9 percent (19.5).

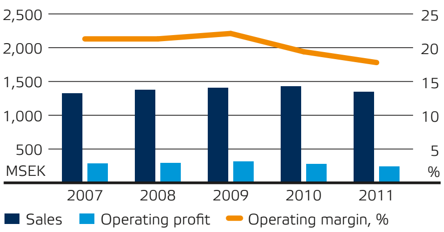
"Our match position remains very strong with local brands across the world. Market volumes have declined in Europe and Latin America during the year, however. The successful Cricket expansion in Asia has delivered good volume development for lighters and we expect to see continued growth in this very important and dynamic region. We will continue to explore and invest in new market opportunities for both matches and lighters."

Peter Hedlund, *COO Lights Latin America (at left)*

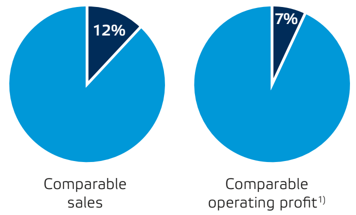
Håkan Söderberg, *COO Lights International (at right)*

Key data, MSEK	2011	2010	2009
Sales	1,346	1,429	1,403
Operating profit	240	279	312
Operating margin, %	17.9	19.5	22.2
Investments in property, plant and equipment	56	52	70
Average operating capital	786	790	784
Average number of employees	1,187	1,271	1,256

Sales and operating profit



Share of Group total



[1] Excluding Other operations and share of net profit in STG.

LATIN AMERICA

Main brands:

Fiat Lux, Cricket

Market development

Swedish Match has a significant presence in Latin America, where the largest match market is Brazil and the Group holds a leading position with *Fiat Lux* as the largest brand. Brazilian match consumption continued to decline in 2011 and Swedish Match estimates its market share in Brazil to be approximately 45 percent for matches, in terms of volume. Cricket lighter volumes increased during the year in the region.

EUROPE AND OTHER MARKETS

Main brands:

Solstickan (Sweden), Swan (UK), Tres Estrellas (Spain), Feudor (France), Redheads (Australia), Cricket (globally)

Match brands tend to be local, with one brand being iconic in its own country. For lighters, Swedish Match manufactures and sells a well known brand of quality disposable lighters, *Cricket*, in many markets.

Market development

Swedish Match estimates that consumption of matches continued to decline during 2011. Markets for other fire related products such as fire starters and barbeque products grew. Swedish Match's largest match markets in Europe include the UK, the Nordic countries, France and Spain. Since matches for the international market outside Latin America are produced in Sweden and sold in currencies other than the Swedish krona, this product category has experienced significant margin pressure in 2011, as local pricing has not kept pace with cost or currency movements.

For lighters, Swedish Match holds a leading market position in Russia within the premium disposable category. The Group also has solid positions in the Nordic countries, the UK and France. *Cricket* lighters are marketed using the key selling points of quality, design, and safety. In many countries in Europe, volumes of Swedish Match lighters were lower during 2011 compared with 2010, while in Russia lighter volumes grew.

Swedish Match is the market leader for matches in Australia with the brand *Redheads*. Swedish Match also has lighter and match sales in a number of African and Asian markets. In several markets in Asia, *Cricket* lighters continued to demonstrate strong volume development, reflecting efforts to build business in this part of the world.

COMPETITORS

Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of other smaller manufacturers.

OPERATIONAL HIGHLIGHTS

- *Swedish Match share of net profit from Scandinavian Tobacco Group during the year amounted to 337 MSEK*
- *The share of net profit from Scandinavian Tobacco Group includes restructuring charges of 66 MSEK before tax*
- *Synergies realized in 2011 for the Scandinavian Tobacco Group amounted to approximately 17 MEUR*

Improved earnings on synergies

Main brands:

US long filler premium cigars:
CAO, Cohiba, Excalibur, Hoyo de Monterey, La Gloria Cubana, Macanudo, Partagas, Punch

Machine made cigars:
Café Crème, La Paz, Mercator, Colts, Petit, Salsa, Captain Black

Pipe tobacco:
Erinmore, Borkum Riff, Captain Black, Clan, Colts, WØ Larsen, Sweet Dublin, Orlik, Half & Half, Skandinavik

Fine-cut tobacco:
Tiedemanns, Bugler, Escort, Kite, Bali, Crossroad

Scandinavian Tobacco Group, 49 percent owned by Swedish Match, is the world's leading manufacturer of cigars and pipe tobacco. It is the largest cigar company for European machine made cigars, with market leading positions in many Western European markets.

Financial development

The Swedish Match share of the net profit in Scandinavian Tobacco Group for 2011 amounted to 337 MSEK. The share of net profit includes restructuring charges of 66 MSEK before tax. Scandinavian Tobacco Group has been working extensively during the year with integration of systems, sales forces, and distribution networks. Several structural measures have been implemented, resulting in substantial cost savings.

Market development

The US long filler cigar market is estimated to have declined during 2011.[1)] The European machine made cigar market is also estimated to have declined in volume terms in 2011 and is somewhat more than four billion cigars.[1)] Scandinavian Tobacco Group sells cigars under its own brands, as well as having contract manufacturing agreements and private label manufacturing. Scandinavian Tobacco Group is the world's largest cigar manufacturer. For its own brands the company has a strong number two position in the global cigar market.

The global pipe tobacco market continues its long term decline. The most important markets are North America and Europe which account for an estimated 3,500 tons per year. Scandinavian Tobacco Group has

[1)] Source: Scandinavian Tobacco Group estimates.

either the number one position or strong positions in most markets in these regions, as well as sales through the Travel Retail class of trade and contract manufacturing and private label manufacturing for third parties. In March 2011, Scandinavian Tobacco Group purchased Lane Ltd., a US pipe tobacco and fine cut tobacco manufacturer, from Reynolds American, helping to expand its footprint in the US market.

Lighter and match products distributed by Scandinavian Tobacco Group are manufactured by Swedish Match. Scandinavian Tobacco Group products are distributed through the company's own sales subsidiaries and third party distributors.

FACTS AND FIGURES:

- Approximately 9,500 employees in 20 countries
- The production units are located in Belgium, Denmark, the Dominican Republic, Honduras, Indonesia, Nicaragua, the Netherlands, and the US
- The world's largest manufacturer of cigars, number one in US long filler cigars and number one in European machine made cigars
- The company manufactured approximately 2.7 billion machine made cigars and 140 million hand made cigars in 2011
- Roughly three fourths of Scandinavian Tobacco Group sales and gross profit come from cigars
- Global number one in pipe tobacco
- Strong market positions in fine-cut tobacco, primarily in Scandinavia and the US
- 2,400 tons of pipe tobacco and 2,800 tons of fine-cut tobacco manufactured in 2011
- Sales companies in 16 countries
- The largest competitor is Imperial Tobacco

CEO statement

TO OUR SHAREHOLDERS AND OTHER STAKEHOLDERS:

Corporate Sustainability means conducting business in a way that provides long term benefits for the Company, mindful of the world around us. It means listening to our stakeholders and adapting how we work and what we do, to be a sustainable and profitable company recognizing the changing needs of all our stakeholders. While the economic, social and environmental issues the Company faces may change, the foundations of our sustainability work remain constant.

During 2011, we worked to improve our communications efforts with regard to activities concerning our employees, our products, the environment, and our community efforts. We also embarked on a more detailed target setting process, with a focus on energy consumption, and worked to reduce the use of materials in both our production facilities and offices. Not only does this improve our long term environmental footprint but it also helps to reduce costs. We continued our important efforts to engage with and contribute to the communities in which we operate, and to maintain dialogue with our most important suppliers and partners with regard to social, economic, and environmental matters.

Vision and strategy

Swedish Match's vision is to position the Company as the global smokefree leader, leveraging our strong platforms to maximize long term profitability in Other tobacco products, with operational excellence and profitability in Lights.

Sustainability activities make Swedish Match more competitive and help to reduce long term costs and risks. Much of the focus is on the manufacturing, purchasing, transport, and distribution level, as Swedish Match sees these areas as having some of the greatest impacts on the Group's business, cost structure, flexibility, and competitiveness.

The Swedish Match sustainability strategy involves using a systematic approach, in order to provide improved transparency and a focus on business operations. We will maintain a focus on efficiently producing and selling products that consumers desire, with a high quality and value relationship, mindful of our responsibilities in terms of social, economic, and environmental issues.

For us, sustainability is a journey, an ongoing process that provides benefits for all of us.

Sincerely,

Lars Dahlgren
President and CEO

A FEW HIGHLIGHTS IN 2011

- Improved disclosure score in the Carbon Disclosure Project
- Continued reporting according to the Global Reporting Initiative (GRI)
- New packaging for Scandinavian mini portion snus, using approximately 21 percent less plastic
- Employee survey conducted – for the first time on a global basis
- Brazilian Environmental Institute: Biosfera award for performance tied to good environmental practices/sustainable development in Brazilian operations
- Employer branding prize "New thinker of the Year" received from Universum, recognizing the Swedish operations' employer branding efforts
- Eco efficiency measures expanded throughout the organization, resulting in ongoing cost savings
- Environmental target setting process initiated within the Environmental Council
- The Company is listed on the OMX GES Sustainability Sweden Index

Sustainability reporting 2011

Successful sustainability activities require a methodical approach to reporting. In 2011, following the approach set in 2010, the Company is reporting its sustainability information according to the standards set forth by Global Reporting Initiative (GRI) G3 guidelines in order to reach measurable, transparent, clear, and comparable results. Swedish Match currently reports according to GRI guidelines for self reported C level.

A soft copy of the Company's sustainability reporting document 2011 can be found on **www.swedishmatch.com/sustainability**. The document includes profile and corporate governance information, as well as facts about Swedish Match's GRI process (materiality analysis, stakeholder dialogues, as well as detailed reporting on prioritized performance etc).

www.swedishmatch.com

More information on the Company's sustainability efforts is available on the website www.swedishmatch.com/sustainability

CORPORATE SUSTAINABILITY

Code of Conduct

The Swedish Match Code of Conduct, established in 2004, is the foundation for the Group's position in areas related to corporate sustainability. The Group's commitment to social responsibility and environmental issues is supported by its core values. These values are central to Swedish Match's business ethics and, as such, they are demonstrated in all relations with stakeholders and are a natural part of the way the Company conducts business.

The Code of Conduct consists of a number of policies related to workplace practices and employees, social responsibility, and the environment. The Code of Conduct is available on the Company website, www.swedishmatch.com/sustainability.

Workplace practices and employees

- Workplace practices (including health and safety, recruitment and remuneration)
- Business ethics (including corruption and fraud, gifts, loans, related party transactions, honest and ethical conduct, conflict of interest, and compliance with laws)
- Communication (including designated spokespersons, public reporting and communication, and internal reporting of critical information)

Social responsibility

- Relationships with suppliers, supplier contracts, child labor, and human rights, as well as issues specific to tobacco

Environment

- Guidelines and policy to ensure continuous environmental improvement and prevention/reduction of negative and environmental impacts resulting from the Group's activities

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 OECD's Guidelines for Multinational Enterprises.

Compliance with the Code of Conduct

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

The Code of Conduct is applicable to all Group employees, regardless of position. All Swedish Match companies and employees shall comply with the Code of Conduct even if it stipulates a higher standard than required by national laws or regulations. Every employee has a personal responsibility to make sure that actions taken comply with both the words and the spirit of the Code of Conduct. 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 will lead to disciplinary actions.

Reviews

To ensure an ongoing high level of business ethics within the Group, the Code of Conduct is reviewed and approved annually by the Board of Directors. Various procedures are in place for monitoring and reviewing the policies stated in the Code of Conduct. The reviews are intended to ensure that employees and other stakeholders affected by the Code of Conduct are aware of, understand, and comply with its content. Reviews, which are conducted by the external partner AON (an international risk management company) primarily comprise an examination of the Group's operating units. Facilities are reviewed at least once every second year according to an established schedule. The reviews include implementation of the Code as such, with evaluations in the areas of social responsibility, workplace practices, business ethics, communication, and the environment. Topic areas include human rights, child labor, forced labor, supplier contracts, as well as health and safety matters. Based on the results, the external partner presents recommendations if needed. Identified areas for improvement are re-evaluated the following year.

The conclusions of the reviews are reported to the operating units' management teams and to the Corporate Communications and Sustainability function. The operating units' management teams have operational responsibility for ensuring compliance with the Code. The SVP Corporate Communications and Sustainability is responsible for further development and revision of the Code.

Whistleblower function

To further secure sound business ethics within the Company, consistent with the Code of Conduct, Swedish Match has established a "whistleblower" function that provides every employee in the Group with the opportunity to report any suspicion of infringement of Group policies. Such suspicions can be submitted – anonymously – to an appropriate manager, or the Chairman of the Audit Committee. The "whistleblower" function can easily be accessed through the Swedish Match Intranet site.

In 2011, there were no reported infringements of Group policies using the whistleblower function.

Our employees – a foundation for continued success

One of Swedish Match's success factors is the ability to attract, develop and retain competent employees and simultaneously and successfully pursue efforts to motivate employees in Swedish Match for a strong and sustainable company. This is an ongoing priority in Swedish Match and was also a focus during 2011.

A key objective is to continuously develop the competence of both employees and managers in order to strengthen the result oriented culture while contributing to the improvement and growth of the Group. The Group is continuously dedicated to maintaining its employee focus and the prioritized work with performance, talent, and employee processes were strengthened even further in 2011. Swedish Match employees are dedicated to upholding the highest standards of ethics, improving their work, and producing and selling high quality products. Employees are also well versed in the Company's Code of Conduct, based on Company values, and are expected to work consistently within its framework.

In 2011, Swedish Match employed an average of 3,880 people, of whom 37 percent were women, with the largest number of employees in the US, Sweden, and the Dominican Republic followed by Brazil, the Philippines, and the Netherlands.

Human resources organization

The human resources organization supports the Group's efforts in managing talent and management development. The human resources organization continuously works to providing clear and consistent documentation of activities, while upholding employee practices consistent with the Code of Conduct and local laws and regulations, among other tasks. The head of Group Human Resources, SVP Group HR, is a member of the Group Management Team, and reports to the CEO. Local units are represented by dedicated HR professionals, who are members of the HR Council, a council that ensures clear communication and coordination of efforts relating to the Group's employees.

Workplace practices

Recruitment and talent attraction

Swedish Match is an organization that focuses on Employer Branding in order to maintain its position as an attractive employer and retain and attract a strong employee base. During 2011, efforts to recruit talents, both internally and externally, continued to secure the Company's competence base for both short and long term challenges. Swedish Match offers employees opportunities to grow and develop within the Group as well as international career opportunities.

Empowerment is a key component of the Swedish Match culture and leadership style. Initiatives and result oriented actions are always encouraged in a professional and informal atmosphere. 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.

Leadership and talent development

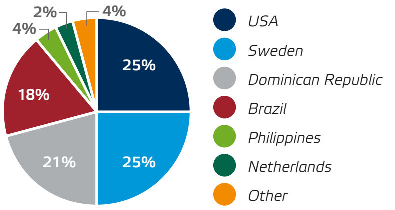
Successful leadership is a focus area for the Group. During the past year, approximately 100 leaders in the Group have been monitored closely by the Group management, the objective being to secure appropriate staffing of senior management and key personnel, and to identify and develop high potential employees in order to meet long term business objectives. This work starts locally, where the various management teams in the Group's operating units review the required current and future competencies and also identify key positions, high performers, and future talents. At Group level, the CEO, heads of operating units, and the SVP Group HR 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. This process is also used to identify management capabilities, potential future internal careers, and successors.

An employee survey is conducted every year. In September 2011, the survey was conducted on a global scale for the first time, enabling the Group to identify common improvement areas. The survey was conducted in seven countries in six different languages. The results of the survey were shared with all employees in November.

Developing competence and promoting careers

Swedish Match is diligent in its work to adapt a performance oriented culture in order to attract, develop, and retain high performers. This is why the Group focuses on ongoing efforts to strengthen and reinforce an overall performance culture by continuing to develop leadership and employee skills. This continues to be a priority for the Group in its efforts to meet current and future competence needs and business objectives.

EMPLOYEES PER COUNTRY



Source: Swedish Match

Swedish Match works to ensure that managers and employees have ongoing and open discussions regarding individual targets and plans as well as the overall objectives of the Company. Managers at Swedish Match must demonstrate good leadership by setting clear targets, providing ongoing coaching and counseling, conducting reviews, and delegating tasks and assignments.

The single most important tool in this process, and in order to identify individual targets, is the annual employee performance evaluation, of which career development is an instrumental part. For example, employee training is catered to match the needs of the Group and the individual employee. Employees are offered opportunities for both on and offsite education and training, dependent on the future needs of the Group, thus helping to ensure workforce sustainability.

The Group's competence development efforts are carried out in the operating units and are matched to various business objectives. All development and training programs are designed to provide Swedish Match employees with competences necessary to achieve outstanding individual and group performance. The Company continuously evaluates adequate training and development efforts to promote professional growth and career enhancement.

An important part of the company culture is to recruit internally. The ambition is to take advantage of internal competence by providing development opportunities so that employees can accept more responsibilities in the organization during the course of their careers. Seven out of eight members of the Swedish Match Group Management Team have been recruited internally. During this past year, most management vacancies were filled through internal recruitments. External recruitments are mainly carried out when a particular competence cannot be found internally.

Occupational health and safety

Because Swedish Match is dedicated to providing a workplace for its employees that is free from health and safety hazards, many proactive actions are taken at the Group's various workplaces. In addition to mandatory safety training, the Group continuously strives to identify and address potential safety issues, offer a wide range of wellness programs and ensure that the workplace is ergonomically sound. Health and safety committees and structures are in place in all manufacturing facilities to ensure a safe working environment. Potential safety issues are identified through regular facility audits conducted by AON, an international risk management company.

Employees at the Swedish Match corporate headquarters in Stockholm, Sweden.

Meeting forums

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

Within the Group, cross-organizational cooperation also occurs through teams that transcend operating units. Such teams may involve a number of functional areas, including production, IT, and product development teams, as well as human resources and environmental managers. The various groups meet regularly to plan, coordinate and evaluate Groupwide activities within each area. Meeting forums help to ensure efficient cross-communication within the organization and serve as aids in training and development efforts.

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 operating units. Under this agreement, a council comprising management and employee representatives appointed to the Board of Directors meets in advance of scheduled Board meetings and on other ad hoc occasions. This 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 wage earners and salaried employees.

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 have met and one meeting was held in 2011.

Employee at the Kungälv factory in Sweden.

CORPORATE SUSTAINABILITY

Social responsibility and community involvement

Corporate social responsibility is embedded in the Swedish Match corporate culture. Building longstanding relations with stakeholders, maintaining sound workplace practices and upholding high business ethics are critically important for corporate sustainability and long term growth.

Swedish Match and social responsibility

For Swedish Match, social responsibility implies working conscientiously and responsibly in relation to stakeholders within the supply chain – from suppliers to customers and consumers – as well as to other stakeholders, such as regulators, scientists, and local communities.

During 2010, and again in 2011, the Company's stakeholders were asked to provide input into social areas that they believed to be the most important for Swedish Match. With this input, Swedish Match has prioritized the reporting and follow-up of a number of social indicators, including customer satisfaction, product quality and safety (harm reduction), responsible marketing communication, and responsible product labeling as well as ethical business practices (corruption and fraud) and human rights issues.

Suppliers

The largest suppliers to Swedish Match are involved in the purchase of tobacco. The Company buys tobacco for its production of smokefree products from a small number of suppliers, who are all major international organizations with their own regulatory frameworks and controls of social and environmental issues. These groups have strict policies with regard to human rights, child labor, and farming practices. The purchased tobacco comes from many parts of the world, from countries such as Brazil, the Dominican Republic, India, Indonesia, and the US.

The Company sources forestry and paper products for its match production from a small number of suppliers, increasingly from Forest Stewardship Council (FSC)-certified sources. For indirect materials, the supplier base is larger and more local.

Supplier screening

Swedish Match is a small purchaser of tobacco, buying less than one percent of the world's production. The Company does not perform social audits, but all suppliers are informed about the Group's Code of Conduct and are requested to sign and return the contract – "Social commitment for suppliers to Swedish Match"– and to complete an agronomy questionnaire. Although no social audits are performed by the Company, tobacco purchasers visit suppliers each year to show that social commitment is of great importance to the Group and to proactively discuss social issues, such as child labor, human rights, and other important matters.

Supplier ethics

According to the Swedish Match Code of Conduct, the Company shall encourage its suppliers to establish and fulfill their own codes of conduct regulating the basic rights of their employees, occupational health and safety, the prevention of child labor, ethical business conduct, and environmental issues. Should a supplier fail to comply with the Company's recommendations, Swedish Match shall strive to resolve the situation through cooperation and information or to terminate the relationship.

The Company's business units are evaluated on the basis of supplier contracts and other areas such as human rights, child labor, forced labor, as well as health and safety matters.

Child labor

Swedish Match does not tolerate child labor and the Company's view on this issue follows the UN Convention on the Rights of the Child, Article 32.1.

The Company's own operations are not considered to have significant risk for incidents of child labor. Swedish Match continuously works with tobacco suppliers to ensure that the issue of child labor is addressed.

Swedish Match is represented on the Board of the ECLT Foundation, Eliminating Child Labour in Tobacco-growing. ECLT is a foundation that works together with tobacco-buying companies and professional representatives with the aim of eliminating child labor on tobacco fields. The Group's major tobacco suppliers are also members of ECLT, and in many cases have programs of their own to help enable young people to receive education.

Customers and consumers

Consumer health and harm reduction

The Swedish Match philosophy of tobacco harm reduction entails that smokeless tobacco products, such as Swedish snus manufactured according to Swedish Match's quality standards, play an important role in reducing tobacco harm.

The harm reduction approach is based on the recognition that the health hazards of cigarette smoking can largely be avoided by switching to smokefree sources of nicotine. There is some evidence that smokers are more likely to accept alternative tobacco products, and thus have greater success in quitting smoking, than to accept nicotine replacement products.

Consumer safety

Swedish Match continuously works to reduce or eliminate the alleged harmful components in its snus and to increase knowledge about snus products and its impact on consumers. The Swedish Match quality standard, **Gothia**Tek®, provides a guarantee assuring consumers that Swedish Match's Swedish snus undergoes controls while maintaining the highest quality, from tobacco plant to the end consumers. This includes requirements on maximum permitted levels of suspected harmful elements that occur naturally in tobacco, on raw material, on the manufacturing process, and on high quality product information to consumers.

Responsible product labeling

Swedish Match complies with all regulations concerning labeling of tobacco products. Compliance with these requirements is reviewed continuously and no incidents of non-compliance were reported during 2011.

In addition to complying with the mandated requirements, the Group is fully transparent with regard to the content of its snus products. All ingredients are listed on the Company's website and are fully disclosed to the relevant Public Health Authorities.

Responsible marketing communication

Swedish Match always seeks to market its products responsibly and in accordance with laws and regulations as well as the Company's Code of Conduct. Compliance with these laws and requirements is reviewed continuously. During the year, Swedish Match received an authority notification that a marketing program in the United States was violating the law. Swedish Match does not share this view but has stopped the program.

Swedish Match has an "Under 18 No Tobacco" policy and believes that all tobacco products should only be sold to adults of legal tobacco age, and who are 18 years of age or over. To prevent the underage use of tobacco, Swedish Match will continue to partner with retailers, distributors, and public officials. The Company does not direct its marketing, advertising, or promotion of tobacco products to people under the age of 18 and will continue to educate and inform tobacco retailers in order to prevent the underage sale of tobacco as well as provide support and leadership in any efforts they make to demonstrate their endorsement of the "Under 18 No Tobacco" policy.

Customer satisfaction

Swedish Match works to maintain high levels of customer satisfaction. In Sweden, customer satisfaction is measured every 18 months through a standardized survey process. In the US, this process is not yet standardized, but carried out on a case by case basis.

Community involvement

Swedish Match has a long record of social investments and community involvement. The Company's approach is to conduct community projects that are relevant to local business environments and to make investments in other independent projects. These include providing support for children, the disabled, and people in need. Other important initiatives include safeguarding cultural heritage, enriching public community life (such as supporting the arts and educational institutions), and restoring public spaces.

Sweden

Since 1936, Swedish Match has supported The Solstickan Foundation through its sales of certain lights products in Sweden. For every product sold under the Solstickan brand, a portion of sales goes to the Solstickan Foundation. The Foundation works primarily to promote the interests of children and the elderly. The Foundation celebrated its 75th anniversary in 2011.

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

Many of the Company's employees in Sweden have chosen to support the Chiredzi Orphanage in Zimbabwe by donating a small amount of their salary each month. The orphanage was built by a former business partner in Zimbabwe and takes care of and provides education for children whose parents have died of AIDS.

During the year, the Company also supported an anti-littering campaign, a project

Employee visiting a tobacco field in the Dominican Republic.

involving work to prevent youth criminality and a project to counter bullying in schools. The Company has also continued its support to a project that provides information to school children in Sweden about drugs and the effects of drug abuse.

The United States

In the US, Swedish Match has a long history of making charitable contributions to various community organizations, supporting people in need and preventing child abuse. Community involvement is strongly encouraged. Nearly all employees participate through donations, volunteer work, and other activities. Donations are also made to organizations supporting the arts and continued education.

The Dominican Republic

In the Dominican Republic, the Company has supported non-profit organizations in charity events to raise funds.

Brazil

Swedish Match continues its community involvement in Brazil by supporting the "Bom Menino" (Young Boy) project. This is a skill building program that enables youths aged 14 to 18 from low income families to develop educational, employment, and social skills.

The Philippines

For the past three years, the Company has made donations to a children's organization in the Philippines. The organization aims to provide marginalized children a better life. Swedish Match has also supported housing projects for families in need. Each year, funds are also provided to a Disaster Foundation, which are earmarked for severe natural disasters.

Employee programs

The Company's employee programs focus mainly on health, education, and other opportunities to help employees and their families develop. Projects include scholarships and various forms of training. They may also comprise financial donations and loans.

Social initiatives vary among countries and are closely linked to the social framework in which Swedish Match operates as an employer. In some countries, education and health are managed by social frameworks, while in others these needs are addressed and provided for by the socially responsible employer.

The United States

In the US, Swedish Match maintains a "Sons and Daughters" scholarship program whereby the Company has contracted Scholarship America, a non-profit organization, to administer this program. Scholarships are awarded annually to 12 eligible dependents of current Swedish Match employees. The awards can be utilized for undergraduate programs or to cover vocational/technical expenses based on criteria including grade point average, volunteerism, leadership, work experience, school activity participation, and goals for the future.

The Dominican Republic

Swedish Match provides small emergency loans to employees for medical, educational and/or relocation purposes. The Company also makes donations to employees and their families for reasons such as natural disasters, terminal illness or other traumatic occasions.

Brazil

During the year, Swedish Match in Brazil continued its Digital Space project aimed at familiarizing factory workers with the digital world by introducing open computer areas. During 2011, the empowerment projects in Brazil also included "Projeto Semear," a project aimed at providing basic education for employees who previously had not had this opportunity.

THE SOLSTICKAN FOUNDATION

For 75 years, Swedish Match has supported The Solstickan Foundation through its sales of certain lights products in Sweden.

More than 100 MSEK has been distributed through the Foundation since its inception, providing financial assistance for disabled and chronically ill children and the elderly and thus improving their quality of life. In 2011, the Foundation supported projects with a special focus on child abuse.

A number of scholarships are also granted each year to PhD students at universities and colleges who conduct research into the development and health of children and into physical and mental disabilities among the elderly.

The Solstickan Prize, awarded annually, is granted 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. In 2011, the Solstickan Foundation awarded H.M. Queen Silvia the Solstickan Award of 150,000 SEK based on the following rationale: *"for unique and altruistic action in support of vulnerable children and the aged."*

Employees at the Curitiba factory in Brazil.

CORPORATE SUSTAINABILITY

The environment

Swedish Match welcomes the development of increased environmental awareness and sees it as an incentive for the Group to continuously improve and find new ways to reduce its environmental impact.

Swedish Match and the environment

For Swedish Match, environmental sustainability implies working conscientiously and responsibly to reduce the Group's negative environmental impacts. Although the production processes and raw materials used in the tobacco industry generally have limited environmental impact, improvements and savings from more efficient uses of resources can have positive direct benefits on the sustainability and profitability of the Group as well as cut down on the Group's potential negative impacts on the environment. Approximately 80 percent of the raw materials used within the Group are renewable, and environmentally harmful substances are only handled to a limited extent during production.

Swedish Match is of the view that energy consumption, freight transport and business travel, waste management, and water sourcing/emissions have the greatest potential environmental impacts for the Group. With regard to energy consumption, sources of energy must be taken into account, as well as logistics, in order to reduce the Group's environmental footprint.

During 2011, as part of its ongoing stakeholder dialogue, stakeholders were asked to provide input into environmental areas that they believed to be the most important for Swedish Match. Responses to this stakeholder engagement confirmed an alignment between the Company's environmental focus areas and important areas for stakeholders. With input from this stakeholder dialogue, Swedish Match has prioritized the reporting and follow up on a number of environmental indicators, such as energy consumption, emissions to air and water, waste management, and water sourcing and use.

Environmental policy

The Group Environmental Policy is designed to ensure that Swedish Match achieves a balance whereby the Group consistently reaches its commercial objectives while addressing the environmental requirements of shareholders, customers, and other stakeholders. The main purpose of the Group Environmental Policy is to ensure that the Group commits itself to continuous environmental improvement with

the aim of prevention/reduction of negative environmental impact in its activities.

The policy also ensures that the Group operates an Environmental Management System (EMS), applicable on corporate, operating unit and factory levels, which will safeguard that commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental indicators. Also, the environmental policy provides for monitoring and communicating Key Performance Indicators (KPIs) for environmental factors, which are deemed to be of high importance by both Swedish Match and its stakeholders. Ongoing measurement and reporting of these KPIs will facilitate continuous improvements.

The environmental policy demonstrates commitment by the Group to comply with all relevant environmental legislation, regulations, and other requirements to which it subscribes. The policy also ensures that the Group commits itself to continual correspondence and documentation of any changes of environmental impact due to its activities, products, and services. Under the environmental policy, the Group will undertake appropriate remedial actions and improvements based on financial and environmental criteria. Swedish Match's environmental policy also includes the topics of biodiversity and eco efficiency, thus helping to broaden the scope from the forest, through the factory, to the office. To review the Group Environmental Policy, visit the sustainability section of the Swedish Match website, www.swedishmatch.com/sustainability.

Environmental organization

The SVP Corporate Communications and Sustainability, who reports to the CEO, is responsible for the Corporate Sustainability function and for communicating environmental issues.

The Group Environmental Council, with representation from all Swedish Match factories, is an advisory and reporting body on matters relating to environmental issues and aids in reporting results internally in this area. The Council's task is to safeguard compliance with the Swedish Match Group Environmental Policy and the EMS throughout the organization. The Environmental Council is chaired by the SVP Corporate Communications and Sustainability.

At Swedish Match, each operating unit head appoints those responsible for implementing the EMS and for complying with, reporting, and contributing to the evaluation of environmental action programs and activities. The head of the operating unit must assure that the person(s) selected have appropriate education, training, or experience for the tasks. This group comprises members of the Environmental Council, supplemented by other members to ensure full coverage of the Swedish Match organization.

Internal audits of the EMS are conducted in the operating units and reported to the Environmental Council.

Consistent with Swedish Match's commitment to compliance with applicable legislation or other requirements, the operations establish, implement, and maintain procedures for periodic evaluation of activities and their environmental impacts.

Swedish Match maintains the requisite records to demonstrate conformity to the requirements of the EMS. The appointed person(s) in the operating unit and at Group level are responsible for compiling material for external publication.

Environmental standards and management systems

Swedish Match works systematically on environmental and quality issues in operations that have an environmental impact. Swedish Match has adopted a Group 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 diversity of the Swedish Match activities, subordinated environmental policies are formulated for each operating unit.

The majority of Swedish Match's production facilities are certified according to the environmental management standard of ISO 14001 as well as the quality management systems standard of ISO 9001. Of 12 production facilities, ten have ISO 9001 certification and nine have ISO 14001 certification. In December 2011, Swedish Match's match factories in Tidaholm and Vetlanda were certified according to ISO 9001 and ISO 14001.

Environmental reporting

Swedish Match works continuously to achieve environmental improvements. Efforts should be carried out locally and targets formulated based on identified environmental impacts. These targets should be clear, measurable, and consistent with the Swedish Match Group Environmental Policy. They address areas such as CO_2 emissions, energy consumption, water sourcing and use, and waste, and are designed to conform to regulations and other commitments. During 2011, an environmental target setting process was initiated within the Environmental Council, whereby long term targets for prioritized KPIs were set.

Swedish Match welcomes the development of increased environmental awareness and sees it as an incentive for the Group to continuously improve and find new ways to reduce its environmental impact. The Company is also engaged in benchmark projects, which allow stakeholders to evaluate its environmental performance in relation to that of other companies. One benchmark project in which Swedish Match is participating is the Carbon Disclosure Project (CDP), which maps companies' CO_2 emissions.

In addition to CO_2 reporting, with the publication of the 2010 annual report, the Company initiated external reporting of its energy consumption, waste, and water sourcing and use at the factory level for its ongoing operations, covering the areas of smokefree tobacco (snus, snuff, and chewing tobacco), US mass market cigars, and lights (matches and lighters). The Company measures total output and output per unit produced for its prioritized environmental indicators.

Prioritized KPIs

The Group has identified four priority key indicators within the environmental framework. These include greenhouse gas emissions (CO_2), energy consumption, waste management, and water use.

Greenhouse gas emissions and energy consumption

One of the Group's prioritized environmental goals is to limit greenhouse gas emissions. 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 on energy saving programs and 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.

Waste and water management

Swedish Match continuously works to reduce its production of waste, in total or per unit of output produced, as applicable. The Company measures its waste production and disposal method, and reports on waste for each major product area for which Swedish Match has wholly owned production. Similarly, water use is measured in total and per unit of output, in order to aid efforts to minimize consumption.

Biodiversity and eco efficiency

Swedish Match sources wood and maintains plantations for use in match production. Timber sourcing and forestry is an important area for the Group in environmental sustainability. For its production of matches, Swedish Match uses aspen, pine, and poplar, and sourcing takes place near production, primarily from sources in Sweden and Brazil. All sourcing must be from timber that meets or exceeds the minimum requirements of government regulations.

Swedish Match sources a very small percentage of global tobacco production, and, as such, relies on large, reputable international suppliers of tobacco. These tobacco suppliers must be able to provide Swedish Match with documentation of their own regulatory framework and activities related to social and environmental issues, including their policies with regard to farming practices.

In addition to its efforts at the factory and sourcing levels, the Group encourages greater eco efficiency in all facilities under guidelines covering computers and data management, printing of materials, the use of electrical devises in the office or facility, video and telephone conferencing, type of travel, and recycling.

www.swedishmatch.com

More information on the Company's sustainability efforts is available on the website www.swedishmatch.com/sustainability

Tobacco plants at the Karlshamn museum in Sweden.

Regulatory affairs

Swedish Match believes that hundreds of millions of people around the world will continue to consume tobacco, the vast majority being cigarette smokers. This is a prediction for the foreseeable future that probably few would dispute. Swedish Match also believes that tobacco regulation will continuously become globalized and increase in scope. It is the aspiration of Swedish Match that regulation of various tobacco categories should be differentiated to take into account the differences between the categories. Smokefree tobacco regulation should ultimately be based on product quality standards that ensure that consumers receive the highest possible product quality and consumer protection.

At an increasing pace, the awareness of the public health impact of smoking is growing and very few smokers, in the western world at least, continue to smoke due to ignorance or lack of knowledge. All nicotine-containing products pose a risk for the development of addiction. Although products that contain nicotine vary significantly in terms of risk – with nicotine replacement products and Swedish snus at the lower end of the continuum of risk – Swedish Match recognizes the need and importance of transparent and firm statutory tobacco regulations as well as voluntarily restrictions.

Swedish Match constantly seeks to improve the Company's operating models and to develop new products and markets with the aim of maximizing long term shareholder value. While respect for and compliance with existing regulatory framework is a given, it is not necessarily always enough or efficient. Truly effective regulation needs to be evidence based and requires an exchange of knowledge and experience between governments and industry. The Company believes that better regulation is achieved by maintaining focus on the end users – those affected by regulation, such as employees, consumers, businesses, customers and other stakeholders – when determining which interventions are chosen, developed and delivered. Thus, Swedish Match is actively engaged with stakeholders in various ways, realizing that regulatory decisions will ultimately always be at the discretion of the lawmaker.

Beyond current tobacco regulations, one of the most important long-standing commitments Swedish Match has made is the far-reaching, self-imposed product quality standard for its snus – **Gothia**Tek®. The **Gothia**Tek® standard provides for continuous work toward eliminating or reducing controversial compounds that are found naturally in tobacco. Today, **Gothia**Tek® is adopted as an industry standard in the manufacturing process of Swedish snus. Swedish Match believes that product quality, and in turn product safety and consumer protection, should be a key regulatory objective for all products orally consumed regardless of whether it is food or smokefree tobacco.

Swedish Match monitors and evaluates emerging scientific data while interacting with the scientific community. It is the responsibility of Swedish Match to have a deep scientific understanding of the potential health consequences that possibly result from its products. It is also the responsibility of Swedish Match to share, communicate and address all stakeholders with the established science surrounding the Company's products or new scientific knowledge as well as relevant product information.

In September 2011, the first ever clinical trial of Swedish snus for smoking reduction and cessation was published in the 'Harm Reduction Journal'. The investigator initiated study undertaken in Serbia, funded by Swedish Match, concluded that Swedish snus can promote smoking cessation in a setting where there is no traditional use of oral, smokeless tobacco. The results for biologically verified complete cessation showed that participants in the group using snus were more likely to quit smoking completely after 36 and 48 weeks of follow-up than the control groups which used a placebo product. For more information, references is made to Joksic G, Spasojevic-Tisma V, Antic R, Nilsson R, Rutqvist LE: Randomized, placebo-controlled, double-blind trial of Swedish snus for smoking reduction and cessation. Harm Reduct J 2011, 8:25.

United States

The Family Smoking Prevention and Tobacco Control Act (the Act) that was signed into law June 2009, empowered the Food and Drug Administration (FDA) to regulate tobacco products such as cigarettes, roll-your-own tobacco and smokeless tobacco. Along with regulatory authority for the manufacture, sale and marketing of tobacco, the Act includes a provision that will enable a company to have one or more of its products classified as modified risk products. Products classified this way by the FDA Center for Tobacco Products (CTP) may then have warning labels that better reflect the risk profile agreed to by the FDA

Employees at the Swedish Match corporate headquarters in Stockholm, Sweden.

and may allow a company to make appropriate harm reduction claims. CTP is required to issue guidance to the industry regarding the scientific studies necessary to submit a comprehensive modified risk application. The Act calls for the guidance to be issued by April 2012 and to be developed in consultation with the Institute of Medicine (IOM) and with input from other scientific and medical experts.

In late 2010, the IOM established the Committee on Scientific Standards for Studies on Modified Risk Tobacco Products (MRTP), which was charged with producing a report, providing detailed guidance on the quality and nature of the evidence that should be required in order to grant a product modified risk status. The report was released in December 2011. FDA is likely to use the report as a basis for their final guidance on MRTP applications which is expected to be released in April, 2012.

The Act also empowers the FDA to regulate other tobacco products such as cigars and pipe tobacco. The FDA has indicated that it intends to assert jurisdiction over cigars, but has not yet issued proposed regulations. Initial guidance and draft regulations could be issued in 2012, which would then be followed by a period of public comment before final guidance is issued.

European Union

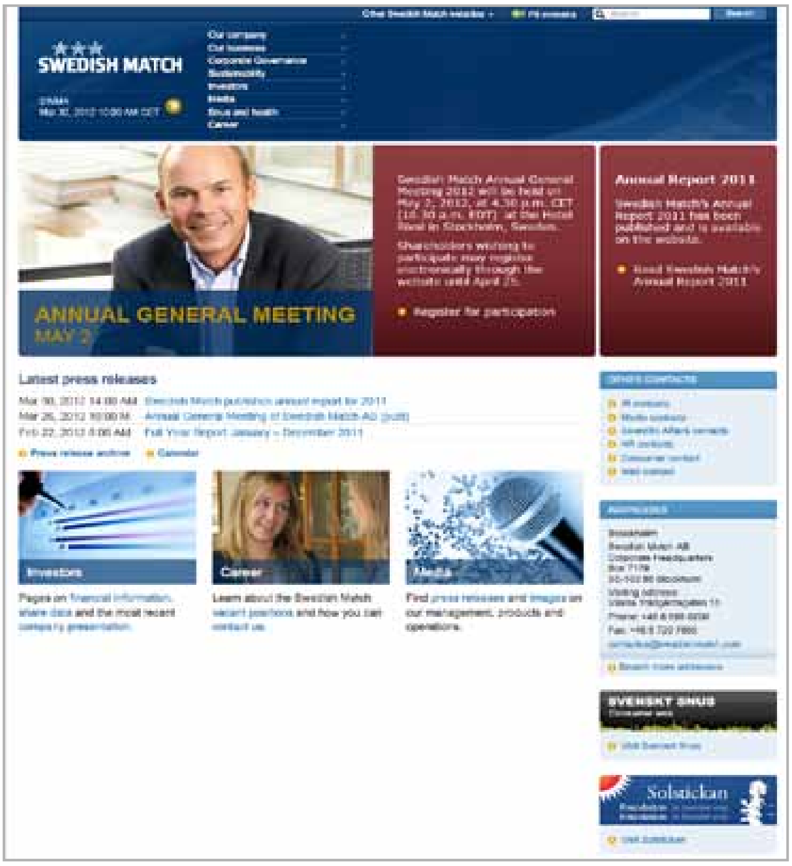
Tobacco for oral use, except those intended to be smoked or chewed, has been banned in the EU since 1992. As Swedish snus is neither smoked nor chewed, it is prohibited. Upon Sweden's entry into the EU 1995, the country was granted a permanent exemption from the ban on snus. Cigarettes and other types of traditional smokefree tobacco products, including Asian/African types, chewing tobacco and nasal snuff, are sold legally within the EU.

EU regulation and the access to the internal market it provides, gives substantial benefits to EU member states. At times, this regulation can become burdensome, which may explain why the Commission President Barroso intends to make "smart regulation" a key priority in his second term of office. This "smart regulation" should improve European policy making by strengthening the standards of both impact assessments (cost/benefit analyses) and of external consultations, while emphasizing evidence based assessments. The European Commission is currently undertaking a revision of the Tobacco Products Directive 2001/37/EC, with the aim of improving the functioning of the internal market and the health of the EU population. Swedish Match hopes that the ambition of "smart regulation" prevails during the revision of the Tobacco Products Directive. During summer 2011, the European Commission's Directorate General for Health and Consumers published the results of the public consultation on the current revision of the directive that took place at the end of 2010. The public consultation generated an unprecedented 85,000 responses, which is by far the highest number that any consultation has ever generated. The vast majority of contributions came from individual citizens, illustrating the considerable interest in EU tobacco control policy. The great interest that the current revision has attracted, together with strengthened standards of policy making and the complexity of the issues, possibly explains why the legislative proposal is being delayed by at least six months. A new legislative proposal by the European Commission is expected prior to the end of 2012.

Swedish Match is of the opinion that:

- The current EU ban on Swedish snus lacks a justified reasoning and is both discriminatory and disproportionate
- The current EU ban on Swedish snus is a violation of the free trade principle and distorts the function of the internal market
- The ban on snus denies adult European smokers access to a traditional and viable non-combustible tobacco alternative that is scientifically well documented
- All smokeless tobacco products should be subject to consistent and non-competitive product regulation based on product quality and consumer protection

Shareholder communication



WWW.SWEDISHMATCH.COM – a timely source

The Swedish Match company website is the primary channel of communication to stakeholders. The website is continuously updated and improved to easily make available current and historical information about the Group's operations and activities.

Public information is available on the Swedish Match company website, such as information on corporate governance, sustainability, share data, debt market information, press releases, presentations, webcasts, downloadable annual and interim reports, as well as information about the Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on Wednesday, May 2, 2012, at 4.30 p.m. CET at Hotel Rival, Mariatorget 3, in Stockholm, Sweden. Doors to the AGM will open at 3.30 p.m.

www.swedishmatch.com
More information is available on the Company website www.swedishmatch.com/agm

DIVIDEND

The Board of Directors proposes that a dividend of 6.50 SEK per share be paid to the shareholders. The proposed record date for entitlement to receive a cash dividend is May 7, 2012. If the AGM approves the Board's proposal, dividend will be paid through Euroclear Sweden AB on May 10, 2012.

AGM CALENDAR

Record date for AGM	April 25, 2012
Annual General Meeting	May 2, 2012
Ex-dividend date	May 3, 2012
Record date for dividend	May 7, 2012
Dividend payment	May 10, 2012

FINANCIAL INFORMATION

All new shareholders automatically receive an interim report from Swedish Match by regular mail with an option to request further mailings. Annual reports are distributed to shareholders who have requested a printed copy.

Swedish Match's financial publications are issued in English and Swedish and are available as downloadable PDF files from the Company's website. These PDF files, which are adapted for accessibility, also allow persons with functional disabilities, such as those who are visually impaired or those with reading difficulties, to interpret and access the information in a more easily accessible manner. In addition, printed versions of all financial publications are available on request.

Swedish Match provides additional information services through its subscription service, which can be accessed on the 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 and annual reports. New shareholders automatically receive log in credentials to access a personal user account. Other interested parties can create a user account to receive information.

Modifications to the user account can be made through the subscription service www.swedishmatch.com/subscribe, or by e-mailing: investorrelations@swedishmatch.com.

www.swedishmatch.com

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PUBLICATION CALENDAR

Swedish Match financial reports are expected to be published on the following dates:

Interim report January–March	May 4, 2012
Half year report January–June	July 20, 2012
Interim report January–September	October 30, 2012
Full year report 2012	February 20, 2013
Annual report for 2012	April, 2013

CONTACTS

Corporate Communications and Sustainability

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Emmett Harrison is responsible for Group communications issues, financial communication to media, shareholders, analysts, and other stakeholders. Emmett Harrison is also responsible for corporate sustainability.

Corporate Communications

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contactus@swedishmatch.com

Djuli Holmgren is responsible for the development of the Swedish Match annual report and the Company website along with other external communications activities.

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 213 million shares with a quotient value of 1.8287 SEK each. Each share carries one vote.

Turnover[1]

Total turnover in 2011 amounted to 218,573,643 Swedish Match shares on the NASDAQ OMX Stockholm, with a daily average turnover of 0.9 million shares. The turnover velocity of the share on the NASDAQ OMX Stockholm, was 99 percent during the year, compared with the average of 96 percent for the NASDAQ OMX Stockholm. Approximately 65 percent of total trading volume of Swedish Match was handled through the NASDAQ OMX Stockholm trading platform, ranging from 72 percent in March 2011 to 59 percent in September 2011. Chi-X was the second most traded platform with approximately 22 percent of total trades, ranging from 16 percent in May 2011 to 31 percent in September 2011.

Share price development[1]

The Company's market capitalization at year-end 2011 amounted to 49.9 billion SEK.[2] The share price increased by 25 percent during the year, while the OMXS30 Index decreased by 15 percent. The lowest price paid during the year was 185.50 SEK on January 31, and the highest price paid was 244.80 SEK on December 27.

Ownership structure[3]

At year-end, ownership outside of Sweden corresponded to 76.2 percent of total share capital, an increase of 3.4 percentage points compared with 2010.[2] Swedish ownership interests, totaling 23.8 percent, were distributed among institutions, with 6.4 percent of the share capital, mutual funds, with 7.6 percent, and private individuals, with 9.9 percent.

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 2011 of 6.50 SEK (5.50) per share, for a total of 1,327 MSEK (1,152), based on the 204.2 million of shares outstanding at the end of the year (excluding shares held in treasury by Swedish Match). The dividend corresponds to 54 percent of EPS for the year.

Repurchase of own shares

Repurchase of own 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 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. For more information about the Swedish Match share repurchase program, please refer to the *Report of the Board of Directors* on page 40.

1) Source: NASDAQ OMX Stockholm.
2) Excluding shares held in treasury by Swedish Match AB, which corresponded to 4.14 percent of the total number of shares.
3) Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB. Totals may be affected by rounding.

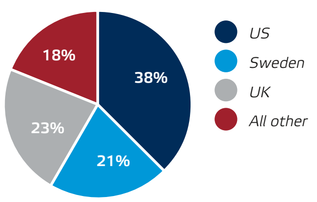
Largest shareholders

Largest shareholders[1) 2)]	Number of shares	Holding in percent	Votes in percent
Morgan Stanley Investment Management	13,144,520	6.2	6.4
Swedbank Robur Funds	6,249,269	2.9	3.1
Standard Life Investment Funds	4,513,327	2.1	2.2
AMF Insurance & Funds	4,285,000	2.0	2.1
Fidelity Funds	2,868,849	1.4	1.4
SEB Funds	2,649,589	1.2	1.3
Second Swedish National Pension Fund	2,224,592	1.0	1.1
Parvus Asset Management	1,943,000	0.9	1.0
SHB Funds	1,602,571	0.8	0.8
Fourth Swedish National Pension Fund	1,500,026	0.7	0.7
Subtotal 10 largest shareholders	**40,980,743**	**19.2**	**20.1**
Other	163,191,398	76.7	79.9
Sub total	**204,172,141**	**95.9**	**100.0**
Shares held by Swedish Match	8,827,859	4.1	0.0
Total	**213,000,000**	**100.0**	**100.0**

1) Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.
2) Registered direct ownership and ownership through trustees.
Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB, as of December 31, 2011.

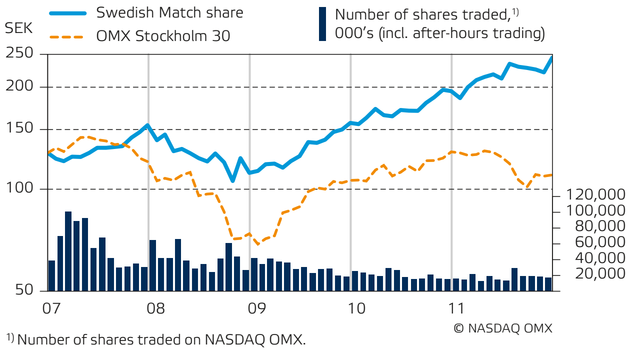
www.swedishmatch.com
More information is available on the Company website www.swedishmatch.com/investors

SHARE CAPITAL BY COUNTRY



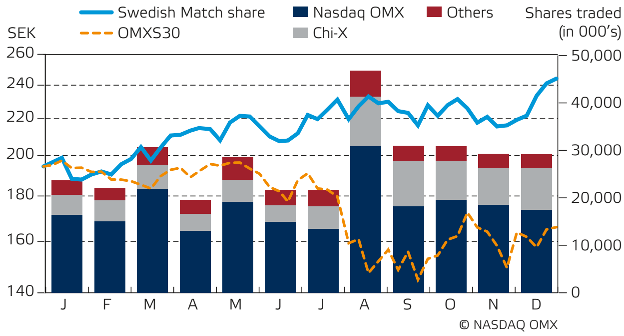
Source: SIS Ägarservice AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2011. "All other" also includes shareholders with less than 500 shares in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

Share price and turnover 2007–2011

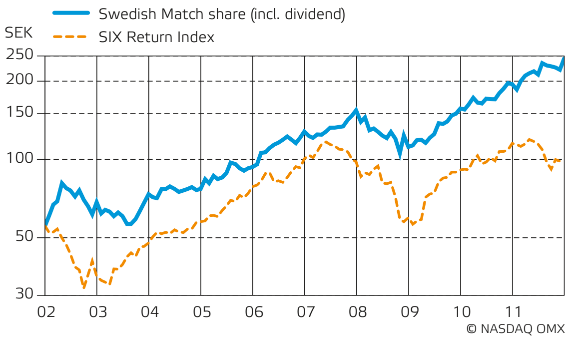


1) Number of shares traded on NASDAQ OMX.

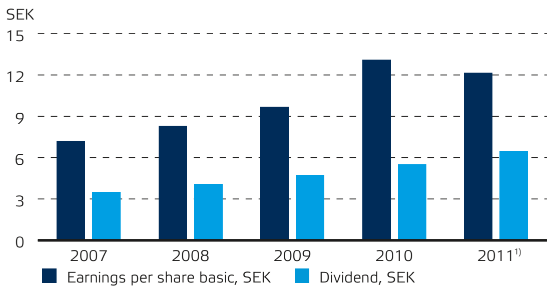
Share price and turnover 2011



Total return 2002–2011



Earnings and dividend per share 2007–2011



1) Dividend, Board proposal.

Transfer of capital to Swedish Match shareholders

MSEK	2011	2010	2009	2008	2007	Total
Dividend	1,327[1)]	1,152	1,089	1,024	886	**5,478**
Repurchase of own shares, net	2,304	2,961	2,547	934	2,453	**11,199**
Total	**3,631**	**4,113**	**3,636**	**1,958**	**3,339**	**16,677**

1) Dividend proposed for fiscal year 2011.

Share distribution[1)]

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1–1,000	46,846	90,7	9,759,858	4,6	4,8
1,001–5,000	3,807	7,4	7,605,251	3,6	3,7
5,001–20,000	523	1,0	4,899,132	2,3	2,4
20,001–50,000	161	0,3	5,157,571	2,4	2,5
50,001–100,000	73	0,1	5,376,121	2,5	2,6
100,001–1,000,000	187	0,4	60,172,618	28,2	29,5
1,000,001–	49	0,1	120,029,449	56,4	54,5
Total at December 31, 2011	**51,646**	**100,0**	**213,000,000**	**100,0**	**100,0**

1) Including shares held by Swedish Match.
Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB.

Share data

	2011	2010	2009	2008	2007
Earnings per share, basic, SEK					
From continuing operations	12.14	13.12	9.67	8.30	7.22
From continuing operations, excluding larger one time items	12.14	9.92	9.67	8.01	6.20
Including discontinued operations	–	–	12.88	8.98	7.82
Earnings per share, diluted, SEK					
From continuing operations	12.07	13.09	9.66	8.29	7.20
Including discontinued operations	–	–	12.87	8.96	7.80
Dividend per share, SEK	6.50[1)]	5.50	4.75	4.10	3.50
Dividend yield at year-end, %	2.66[1)]	2.82	3.03	3.67	2.27
Dividend pay-out ratio, excluding larger one time items, %	54[1)]	55	49	51	56
Market price at year-end, SEK	244.30	194.70	156.90	111.75	154.50
Market capitalization at year-end, SEK billion[2)]	49.9	41.8	36.3	27.8	39.5
P/E ratio[3)]	20.2	14.9	12.2	12.4	19.8
EBIT multiple[3)]	15.9	12.6	13.6	11.7	16.2
Total return, %	28.8	27.7	45.1	–25.8	22.7
Average number of shares, basic	209,001,190	225,331,835	244,259,880	251,867,479	262,604,644
Average number of shares, diluted	210,296,918	225,969,047	244,440,057	252,211,733	263,405,637
Number of shareholders[2)]	51,646	53,238	55,127	53,215	54,594

1) Board proposal.
2) Excluding shares held by Swedish Match.
3) Including discontinued operations up to and including 2009.

Five year summary 2007–2011

Condensed consolidated income statement, MSEK	2011	2010	2009	2008	2007
Sales	**11,666**	**13,606**	**14,204**	**12,611**	**11,970**
Gross profit	**5,892**	**6,944**	**7,089**	**6,174**	**5,675**
Larger one time items	–	644	–	73	267
Operating profit	**3,702**	**4,169**	**3,417**	**2,874**	**2,800**
Net finance cost	–523	–562	–443	–441	–338
Profit before income tax	**3,180**	**3,607**	**2,974**	**2,433**	**2,462**
Profit for the year from continuing operations	**2,538**	**2,958**	**2,361**	**2,091**	**1,898**
Profit from discontinued operations, net of tax	–	–	785	170	157
Profit for the year	**2,538**	**2,958**	**3,146**	**2,261**	**2,056**
EBITDA exluding profit from discontinued operations	3,992	3,813	3,885	3,222	2,936

Condensed consolidated balance sheet, MSEK	2011	2010	2009	2008	2007
Assets					
Intangible assets	992	1,027	3,792	4,702	4,419
Property, plant and equipment	2,076	2,097	2,525	2,458	2,388
Investments in associated companies and joint ventures	4,481	4,085	132	117	89
Other non-current financial receivables[1)]	1,395	1,368	2,061	2,167	922
Current operating assets	3,031	2,886	5,286	5,698	5,204
Other current investments and current financial assets	0	1	10	34	5
Cash and cash equivalents	2,533	3,275	2,530	3,178	3,439
Total assets	**14,507**	**14,739**	**16,337**	**18,355**	**16,467**
Equity and liabilities					
Equity attributable to equity holders of the parent	–1,602	–482	903	1,381	724
Non-controlling interest	2	2	4	4	4
Non-current provisions	1,070	1,050	1,301	1,281	1,292
Non-current loans	8,535	9,209	8,252	9,975	8,768
Other non-current financial liabilities[1)]	1,787	1,478	1,440	1,337	567
Current provisions	84	98	125	29	60
Current loans	1,283	525	1,002	743	1,271
Other current liabilities	3,347	2,861	3,313	3,609	3,785
Total equity and liabilities	**14,507**	**14,739**	**16,337**	**18,355**	**16,467**

1) Includes pension obligations and derivative instruments.

Condensed consolidated cash flow, MSEK	2011	2010	2009	2008	2007
Net cash from operating activities	2,608	2,616	2,911	1,838	2,130
Net cash used in investing activities	–151	959	1,043	–61	–473
Net cash transferred to shareholders	–3,456	–4,050	–3,571	–1,820	–3,117
Net cash used in other financing activities	237	1,403	–1,135	–448	1,691
Net increase/decrease in cash and cash equivalents	**–763**	**928**	**–753**	**–491**	**232**
Cash flow from discontinued operations					
Net cash from operating activities	–	–	219	142	198
Net cash used in investing activities	–	–	–6	13	–18
Net cash used in financing activities	–	–	–51	42	–1
Net increase in cash and cash equivalents	**–**	**–**	**162**	**196**	**179**
Cash and cash equivalents at beginning of the year	3,275	2,530	3,178	3,439	3,042
Effects of exchanges rate fluctuations on cash and cash equivalents	21	–183	–58	34	–13
Cash and cash equivalents at end of year	**2,533**	**3,275**	**2,530**	**3,178**	**3,439**

Key data[1]	2011	2010	2009	2008	2007
Continuing operations					
Operating capital at year-end, MSEK	7,224	7,099	8,494	8,841	7,623
Net debt, MSEK	8,886	7,650	7,188	7,640	7,127
Investments in property, plant and equipment, MSEK	245	311	471	319	523
Operating margin, %[2]	31.7	25.2	24.1	22.2	21.2
Return on operating capital, %[2]	51.7	44.0	39.4	34.0	34.2
EBITA interest cover [2]	7.4	7.0	8.4	7.0	8.2
Net debt/EBITA[2], [3]	2.4	2.2	2.0	2.6	2.7
Share data					
Share capital, MSEK	390	390	390	390	390
Dividend per share, SEK	6.50[4]	5.50	4.75	4.10	3.50
Earnings per share basic, SEK					
From continuing operations	12.14	13.12	9.67	8.30	7.22
From continuing operations, excluding larger one time items	12.14	9.92	9.67	8.01	6.20
Including discontinued operations	–	–	12.88	8.98	7.82
Earnings per share diluted, SEK					
From continuing operations	12.07	13.09	9.66	8.29	7.20
Including discontinued operations	–	–	12.87	8.96	7.80

1) All key data with exception of share data, have been calculated excluding larger one time items and reversing all effects from reporting assets and liabilities as held for sale between January 15, 2010 and October 1, 2010.
2) Including restructuring charges of 73 MSEK in 2009.
3) Data as of 2009 and earlier are calculated pro-forma excluding South African operations.
4) Board proposal.

Sales by product area, MSEK	2011	2010	2009	2008	2007
Snus and snuff	4,726	4,522	4,250	3,711	3,176
Other tobacco products	2,388	2,440	2,337	1,811	1,873
Lights	1,346	1,429	1,403	1,375	1,323
Other operations	3,206	2,831	2,689	2,663	2,843
Comparable Group sales	**11,666**	**11,222**	**10,678**	**9,559**	**9,215**
Businesses transferred to STG[1]	–	2,385	3,526	3,052	2,755
Total	**11,666**	**13,606**	**14,204**	**12,611**	**11,970**

1) Net of inter-company sales eliminations.

Operating profit/loss by product area, MSEK	2011	2010	2009	2008	2007
Snus and snuff	2,181	2,080	1,916	1,667	1,353
Other tobacco products	1,049	942	804	569	555
Lights	240	279	312	294	283
Other operations	–105	–142	–132	–155	–122
Comparable Group operating profit	**3,365**	**3,158**	**2,900**	**2,375**	**2,070**
Share of net profit/loss in STG[1]	337	–60	–	–	–
Businesses transferred to STG	–	334	518	426	463
Subtotal	**3,702**	**3,433**	**3,417**	**2,801**	**2,533**
Net gain from pension settlements	–	59	–	–	–
Capital gain from transfer of businesses to STG	–	585	–	–	–
Reversal of depreciation and amortization relating to assets held for sale	–	93	–	–	–
Gain on sale of subsidiary and related assets	–	–	–	73	–
Gain on sale of real estate	–	–	–	–	267
Total	**3,702**	**4,169**	**3,417**	**2,874**	**2,800**

1) The share of net loss from Scandinavian Tobacco Group for 2011 includes restructuring charges of 66 MSEK before tax. The share of net loss in 2010 (fourth quarter) includes restructuring charges, other transaction costs as well as IFRS acquisition adjustments amounting to 175 MSEK before tax.

Operating margin by product area, %[1]	2011	2010	2009	2008	2007
Snus and snuff	46.1	46.0	45.1	44.9	42.6
Other tobacco products[2]	44.0	38.6	34.4	31.4	29.6
Lights	17.9	19.5	22.2	21.4	21.4
Comparable operating margin [3]	**28.8**	**28.1**	**27.2**	**24.8**	**22.5**
Group operating margin [4]	**31.7**	**25.2**	**24.1**	**22.2**	**21.2**

1) Excluding lager one time items.
2) Including a restructuring charge of 45 MSEK for US mass market cigars in 2009.
3) Excluding share of net profit/loss in STG and businesses transferred to STG in 2010.
4) Including share of net profit/loss in STG, businesses transferred to STG and including depreciation and amortization relating to assets reported as held for sale to during the period January 15, 2010 until October 1, 2010. 2009 includes a restructuring charge of 73 MSEK.

Quarterly data 2010–2011

Condensed consolidated income statements, MSEK	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Sales	**3,064**	**3,011**	**2,944**	**2,646**	**2,801**	**3,823**	**3,701**	**3,282**
Gross profit	**1,549**	**1,516**	**1,478**	**1,348**	**1,463**	**1,927**	**1,896**	**1,658**
Net gain from pension settlements	–	–	–	–	59	–	–	–
Capital gain from transfer of businesses to STG	–	–	–	–	585	–	–	–
Operating profit	**1,022**	**983**	**904**	**793**	**1,421**	**1,049**	**945**	**755**
Net financial cost	–134	–130	–131	–128	–199	–128	–129	–106
Profit before income tax	**888**	**853**	**773**	**665**	**1,221**	**921**	**816**	**649**
Profit for the period	**705**	**684**	**616**	**533**	**1,074**	**729**	**637**	**519**
EBITDA excluding larger one time items	**1,100**	**1,056**	**974**	**862**	**852**	**1,118**	**1,015**	**829**

Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, %[1]	33.4	32.7	30.7	30.0	27.7	26.6	24.6	22.2
Investments in property, plant and equipment, MSEK	75	38	80	52	62	51	90	107
Earnings per share, basic, SEK	3.42	3.28	2.94	2.50	4.85	3.23	2.78	2.26

1) Excluding larger one time items.

Sales by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	1,266	1,199	1,193	1,068	1,178	1,174	1,116	1,054
Other tobacco products	578	613	613	583	557	631	664	588
Lights	364	333	313	336	379	352	347	351
Other operations	856	866	826	659	687	806	722	615
Comparable Group sales	**3,064**	**3,011**	**2,944**	**2,646**	**2,801**	**2,964**	**2,849**	**2,608**
Businesses transferred to STG[1]	–	–	–	–	–	859	852	674
Total	**3,064**	**3,011**	**2,944**	**2,646**	**2,801**	**3,823**	**3,701**	**3,282**

1) Sales for businesses transferred to STG for the first nine months of 2010.

Operating profit/loss by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	581	590	540	469	567	592	487	434
Other tobacco products	255	278	272	245	208	259	270	204
Lights	80	59	44	58	87	58	68	66
Other operations	–18	–18	–26	–43	–26	–35	–32	–48
Comparable Group operating profit	**898**	**909**	**829**	**729**	**836**	**874**	**793**	**655**
Share of net profit/loss in STG[1]	124	74	74	65	–60	–	–	–
Businesses transferred to STG[2]	–	–	–	–	–	143	118	73
Subtotal	**1,022**	**983**	**904**	**793**	**777**	**1,017**	**911**	**728**
Net gain from pension settlement	–	–	–	–	59	–	–	–
Capital gain from transfer of businesses to STG	–	–	–	–	585	–	–	–
Reversal of depreciation and amortizations relating to assets held for sale	–	–	–	–	–	32	34	27
Total larger one time items	**–**	**–**	**–**	**–**	**644**	**32**	**34**	**27**
Total	**1,022**	**983**	**904**	**793**	**1,421**	**1,049**	**945**	**755**

1) The share of net profit in STG for the full year 2011 includes restructuring charges of 66 MSEK before tax. The share of net loss in STG in 2010 (fourth quarter) includes restructuring charges, other transaction costs and IFRS acquisition adjustments amounting to 175 MSEK before tax.
2) Operating profit for businesses transferred to STG for the first nine months of 2010.

Operating margin by product area, %[1]	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	45.9	49.2	45.3	44.0	48.1	50.4	43.6	41.2
Other tobacco products	44.1	45.3	44.4	41.9	37.4	41.0	40.7	34.7
Lights	21.9	17.7	13.9	17.3	23.0	16.3	19.6	18.7
Comparable Group operating margin[2]	**29.3**	**30.2**	**28.2**	**27.5**	**29.9**	**29.5**	**27.8**	**25.1**
Group operating margin[3]	**33.4**	**32.7**	**30.7**	**30.0**	**27.7**	**26.6**	**24.6**	**22.2**

1) Excluding larger one time items.
2) Excluding share of net profit/loss in STG and businesses transferred to STG.
3) Including share of net profit/loss in STG and businesses transferred to STG.

SHAREHOLDER INFORMATION

Definitions used in financial tables

AVERAGE OPERATING CAPITAL

Opening + closing operating capital / 2

EBITA

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

OPERATING MARGIN (%)

100x Operating profit / Sales

DIVIDEND YIELD (%)

100x Dividend (paid/proposed after year-end) / Year-end share price

EBITA INTEREST COVERAGE RATIO

EBITA / Interest expense – interest income

P/E RATIO

Share price at year-end / Earnings per share

DIVIDEND PAY-OUT RATIO (%)

100x Dividend (paid/proposed after year-end) / Earnings per share from continuing operations

EBITDA

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

RETURN ON OPERATING CAPITAL (%)

100x Operating profit / Average operating capital

EARNINGS PER SHARE

Profit for the year attributable to equity holders of the Parent / Average number of shares outstanding

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

SHARE TURNOVER VELOCITY (%)

100x Annual turnover of shares / Total number of shares

EBIT MULTIPLE

Stock market value at year-end + net debt + minority interest / Operating profit

OPERATING CAPITAL

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

TOTAL RETURN (%)

100x (Share price at year-end – share price at preceding year-end) + (dividend paid + return on reinvested dividend) / Share price at preceding year-end

Solid sales growth

For the full year 2011, Swedish Match delivered strong growth in both comparable sales and operating profit. Comparable Group sales for the full year amounted to 11,666 MSEK (11,222). Comparable Group operating profit amounted to 3,365 MSEK (3,158). In local currencies, comparable sales increased by 8 percent and comparable operating profit increased by 11 percent. Currency translation has affected the sales and operating profit comparison negatively by 461 MSEK and 149 MSEK respectively.

Comparable Group operating margin for the year was 28.8 percent (28.1). Group operating margin, including share of net profit/loss in STG and businesses transferred to STG was 31.7 percent (25.2). Comparable Group EBITDA margin was 31.3 percent (30.7).

Group operating profit, including businesses transferred to STG in 2010, share of net profit in STG and larger one time items amounted to 3,702 MSEK (4,169). The share of net profit from STG amounted to 337 MSEK for the year and includes restructuring charges of 66 MSEK before tax.

EPS (basic) for the full year was 12.14 SEK (9.92, or 13.12 including larger one time items), while diluted EPS was 12.07 SEK (13.09).

Content

Consolidated financial statements

Parent Company financial statements

Report of the Board of Directors

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

Swedish Match develops, manufactures and sells market-leading brands in the product areas Snus and snuff, Other tobacco products (US mass market cigars and chewing tobacco) and Lights (matches and lighters). The Group sells products across the globe, with production units in six countries. The Swedish Match share is listed on the NASDAQ OMX Stockholm (SWMA).

Sales

Comparable sales for the year were 11,666 MSEK (11,222, excluding businesses transferred to STG). In local currencies, comparable sales increased by 8 percent. Currency translation has affected the sale comparison negatively by 461 MSEK. Sales for 2010, including businesses transferred to STG for the first nine months of 2010, amounted to 13,606 MSEK.

For the year, sales of *Snus and snuff* increased to 4,726 MSEK (4,522). In Scandinavia sales increased by 10 percent, while shipment volumes increased by 4 percent compared to 2010. In the United States sales revenues for the year were up 1 percent versus prior year on flat volumes.

For *Other tobacco products* (US mass market cigars and chewing tobacco), total sales for the year amounted to 2,388 MSEK (2,440). In local currencies sales increased by 9 percent compared to the previous year. US mass market cigars sales grew by 23 percent in local currency. The strong growth for US mass market cigars is attributable to the continued success of recent product introductions. The new line of sweets cigars in FoilFresh® packaging, first introduced towards the end of the second quarter of 2010, remains an important contributor to the strong volume growth. Chewing tobacco is mainly sold in the southern states of the country. The market for chewing tobacco shows a declining trend. Higher average prices have compensated for the lower volumes.

Product area *Lights* includes matches and lighters. For the full year sales in the Lights product area amounted to 1,346 MSEK (1,429). Both lighters and matches experienced some decline in sales resulting from somewhat lower volumes and negative currency translation effects.

Sales in *Other operations* were 3,206 MSEK (2,831). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

Operating profit

Full year comparable Group operating profit increased by 7 percent to 3,365 MSEK compared to 3,158 MSEK in 2010. Currency translation has affected the operating profit comparison negatively by 149 MSEK. In local currencies comparable operating profit increased by 11 percent.

Group operating profit, including share of net profit from STG, for the year reached 3,702 MSEK. Group operating profit for 2010 including share of net loss in STG, businesses transferred to STG and larger one time items amounted to 4,169 MSEK. Larger one time items in 2010 relate to a net gain from pension settlements of 59 MSEK, capital gain of 585 MSEK from the transfer of businesses to STG and a positive IFRS adjustment of 93 MSEK relating to amortizations and depreciation for assets held for sale. The share of net profit in STG amounted to 337 MSEK for the year and includes restructuring charges of 66 MSEK before tax. Operating profit increased for all product areas except for *Lights* compared to previous year.

Sales and operating profit/loss by product area

	Sales		Operating profit/loss	
MSEK	**2011**	**2010**	**2011**	**2010**
Snus and snuff	4,726	4,522	2,181	2,080
Other tobacco products	2,388	2,440	1,049	942
Lights	1,346	1,429	240	279
Other operations	3,206	2,831	–105	–142
Comparable sales and operating profit	**11,666**	**11,222**	**3,365**	**3,158**
Share of net profit/loss in STG			337	–60
Businesses transferred to STG	–	2,385	–	334
Total	**11,666**	**13,606**	**3,702**	**3,433**
Larger one time items:				
Net gain from pension settlements			–	59
Capital gain from transfer of businesses to STG			–	585
Reversals of depreciation and amortization relating to assets held for sale			–	93
Total larger one time items			**–**	**737**
Total			**3,702**	**4,169**

Summary of consolidated income statement

MSEK	**2011**	**2010**
Sales	11,666	13,606
Operating profit	3,702	4,169
Net finance cost	–523	–562
Taxes	–642	–649
Profit for the year	**2,538**	**2,958**
Attributable to:		
Equity holders of the Parent	2,538	2,957
Non-controlling interest	1	1
Profit for the year	**2,538**	**2,958**
Earnings per share, basic (SEK)	12.14	13.12

Operating profit for *Snuff and snus* increased by 5 percent to 2,181 MSEK (2,080) compared to prior year. The operating profit for the snus business in Scandinavia as well as the operating profit for the US moist snuff business (in local currency) was higher than the prior year. Operating profit for the combined US moist snuff and snus business was lower, due to significantly increased marketing investments for Swedish snus in the US. Snus marketing investments for Swedish snus in the US as well as for SMPM International increased by 65 MSEK in 2011 compared to 2010.

Operating profit for *Other tobacco products* amounted to 1,049 MSEK (942) representing an increase by 11 percent compared to prior year driven by the strong growth for US mass market cigars. Operating profit for 2010 includes a restructuring charge of 10 MSEK relating to the closure of the production of the Piccanell chewing tobacco brand in Sweden.

Operating profit for *Lights* for the year amounted to 240 MSEK (279). Operating loss for *Other operations* for the year was 105 MSEK (142). During 2011 the operating loss includes redundancy costs following an organizational change and was also positively impacted by a one time pension curtailment gain. The operating loss in 2010 included costs related to the transaction with STG.

Comparable Group operating margin for the year was 28.8 percent (28.1). Group operating margin, including businesses transferred to STG, share of net profit in STG and excluding reversal of depreciation and amortization on assets held for sale, was 31.7 percent (25.2).

Scandinavian Tobacco Group

Swedish Match's 49 percent share of Scandinavian Tobacco Group's net profit after interest and tax amounted to 337 MSEK for the full year. The share of net profit from Scandinavian Tobacco Group includes restructuring charges amounting 66 MSEK before tax. On March 1, 2011, Scandinavian Tobacco Group acquired Lane Limited in the US (Lane) from Reynolds American, Inc., for 205 MUSD. Lane produces pipe tobacco, fine cut tobacco, and little cigars.

Total Scandinavian Tobacco Group net sales for the year amounted to 5,444 MDKK. Excluding restructuring and one time charges, EBITDA amounted to 1,249 MDKK for the year of which 164 MDKK related to Lane. Including restructuring and one time charges, EBITDA for total Scandinavian Tobacco Group in the year amounted to 1,137 MDKK.

Larger one time items

During 2011 there were no larger one time items recognized in the income statement. In 2010 a capital gain of 585 MSEK was recognized in the fourth quarter of 2010 relating to the close of the transaction with Scandinavian Tobacco Group to form a new company, to which Swedish Match contributed all of its cigar business except for the US mass market and the minority stake in the German cigar company Arnold André, and also the pipe tobacco and accessories business. The capital gain was a resulted from the revaluation of the assets Swedish Match contributed to the new STG, including compensation with 30 MEUR to account for the shareholding and the relative differences in enterprise values on a cash and debt free basis. The final purchase price and transaction adjustments were settled during the first half of 2011, with no adjustment to the recognized gain in 2010. Swedish Match holds 49 percent of the shares in the new STG company.

On December 1, 2010, a pension settlement gain of 59 MSEK was recognized in the income statement as a result of the transfer of the Swedish pension obligations to three external insurance companies. The settlement gain was a result of the difference in the obligations settled with the insurance companies and the present value of the pension obligations based on the actuarial assumptions net of the fair value of the plan assets as per the settlement date. In conjunction with the update of the pension obligations to current actuarial assumptions as per settlement date, an actuarial loss of 166 MSEK was recognized in other comprehensive income in the fourth quarter of 2010. In accordance with IAS 19, the transferred pension obligations are treated as defined contribution plans after the transaction date of December 1, 2010.

Summary of consolidated balance sheet

MSEK	2011	2010
Fixed assets	8,943	8,577
Inventories	1,339	1,202
Other current assets	1,692	1,684
Cash and cash equivalents and other investments	2,533	3,276
Total assets	**14,507**	**14,739**
Equity	–1,599	–482
Non-current financial liabilities and provisions	2,857	2,527
Non-current loans	8,535	9,209
Current liabilities and provisions	3,431	2,960
Current loans	1,283	525
Total equity and liabilities	**14,507**	**14,739**

Summary of consolidated cash flow statement

MSEK	2011	2010
Net cash from operating activities	2,608	2,616
Net cash used in investing activities	–151	959
Net cash transferred to shareholders	–3,456	–4,050
Net cash from other financing activities	237	1,403
Net increase/decrease in cash and cash equivalents	**–763**	**928**
Cash and cash equivalents at beginning of the year	3,275	2,530
Effects of exchanges rate fluctuations on cash and cash equivalents	21	–183
Cash and cash equivalents at end of year	**2,533**	**3,275**

2010 included an IFRS adjustment of 93 MSEK relating to reversals of depreciation and amortization of assets reported as held for sale to STG.

Net finance cost

Net finance cost for the year decreased to 523 MSEK (562). The net finance cost of 2010 included bondholder consent fees of 21 MSEK in the second quarter related to the STG transaction and 77 MSEK of realized value of discounted interest as a result of the repurchase of bond loans of 171 MEUR, maturing 2013, during the fourth quarter. Excluding these one time items during 2010, the net finance cost has increased by 59 MSEK. The underlying increase in the finance cost was mainly a result of a higher net debt and higher interest rates.

Taxes

For the full year, the reported tax expense amounted to 642 MSEK (649), corresponding to a tax rate of 20.2 percent (18.0). The reported tax rate excluding one time items as well as profit and loss impact from associated companies and joint ventures is 22 percent (22).

Earnings per share

For the full year basic earnings per share amounted to 12.14 SEK (9.92 and 13.12 including larger one time items). Diluted earnings per share was 12.07 SEK (13.09).

Liquid funds

Cash and cash equivalents amounted to 2,533 MSEK at the end of the year, compared with 3,275 MSEK at the beginning of 2011. As of December 31, 2011, Swedish Match had 1,426 MSEK in unutilized committed credit lines.

Financing and cash flow

Cash flow from operating activities for 2011 amounted to 2,608 MSEK compared with 2,616 MSEK for the previous year. The cash flow for 2010 included businesses transferred to STG on October 1, 2010. Excluding businesses transferred to STG the cash flow from operations increased compared to 2010 mainly as a result of higher EBITDA.

The net debt as per December 31, 2011 amounted to 8,886 MSEK compared to 7,650 MSEK at December 31, 2010. In May a loan repayment of 140 MSEK was received from STG net of final transaction adjustments.

During the year new bond loans of 1,000 MSEK were issued. Repayment of loans for the same period amounted to 853 MSEK including repurchase of 310 MSEK of bond loans with shorter maturities. As at December 31, 2011 Swedish Match had 10,038 MSEK of interest bearing debt excluding retirement benefit obligations compared to 9,885 MSEK at December 31, 2010. During 2012, 1,281 MSEK of this debt falls due for payment.

Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 245 MSEK (311). Investments in intangible assets during 2011 amounted to 22 MSEK (51) mainly pertaining to investments in new ERP systems.

Depreciations and amortizations

During the year, total depreciation and amortization amounted to 290 MSEK (288), of which depreciation on property, plant and equipment amounted to 233 MSEK (235) and amortization of intangible assets amounted to 57 MSEK (53).

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 of 6.50 SEK (5.50), equivalent to 54 percent of the earnings per share for the year. The proposed dividend amounts to 1,327 MSEK based on the 204.2 million shares outstanding at the end of the year.

Share structure

The Annual General Meeting on May 2, 2011 decided to authorize the Board of Directors to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company. In addition, in accordance with the resolution at the Annual General Meeting, 18 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 213.0 million shares with a quotient value of 1.8287 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy 11.1 million shares were repurchased during 2011 for 2,371 MSEK at an average price of 212.66 SEK, following authorization from the Annual General Meetings held in 2010 and 2011. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programs. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 99.82 SEK. During the year the Company sold 0.5 million treasury shares at an average price of 127.10 SEK, totaling 67 MSEK, as a result of option holders exercising options. As per December 31, 2011 Swedish Match held 8.8 million shares in treasury, corresponding to 4.14 percent of the total number of shares. The number of shares outstanding, net after repurchases and after the sale of treasury shares, as per December 31, 2011 amounted to 204.2 million. In addition, the Company has call options outstanding as of December 31, 2011 corresponding to 5.0 million shares exercisable in gradual stages from 2012 to 2015.

In January 2012, a further 210,500 shares have been repurchased for 50 MSEK at an average price of 236.90 SEK.

The Board will propose to the Annual General Meeting in May 2012 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares of the Company until the next Annual Meeting in 2013.

In addition a proposal will be made to cancel 7 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 the year was 3,880 compared with 3,908 for the full year 2010, excluding employees transferred to STG. The average number of employees during 2010, including the employees transferred to STG, was 8,822.

Corporate governance report

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corporate Governance Report instead of including the report in the Board of Director's report. The Corporate Governance Report is presented on page 92 and is also available on the Company's website www.swedishmatch.com.

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 97.

Corporate sustainability

Sustainability is an important part of the Group's strategy for growth and value creation. Sustainability activities make Swedish Match more competitive and help to reduce long term costs and risks. Much of the focus is on the manufacturing, purchasing, transport, and distribution level, as Swedish Match sees these areas as having some of the greatest impacts on the Group's business, cost structure, flexibility, and competitiveness. The Swedish Match sustainability strategy involves using a systematic approach, in order to provide improved transparency and a focus on business operations. In 2011, following the approach set in 2010, the Company has reported its sustainability information according to the standards set forth by GRI (the Global Reporting Initiative) G3 guidelines, in order to reach measurable, transparent, clear, and comparable results.

Environmental impact

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

To support its environmental efforts, Swedish Match has adopted a Group Environmental Policy that encompasses all aspects of its operations. The policy is designed to ensure that Swedish Match achieves a balance whereby the Group consistently reaches its commercial objectives while fulfilling the environmental requirements of shareholders, customers, and other stakeholders.

The main purpose of the Group Environmental Policy is to ensure that the Group commits itself to continuous environmental improvement with the aim of prevention/reduction of pollution in its activities. The policy also ensures that the Group operates an Environmental Management System (EMS), applicable on corporate, operating unit and factory levels, which will safeguard that this commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental indicators. The environmental policy further demonstrates commitment by the Group to comply with all relevant environmental legislation, regulations and other requirements to which it subscribes. Also, the policy ensures that the Group commits itself to continual correspondence and documentation of any changes of environmental impact due to its activities, products and services. Under the environmental policy, the Group will undertake appropriate remedial actions and improvements based on financial and environmental criteria.

The vast majority of Swedish Match production facilities are certified according to the environmental management standards of ISO 14001 as well as the quality management systems standards of ISO 9001. Of 12 production facilities, ten have ISO 9001 certification and nine have ISO 14001 certification.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2011. 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 match sticks 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, Sweden produces matches, firestarters and match heads. These operations require permit according to the Environmental Protection Act. The permit entitles the plant to increase production up to certain levels and specifies limits for wastewater, the dust content in ventilation outflows and noise levels.

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

Organization and personnel

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm in Sweden. The organizational structure is divided among the following units: Smokefree Products Division, Scandinavia Division, US Division, Lights International, Lights Latin America, and Swedish Match Distribution AB.

The Group is dedicated to maintain its employee focus and development and will continue to improve and adjust performance, talent, and employee processes to fit Swedish Match in the years to come.

The human resources organization supports the Group's activities in managing talent, providing clear and consistent documentation of activities, upholding employee practices consistent with the Group's Code of Conduct as well as local laws and regulations, among other tasks. Swedish Match continues to focus on Employer Branding from a multifaceted perspective to ensure that it retains and attracts a strong employee base, and helping to ensure that Swedish Match is an attractive employer.

In September 2011, a worldwide cross organizational employee survey was conducted on a global scale for the first time, enabling the Group to identify common improvement areas. A few of the areas covered were leadership, innovation, and how Swedish Match fosters a shared understanding of its core values as well as how well the Group inspires and encourages employees to perform and stay with the Company. The survey was conducted in seven countries in six different languages. The results of the survey were shared with all employees in November.

Over 50 percent of the Group's employees are covered by collective bargaining agreements.

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 results of operations.

Swedish Match has a substantial part of its production and sales in the US as well as in Brazil, Norway and EMU member countries. Consequently, changes in exchange rates of euro, Norwegian krona, 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. 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 Group's products.

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

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

Swedish Match applies a cautious and conservative policy towards exposures in financial risks, which is updated yearly by Swedish Match Board of Directors.

Refinancing risk is the risk of not being able to meet the need for future funding. To avoid this risk all maturing loans shall be able to be repaid by the operating cash flow. Furthermore there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilized committed credit facilities. The aim of the Group is to have an even maturity structure of the debt portfolio and the objective for interest rate fixing periods is to achieve an even and low cost of interest. Since the part of loans with variable interest rates is approximately 5 percent of the total debt portfolio, the cash-flow interest rate risk is considered to be low. Interest rate swaps and currency swaps are used mainly to convert the Group's borrowing into SEK and fixed interest rates and hedge accounting is applied in accordance with the description in *Note 1 Accounting principles*.

Swedish Match aims to limit credit risks through transactions only to be made for derivative instruments with counterparties having high credit ratings. Swedish Match exposure to credit risks in customer related receivables is low considering the diverse customer portfolio.

Currency transaction exposures are limited and therefore currency hedging is only done case-by-case. Swedish Match does not have any trading activities, i.e. take specific positions to gain on market fluctuations, in any financial instruments. For a more detailed description of the Group's financial risk management and holdings of financial instruments, see *Note 25, Financial instruments and financial risks*.

Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 1,250 MEUR Global Medium Term Note Program and the Swedish 4,000 MSEK Medium Term Note Program as well as the 160 MEUR Revolving Credit Facility have covenants that can force the Company to payback loans in a change of control situation. Some distribution agreements with third parties in the Swedish tobacco distribution business can be cancelled 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.

The President and CEO may initiate the termination of his 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.

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

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2012. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Group 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 outmost 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 GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements. *Note 5 Personnel* sets out details of the remuneration and benefits of the GMT during 2011.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and long term variable remuneration, pension, other benefits and terms related to termination of employment.

1. *Fixed salary*
   The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.

2. *Variable salary*
   The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

   The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.

3. *Profit Sharing System*
   All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS"). For 2012 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

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 GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.

5. *Severance pay, etc*
   A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.

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 GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

9. *Previous undertakings not yet due*
   The Company has no previous undertakings not yet due besides what is evident from the annual report 2011.

Application of principles on variable salary for 2012

The Board has not proposed any long term share related incentive program for 2012.

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the GMT the variable salary will include a short term cash incentive and a long term cash incentive program where the short term program will include an incentive for the GMT members to purchase and retain shares in the Company while the long term program shall include an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively. No payments will be made under the programs if the employment has been terminated by the employee or by the Company for cause during the performance period.

1. *Short term variable salary*
   The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2012 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 70 percent of the 2012 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any

GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped, shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President. Accruals for short term variable salary objectives for 2012 are estimated[1)] to range between 0 MSEK and 13 MSEK.

2. *Long term variable salary*

The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be 45 percent of the 2012 base salary. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2012 but measured over the full performance period 2012–2014. The predominant criterion (75 percent) is total Group operating profit in constant currencies and excluding income or loss related to the Swedish snus business outside Scandinavia and excluding share of profit/loss from Scandinavian Tobacco Group for the years 2012–2014. There will not be any pay-out at all related to this criterion unless there is an improvement in relation to the comparable performance of the Group in 2011.

The second criterion (25 percent) is a qualitative and quantitative evaluation performed by the Board of Directors of the Group's progress with Swedish snus outside Scandinavia during 2012–2014.

Accruals for the GMT long term incentive programs are estimated[1)] to range between 0 MSEK below minimum level and 11 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in May 2011, see *Note 5 Personnel*.

Outlook

During 2011 Swedish Match delivered a record operating profit on a comparable basis. For the full year 2012, we expect continued growth in revenues and comparable operating profit led by a solid development for Snus and snuff and Other tobacco products.

During 2011, we increased our investments for Swedish snus outside Scandinavia. In the US, the trends for General snus are strong, and through our joint venture, SMPM International, we generated valuable insights and witnessed some early but encouraging signs in the market place. During 2012, we will continue to invest for growth. In the US we will expand distribution and invest further in marketing activities to build awareness and generate trial. In SMPM International, the plan is to add at least one additional test market during the year.

We expect both the Scandinavian snus market and the US market for moist snuff to continue to grow in volume terms in 2012. In the US mass market cigar business, we will launch additional innovative products and we expect to continue to grow faster than the overall market and generate increased sales and profits in local currency. The trend for US chewing tobacco of declining volumes is expected to continue.

The tax rate from continuing operations, excluding one time items as well as impacts from associated companies, for 2011 was 22 percent and is expected to be at a similar level in 2012.

The Company maintains its long term financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders.

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 51 MSEK (57). Profit before income tax amounted to 1,526 MSEK (2,556) and net profit for the year amounted to 1,419 MSEK (2,359).

The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. During the period the Parent Company received dividends amounting to 2,492 MSEK (4,286) and Group contributions net amounting to 1,839 MSEK (1,894). An impairment loss on shares in subsidiaries of 1,241 MSEK (2,757) was recognized during the year as a result of dividends paid out of retained earnings 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. The majority of these loans have fixed interest rates and hence any changes in interest rates would have an immaterial impact on the result of the Parent Company.

No capital expenditures on tangible fixed assets have been recognized during the year compared to 2 MSEK during 2010. During the year, 22 MSEK (42) have been capitalized in intangible assets as an investment in software development on an ERP system for the Group. A shareholder contribution was provided to the joint venture, SMPM International, in the amount of 15 MSEK. Since the joint venture company is in a phase of build up and therefore not generating any profit, an impairment loss of 12 MSEK was recognized during the year. During the third quarter of 2011 the shares of SMPM International were transferred to a Group company at book value.

The total cash flow for both 2011 and 2010 was zero as the Parent Company does not hold any cash and bank balances.

During the year, new bond loans of 1,000 MSEK were issued and repayment of loans amounted to 853 MSEK, including repurchase of 310 MSEK of bond loans with shorter maturities. During the year the Parent Company made share repurchases of 2,371 MSEK (3,014) and sold 0.5 million (0.5) treasury shares for 67 MSEK (53). A dividend to the shareholders of 1,152 MSEK (1,089) has been paid during the year.

The Board's proposed distribution of earnings is presented on page 90.

1) Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs.USD of 7.00.

Consolidated income statement

MSEK	Note	2011	2010
Sales, including tobacco tax		23,662	25,062
Less tobacco tax		–11,997	–11,456
Sales	3	**11,666**	**13,606**
Cost of goods sold		–5,774	–6,662
Gross profit		**5,892**	**6,944**
Selling expenses		–1,769	–2,483
Administrative expenses		–736	–866
Other operating income and expenses	4	–12	–7
Share of profit/loss in associated companies and joint ventures	14	327	–62
Net gain from pension settlements	21	–	59
Capital gain from transfer of businesses to STG		–	585
Operating profit	3, 5, 6, 7, 21, 26	**3,702**	**4,169**
Finance income		37	27
Finance costs		–560	–590
Net finance cost	8	**–523**	**–562**
Profit before income tax		**3,180**	**3,607**
Income tax expense	9	–642	–649
Profit for the year		**2,538**	**2,958**
Attributable to:			
Equity holders of the Parent		2,538	2,957
Non-controlling interests		1	1
Profit for the year		**2,538**	**2,958**
Earnings per share, basic, SEK	10	12.14	13.12
Earnings per share, diluted, SEK	10	12.07	13.09

Consolidated statement of comprehensive income

MSEK	Note	2011	2010
Profit for the year		**2,538**	**2,958**
Other comprehensive income	19		
Translation differences related to foreign operations		–57	–504
Translation differences included in profit and loss		0	278
Effective portion of changes in fair value of cash flow hedges		–22	58
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		0	–24
Actuarial gains and losses attributable to pensions, incl. payroll tax		–353	–193
Other comprehensive income in associated companies and joint ventures		90	55
Income tax relating to components of other comprehensive income	9	143	39
Other comprehensive income, net of tax for the year		**–199**	**–291**
Total comprehensive income for the year		**2,340**	**2,668**
Attributable to:			
Equity holders of the Parent		2,339	2,667
Non-controlling interests		1	1
Total comprehensive income for the year		**2,340**	**2,668**

Consolidated balance sheet

MSEK	Note	December 31, 2011	December 31, 2010
Assets			
Intangible assets	11	992	1,027
Property, plant and equipment	12	1,950	1,971
Forest plantations	13	125	126
Investments in associated companies and joint ventures	14	4,481	4,085
Other non-current receivables	15	617	716
Deferred income tax assets	9	778	652
Total non-current assets		**8,943**	**8,577**
Inventories	16	1,339	1,202
Trade receivables	17	1,398	1,181
Prepaid expenses and accrued income		76	78
Income tax receivables		132	96
Other current receivables	15	86	329
Other investments	18	–	1
Cash and cash equivalents	18	2,533	3,275
Total current assets		**5,564**	**6,162**
TOTAL ASSETS		**14,507**	**14,739**
Equity	19		
Share capital		390	390
Reserves		–19	–7
Retained earnings		–1,972	–867
Equity attributable to equity holders of the Parent		**–1,602**	**–484**
Non-controlling interests		2	2
TOTAL EQUITY		**–1,599**	**–482**
Liabilities			
Loans and borrowings	20, 25	8,535	9,209
Other liabilities	23	338	320
Provision for pensions and similar obligations	21	1,449	1,158
Other provisions	22	572	577
Deferred income tax liabilities	9	498	472
Total non-current liabilities		**11,392**	**11,737**
Loans and borrowings	20, 25	1,283	525
Trade payables		651	555
Income tax liabilities		95	104
Other liabilities	23	1,786	1,449
Accrued expenses and deferred income	24	815	754
Provisions	22	84	98
Total current liabilities		**4,714**	**3,485**
TOTAL LIABILITIES		**16,107**	**15,221**
TOTAL EQUITY AND LIABILITIES		**14,507**	**14,739**

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

Consolidated statement of changes in equity

MSEK 2010	Note	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Equity attributable to equity holders of the Parent					
Equity at beginning of year	19	**390**	**194**	**315**	**899**	**4**	**903**
Profit for the year		–	–	2,957	2,957	1	2,958
Other comprehensive income, net of tax for the year[1)]		–	– 201	–90	–291	0	–291
Total comprehensive income for the year		**–**	**–201**	**2,868**	**2,667**	**1**	**2,668**
Transfer of non-controlling interest to STG of partly owned subsidiary		–	–	–	–	–2	–2
Dividend		–	–	–1,089	– 1,089	0	–1,089
Repurchase of own shares		–	–	–3,014	– 3,014	–	–3,014
Stock options exercised		–	–	53	53	–	53
Cancellation of shares		–31	–	31	0	–	0
Bonus issue		31	–	–31	0	–	0
Equity at end of year		**390**	**–7**	**–867**	**– 484**	**2**	**– 482**

2011	Note	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Equity attributable to equity holders of the Parent					
Equity at beginning of year	19	**390**	**–7**	**–867**	**–484**	**2**	**–482**
Profit for the year		–	–	2,538	2,538	1	2,538
Other comprehensive income, net of tax for the year[1)]		–	–73	–125	–199	0	–199
Total comprehensive income for the year		**–**	**–73**	**2,412**	**2,339**	**0**	**2,340**
Dividend		–	–	–1,152	–1,152	0	–1,152
Repurchase of own shares		–	–	–2,371	–2,371	–	–2,371
Stock options exercised		–	–	67	67	–	67
Cancellation of shares		–30	–	30	0	–	0
Bonus issue		30	–	–30	0	–	0
Equity at end of year		**390**	**–81**	**–1,911**	**–1,602**	**2**	**–1,599**

1) Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to defined pension plans in an amount of –215 MSEK (–145), net after payroll taxes and income taxes.

Consolidated cash flow statement

MSEK	Note	2011	2010
Operating activities	30		
Profit before income tax		3,180	3,607
Adjustment for share of net profit/loss in associated companies and joint ventures		–327	–359
Adjustments for other non-cash items and other		254	62
Income tax paid		–662	–733
Cash flow from operating activities before changes in working capital		**2,445**	**2,576**
Cash flow from changes in working capital			
Increase (–)/ Decrease (+) in inventories		–191	–30
Increase (–)/ Decrease (+) in operating receivables		–247	122
Increase (+)/ Decrease (–) in operating liabilities		602	– 52
Net cash generated from operating activities		**2,608**	**2,616**
Investing activities			
Purchase of property, plant and equipment		–245	–311
Proceeds from sale of property, plant and equipment		3	6
Purchase of intangible assets		–22	–51
Net proceeds from businesses transferred to STG		–	1,439
Investments in associated companies and joint ventures		–28	–123
Investments in other companies		–4	–
Proceeds from sale of subsidiaries, net of cash disposed of		143	–
Changes in financial receivables, etc.		1	–1
Changes in other current investments		1	–
Net cash used in investing activities		**– 151**	**959**
Financing activities			
Proceeds from non-current borrowing		1,002	4,242
Repayment of borrowings		–853	–2,961
Repurchase of own shares		–2,371	–3,014
Stock options exercised		67	53
Dividend paid to equity holders of the Parent		–1,152	–1,089
Other		88	122
Net cash used in financing activities		**–3,219**	**–2,646**
Total net decrease/increase in cash and cash equivalents		**–763**	**928**
Cash and cash equivalents at the beginning of the year		3,275	2,530
Effect of exchange rate fluctuations on cash and cash equivalents		21	–183
Cash and cash equivalent at end of year		**2,533**	**3,275**

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 otherwise stated. The amounts within brackets refer to the preceding year, 2010.

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 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". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on February 21, 2012.

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

The financial reports are presented in Swedish kronor (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. Biological assets refer to forest plantations.

Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

Use of the assessments in the financial reports

Preparing financial reports in accordance with IFRS requires that management make assessments and assumptions that affect the accounting principles and reported amounts for assets, liabilities, revenues and costs. The assessments 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 assessments and assumptions. Assessments and assumptions are reviewed on a regular basis with changes in assessments recognized in the applicable period.

Assessments made by management on the application 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 2 Critical estimates and judgments*.

Significant accounting principles applied

The below described accounting principles have been applied consistently in all periods that are presented in the Group's financial statements. If exceptions would exist to the accounting principles outlined below such are clearly described enclosed to the financial statements that include such exception.

New standards, amendments and interpretations

For 2011 there are no new or changed accounting principles and basis for calculations applied in this annual report. A number of new standards, amendments to standards and interpretations of accounting standards which became effective as of January 1, 2011 have not had any impact on the financial result or position of the Group for 2011. The changes in IFRS applicable for 2011 are: amendments to *IAS 24 Related Party Disclosures*, amendments to *IAS 32 Financial Instruments Presentation concerning Classification of Rights Issues*, amendments to *IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IFRIC19 Extinguishing Financial Liabilities with Equity Instruments*.

New IFRSs and interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2012 or later and have not been applied in these financial reports:

Amendments to *IAS 1 Presentation of Financial Statement*s provide changes in regards to the presentation of Other comprehensive income and expense. Such items are to be presented into two categories *1) Items that will be reclassified subsequently to profit and loss* and *2) Items that will not be reclassified subsequently to profit and loss*. The revised standard is effective as of July 1, 2012 and will be applied in Swedish Match reports as of January 1, 2013.

Revised *IAS 19 Employee Benefits* bring about changes for the accounting of defined benefit plans which is effective as of January 1, 2013. The revised standard will not have a significant impact on the Group's financial statements.

Amendments to *IFRS 7 Financial Instruments: Disclosures* bring about new disclosures for financial assets that have wholly or partly been derecognized from the financial statements. The revised standard is effective as of July 1, 2011 and is implemented as of January 1, 2012. The revised standard will not have any significant impact on the Group's disclosures of financial instruments.

IFRS 9 Financial Instruments which is expected to replace *IAS 39 Financial Instruments: Recognition and Measurement* brings about changes regarding classification and measurement of financial assets and liabilities. IFRS 9 is likely to be effective in 2015. The impact from IFRS 9 on the Group's financial statement has not been assessed.

The following new IFRS standards, amendments and interpretations to existing standards applicable in 2012 or later are not expected to have a significant impact on the financial result or position of the group: *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurements*, amendments to *IAS 12 Income taxes*, amendments to *IAS 27 Separate Financial Statements*, amendments to *IAS 28 Investments in associates* and amendments to *IAS 32 Financial Instruments Presentation*.

Consolidation principles

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all subsidiaries, joint ventures and associated companies in accordance with the definitions below. 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. Divested companies are included in the consolidated accounts up through the time of divestment.

Subsidaries

Consolidated financial statements include all subsidiaries that 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.

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. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition at fair value. Transaction costs relating to acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period when incurred. Contingent considerations are recognized on the balance sheet at fair value at the date of the acquisition, with any contingent payment classified as debt subsequently re-measured through the income statement.

Result from disposal of subsidiaries when the control is lost is recognized in the income statement. Any remaining interests in divested entities are re-measured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.

Joint ventures and associates
Joint ventures are defined as companies in which Swedish Match together with other parties through an agreement has shared control over operations. Associates are companies in which the Group exercises a significant influence without the partly-owned company being a subsidiary or a joint venture. 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 and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates and joint ventures includes any goodwill, transaction costs and other Group adjustments.

The Group's share of its associates' and joint ventures' post-acquisition after tax profits or after tax losses is recognized on one line in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income, net of tax in the associates and joint ventures is recognized on one line in the Group's statement of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment.

Non-controlling interest
Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity of the owners of the Parent company. The non-controlling interest includes profit or loss and components of other comprehensive income that are attributable to the non-controlling interests.

Discontinued operations
Divested operations are reported as discontinued operations if they represent a separate major line of business or geographical area of operations that comprises operations and cash flow that can be clearly distinguished, operationally and for reporting purposes from the rest of the Group. The post tax profit or loss of discontinued operations and the gain or loss from the sale is presented in a single amount in the income statement as of the transaction date or as of the date when management is committed to a plan to sell and hence operations to be discontinued are re-classified as held for sale. When a business operation is discontinued or classified as held for sale and reported as such prior period income statements are being been restated. Prior period balance sheets are not being restated.

Classification etc.
Non-current 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 current liabilities essentially consist of amounts that are expected to be recovered or paid within 12 months, from the reporting date.

Reporting by segment
The Group's reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are *Snus and snuff*, *Other tobacco products* (US mass market cigars and chewing tobacco), *Lights* and *Other operations*. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. Following the transaction with STG on October 1, 2010 and the divestment of the South Africa operations in 2009 the Group's segment reporting was changed and for comparison reasons prior periods have been restated to reflect the Group's continuing operation. There is no internal sale between operating segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis.

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. 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. Exchange-rate differences arising from translation are reported in the income statement, with exchange differences on non-monetary assets and liabilities reported as operating income and expenses and exchange differences on monetary assets and liabilities are reported in the financial net.

(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 as a translation reserve in equity through other comprehensive income. The translation difference relating to a specific subsidiary is recycled through the income statement when the subsidiary is divested.

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

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

		Average exchange rate January–December		Exchange rate on December 31	
Country	**Currency**	**2011**	**2010**	**2011**	**2010**
USA	USD	6.50	7.20	6.89	6.79
Euro zone	EUR	9.03	9.54	8.91	9.01
Brazil	BRL	3.88	4.09	3.69	4.06
Norway	NOK	1.16	1.19	1.15	1.15

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. Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of discounts and returns at the time of sale.

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. Exchange rate differences arising on operating assets and liabilities are reported in operating profit.

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.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realizes the asset and settled the liability simultaneously.

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 are included in hedge accounting. 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.

Financial assets, excluding trade receivables, and derivatives are measured at fair value and recognized on 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 cash flows at the relevant market interest rate for a similar instrument. Trade receivables are recognized at nominal value.

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:

Financial assets and liabilities at fair value through profit and loss
Financial assets in this category are held for trading. These include financial investments reported as other investments or cash equivalents and certain non-current receivables, other receivables, prepaid expenses and accrued income and are valued at fair value. Financial liabilities in this category also include the Group's derivatives that are not used for hedge accounting. Changes in financial assets and liabilities fair value are recognized in the income statement.

Loans and receivables
Loan receivables and trade receivables are carried in the balance sheet at accrued cost.

Trade receivables have a short anticipated duration and are reported at the amount expected to be received after deductions for potential bad debt losses, which are assessed individually. The impairment of trade receivables is reported as operating expenses.

The Group assesses at the end of each reporting period financial assets for indications of impairment. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that loss event has impact on the estimated future cash flows of the financial assets.

Other financial liabilities
Financial liabilities not held for trading are valued at amortized cost. Liabilities are classified as other financial liabilities, which mean that they are initially reported at the amount received after deductions for transaction costs. After the date of acquisition, loans are valued at amortized cost in accordance with the effective interest method.

Derivatives used for hedge accounting
All derivatives are reported at their fair value on the balance sheet. Changes in the fair value of the hedging instruments, when fair value hedge accounting is applied, are recognized in the income statement. Hedge accounting is described in greater detail below.

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 for which fair value can be reliably measured are valued continuously at their fair value with changes in value reported in other comprehensive income. At the time when the investments are removed from the balance sheet previously recognized gains and losses reported in other comprehensive are reclassified to profit and loss. Assets in this category which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost and regularly tested for impairment. Any impairment losses are recognized as operating expenses. Swedish Match presently does not have any assets available for sale reported at fair value.

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 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. In those cases derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39.

Receivables and liabilities in foreign currency
For hedging of assets or liabilities against exchange rate risks, forwards are used to convert foreign currencies into SEK. Forwards are also used for certain binding contracts. 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. Swedish Match presently has no hedging in foreign currencies.

Cash flow hedges
When derivatives are used in order to convert floating interest rate obligations into fixed interest rate obligations 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 other comprehensive income and is accumulated in the hedge reserve and any ineffective portion is recognized directly in the income statement. Reclassification from the hedge reserve through other comprehensive income into the income statement is made either when the hedged item affects the income statement or when the hedged item has seized to exist for instance when issued debt is re-purchased.

Fair value hedges
In cases where fixed interest rate obligations are converted into floating interest rate obligations, 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. Swedish Match presently has no fair value hedges.

Derivatives not used for hedge accounting
Some derivatives cannot be used for hedge accounting. For those derivatives to which hedge accounting cannot be applied, changes in fair value are recognized directly in the income statement.

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 is classified as operating leases. Lease charges are expensed straight-line over the lease period.

Intangible assets

(i) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. 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, subsequent to impairment testing, see *Note 11 Intangible assets*.

Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is allocated to cash-generating units and 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) Trademarks and other intangible assets

Trademarks and other intangible assets acquired by the Group are reported at acquisition value less accumulated amortization and impairments. Expenditure attributable to an acquisition of an intangible asset is recognized as an expense when incurred unless it forms part of the intangible asset which increases the future economic benefits of the asset. In case there are borrowing costs that are directly attributable to the acquisition, construction or production of intangible assets that take substantial time to complete, such costs are included in the acquisition value.

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 recognized 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 annually or as soon as indications arise of 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 individually assessed but normally in the range as indicated below:

- trademarks 10–20 years
- other intangible assets and 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 directly pertaining to acquisition, construction or production of an asset that takes a substantial time to complete are included in the acquisition value.

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 years
- machinery and other technical plant 5–12 years
- equipment, tools and fixtures 5–10 years
- major components 3–5 years

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

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

Inventories are recognized at the lower of cost and net realizable value on the balance sheet date. Cost is calculated using the first-in, first-out (FIFO), or weighted average cost formula. The cost of finished goods and work in progress includes raw material, direct labor, other direct expenses and production-related overheads, based on a normal production level. Expenses arising from the transport of items to their present location and condition are included in the acquisition value of inventories. Interest expenses are not included in measurement of inventories. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and sale of the item.

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.

Impairment

The carrying amounts for the Group's assets, with the exception of financial assets, 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 in accordance with IAS 36 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.

Reversal of an impairment loss recognized in prior periods for assets other than goodwill are recognized when there is an indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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 settle the obligation and that a reliable estimate of the amount can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Share capital
Buybacks of own shares and sale of own shares when stock options are exercised 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.

Pension fees for defined contribution plans are reported as an expense in the income statement as incurred. 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 the Swedish Match 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 a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the lower of the surplus in the plan and the present value of future service cost to be borne by the Company. 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 that arise during the year are reported in full in other comprehensive income.

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.

In Sweden the Group has post-employment defined benefit obligations for salaried personnel which are insured by Alecta. Alecta is the largest Swedish life insurance company and safeguards the majority of the private sector's defined benefit pension plans, i.e., the ITP-plan. Alecta is not able to provide specific information for each customer's obligations and fair value of related assets which is necessary information for Swedish Match in order to account for the obligations in accordance with the rules for defined benefit plans. Therefore, all obligations relating to the Swedish ITP-plan are accounted for as defined contribution plans in accordance with the rules for multi-employer plans.

Share-based payments
Up until 2009 the Company allotted options to certain executives who were entitled to purchase shares in the Company. The fair value of the allotted options was reported as a personnel cost with the corresponding amount reported as an increase in equity. The fair value was expensed during the year the options were earned, because the right to receive the options was irrevocable that year assuming that the employee was still employed at the end of the year.

Social security fees attributable to share-based instruments allotted to employees in lieu of purchased services were expensed during the year the options were earned. With respect to employees domiciled outside Sweden, who are taxed when the options are exercised, the amount for social security fees is corrected continuously to take into account the fair value trend of the options.

For 2010, a new long term incentive plan for executives was introduced by the Board of Directors which replaces the option program. Under the new plan eligible executives may, after a three year performance period, receive a cash bonus based on the established performance targets for the performance period. Costs for the incentive plan are expensed during the service year, which is the first year, including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

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 in other comprehensive income, in which case the related tax effect is also reported in other comprehensive income.
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 or substantively enacted on the reporting date.

Deferred tax assets related to deductible temporary differences and tax loss carry-forwards are only reported to the extent that it is likely that they will be utilized. The value of deferred tax assets are 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.

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 rules of RFR 2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2 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.

Differences in the accounting principles between the Parent Company and the Group are described below.

The Swedish Financial Reporting Board has withdrawn its statement UFR 2 dealing with group and shareholders contributions. As from 2011 the Parent Company reports not only group contributions received but also group contributions granted directly in the income statement. Comparable amounts for 2010 have been restated.

Subsidiaries, joint ventures and associated companies
Shares in subsidiaries, joint ventures and associated companies are valued at cost. This means that transaction costs relating to acquisitions are included in the acquisition value. In the Group's accounts acquisition-related costs of subsidiaries are expensed when incurred.

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. However, untaxed reserves are divided into deferred tax liabilities and equity in the consolidated accounts.

Group and shareholder contributions

The Parent 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, received and granted, and its current tax effects are reported in the income statement.

2. Critical estimates and judgements

The application of accounting principles according to IFRS involves estimates, judgments and the use of assumptions that affect the reported amounts and accordingly actual results could differ from these estimates.

Intangible assets

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 in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of the intangible asset is impaired. The impairment tests include significant judgments made by management, such as assumption of projected future cash flows used in the valuation of the assets. 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 Group's intangible assets as of December 31, 2011 amounted to 992 MSEK and amortization amounted to 57 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 580 MSEK. For further information on impairment test of intangible assets see *Note 11 Intangible assets*.

Investments in associated companies and joint ventures

The carrying value of the investments in associated companies and joint ventures are tested for impairment when there is an indication of a decline in the value. As per December 31, 2011 the Group's investments in associated companies and joint ventures amounted to 4,481 MSEK. For further information on the Group's investments in associated companies and joint ventures see *Note 14 Investments in associates and joint ventures*.

Legal disputes

The Company is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have a significant effect on the Group's earning capacity. Further details of the Group's legal disputes are explained in *Note 28 Commitments and contingent liabilities and assets*.

Post employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations requires management to make assumptions on the discount rate, expected return on plan assets, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined-benefit-pension plans and post employment medical benefit plans as of December 31, 2011 were estimated to exceed the fair value of plan assets by 1,382 MSEK. Further details of the Group's defined benefit plans are presented in *Note 21 Employee benefits*.

3. Segment information

Swedish Match reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. In the fourth quarter of 2010, the Group's reportable segments were changed as a result of the transaction with STG on October 1, 2010. In the new segment reporting US mass market cigars and chewing tobacco have been combined and are presented as one reportable segment named *Other tobacco products*. Hence, the Group's reportable segments are *Snus and snuff*, *Other tobacco products*, *Lights*, and *Other operations*.

Snus and snuff are smokeless tobacco products that are produced and sold primarily in Sweden, Norway and the US. Sweden is the world's largest snus market measured by per capita consumption. The Norwegian market is smaller than the Swedish market but has in recent years experienced strong volume growth. The U.S. moist snuff market is the world's largest, and is nearly five times larger in volume terms than the Scandinavia snus market. Some of the best known brands in Sweden include *General*, *Göteborgs Rapé*, *Ettan*, *Grovsnus*, *Catch*, and *Kronan*. In the US well known brands are *Longhorn*, *Timber Wolf*, and *Red Man*.

Other tobacco products represent chewing tobacco and mass market cigars manufactured and sold on the US market. Chewing tobacco is a smokeless tobacco product. Chewing tobacco shows a declining trend. Well known brands include *Red Man* and *Southern Pride*. Mass market cigars are machine made cigars that during 2011 have had a positive development relative to prior year. Well known brands are *White Owl*, *Garcia y Vega*, and *Game by Garcia y Vega*.

Lights include manufacturing and distribution of matches and lighters. The main markets for lights products for Swedish Match include Russia, Brazil, Sweden, France, the UK, Australia, and Spain, but products are also widely available in other parts of Europe, Asia, and Africa. The consumption of matches shows a declining trend in most developed markets, while for lighters consumption trends vary. Worldwide sales are generally stable, with declines in Europe partially offset by gains in other markets. Important brands for matches include *Solstickan* in Sweden, *Fiat Lux* in Brazil, *Swan* in the UK, *Tres Estellas* in Spain, *Feudor* in France, and *Redheads* in Australia. For lighters, the most important Swedish Match brand is *Cricket*.

Other operations are primarily the distribution of tobacco products on the Swedish market and corporate overhead costs.

There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS. However, financials separated as business transferred to STG are presented including depreciation and amortization relating to assets held for sale. In order to arrive at the Group's operating profit, depreciation and amortizations related to assets held for sale need to be added back to the operating profit for 2010.

	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Businesses transferred to STG[1]		Swedish Match Group	
Operating segments	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
External sales	4,726	4,522	2,388	2,440	1,346	1,429	3,206	2,831	**11,666**	**11,222**	–	–	–	2,385	**11,666**	**13,606**
Depreciations and amortizations	–156	–146	–81	–91	–41	–41	–12	–4	**–290**	**–282**	–	–	–	–98	**–290**	**–381**
Reversals of depreciation and amortization relating to assets held for sale[2]	–	–	–	–	–	–	–	–	**–**	**–**	–	–	–	–	**–**	**93**
Income from associated companies and joint ventures	–30	–20	18	11	2	2	0	–	**–11**	**–7**	337	–60	–	4	**327**	**–62**
Operating profit	**2,181**	**2,080**	**1,049**	**942**	**240**	**279**	**–105**	**–142**	**3,365**	**3,158**	**337**	**–60**	**–**	**334**	**3,702**	**3,526**
Net gain from pension settlements	–	–	–	–	–	–	–	59	**–**	**59**	–	–		–	**–**	**59**
Capital gain from transfer of businesses to STG	–	–	–	–	–	–	–	585	**–**	**585**	–	–		–	**–**	**585**
Operating profit, including larger one time items	**2,181**	**2,080**	**1,049**	**942**	**240**	**279**	**–105**	**502**	**3,365**	**3,802**	**337**	**–60**		**334**	**3,702**	**4,169**
Finance income															37	27
Finance costs															–560	–590
Profit before income tax															**3,180**	**3,607**

Restructuring costs and results from sale of fixed assets

	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Businesses transferred to STG[2]		Swedish Match Group	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Restructuring charges	–	–	–	–10	–	–	–	–	**–**	**–10**	–66	–175	–	–	**–66**	**–185**
Gains/losses from sale of fixed assets	1	–2	0	–1	0	1	0	–	**0**	**–3**	–	–	–	–2	**0**	**–5**
Investments																
Property, plant and equipment[3]	123	192	61	30	56	52	5	1	**245**	**275**	–	–	–	36	**245**	**311**
Intangible assets	–	–	–	–	–	–	22	47	**22**	**47**	–	–	–	4	**22**	**51**

[1] 2010 has reference to the period up until October 1, 2010 when the transaction with STG was closed and businesses were transferred to STG.
[2] For segment reporting purposes depreciations and amortizations related to assets held for sale, amounting to MSEK 93 in total, continued to be charged to the reportable segments during the period assets to be transferred to STG were reported as assets held for sale i.e. from January 15 until October 1, 2010. The reason for this was that management for internal purposes continued to follow up these businesses in the same way as before despite the intention to transfer the businesses to STG. As IFRS requires that assets held for sale should be measured at the lower of their carrying amount and fair value less cost to sell, amortization and depreciation should cease as from the moment these assets were reclassified as held for sale. In order to reconcile the Group's operating income in accordance with IFRS based on the operating income from reportable segments an amount equal to the depreciation and amortization charged to the businesses to be transferred to STG, have been reversed on a separate line in Group's income statement.
[3] Investments in property, plant and equipment for Lights operations include investments in forest plantations.

During 2011 as well as in 2010, there were no impairment losses for intangible assets.

Geographic information

In the table below, sales to external customers is attributable to the country of the customers' domicile and fixed assets are based on the country of the entities' domicile.

External sales and fixed assets are distributed per significant country as follows:

	Sales to external customers				Fixed assets[1]			
	2011		2010		**2011**		2010	
Country	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	6,313	54	5,683	42	6,348	79	5,874	76
USA	3,417	29	4,682	34	951	12	900	12
Rest of the world	1,935	17	3,242	24	737	9	945	12
Total	**11,666**	**100**	**13,606**	**100**	**8,036**	**100**	**7,719**	**100**

[1] Non-current assets other than financial instruments, deferred tax assets and pension assets.

Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited.
Sales to the Group's largest single external customer constituted 9 percent of the Group's total sales, whereof 4 percent in Snus and snuff and 5 percent in Other operations.

4. Other operating income and expenses

Other operating income and expenses are specified below:

	2011	2010
Foreign exchanges gains	10	6
Foreign exchanges losses	–19	–8
Result from sale of fixed assets	0	–5
Other	–3	–1
Total	**–12**	**–7**

5. Personnel

The average number of employees in the Parent Company during 2011 was 43, and in the Group 3,880. The corresponding numbers in 2010 were 50 and 8,822, respectively. As per October 1, 2010 6,461 employees were transferred to STG. Excluding employees transferred to STG, the average number of employees in the Group during 2010 was 3,908.

Group employees by country are summarized in the table below:

	2011		2010	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	43	52	50	54
Subsidiaries				
Australia	–	–	44	61
Belgium	3	–	265	36
Brazil	712	66	718	68
Bulgaria	41	39	92	38
Dominican Republic	831	52	2,511	36
France	–	–	59	68
Honduras	–	–	858	55
Indonesia	–	–	1,524	22
Italy	–	–	4	50
Netherlands	101	95	203	78
New Zealand	–	–	5	37
Norway	47	70	47	72
Philippines	150	69	170	54
Poland	–	–	11	54
Portugal	–	–	14	86
Slovenia	–	–	11	91
Spain	–	–	39	82
Sweden	954	61	953	58
Turkey	15	73	16	69
United States	981	69	1,225	67
Other countries	2	100	4	51
Total	**3,880**	**63**	**8,822**	**47**

Board and Management by gender[1]:

	2011		2010	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	9	67	10	60
President and other management	6	83	6	83
Group				
Board members	66	86	83	82
President and other management	53	89	61	80

1) Deputy Board members are not included in the table. Presidents who are part of the Board are included in both categories; Board members and President and other management.

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

	2011			2010		
	Wages, salaries and other remunerations	Social costs	of which, pension costs[1)]	Wages, salaries and other remunerations	Social costs	of which, pension costs[1)]
Parent Company	77	39	14	83	41	10
Subsidiaries	1,143	490	160	1,583	619	173
Total	**1,220**	**528**	**173**	**1,666**	**660**	**182**

1) Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding payroll taxes).

The pension costs for the Parent Company include 6 MSEK (6) attributable to the President and other management consisting of six persons during 2011 and six persons in 2010.

The pension costs for the subsidiaries include 13 MSEK (13) attributable to Board members, Presidents and other management consisting of 34 persons in 2011 (42 persons in 2010, whereof 10 persons was transferred to the new STG company as of October 1, 2010). The defined benefit obligations related to Board members, Presidents and other management as of December 31, 2011 amounted to 61 MSEK (55).

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

	2011			2010		
	Board, President and other Management[1)]	of which, variable salaries	Other employees	Board, President and other Management[1)]	of which, variable salaries	Other employees
Parent Company						
Sweden	42	18	35	44	17	39
Subsidiaries						
Total in subsidiaries	92	38	1,051	103	35	1,480
Total	**134**	**56**	**1,086**	**147**	**52**	**1,519**

1) The Board, President and other management employed by the Parent Company consisted in average of 12 persons (13) and in the subsidiaries of 34 persons (42) , whereof of in average three persons were members of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team.

During 2011, 49 MSEK (37) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on May 2, 2011 decided, for the period up to and including May 2, 2012 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,710,000 SEK, the deputy Chairman shall receive 810,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 685,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 250,000 SEK respectively and the other members of these committees shall each receive 125,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2011. In 2011 a study fee in the amount of 54,720 SEK was paid to each of the three employee representatives on the Board, and in the amount of 40,957 SEK to each of the three deputy members. The study fees were paid by each employee representative´s respective company. The fees to Board members elected by the Annual General Meeting for Board work that were paid out during 2011 and 2010 are shown in the tables below:

Fees to Board members

	2011			
TSEK	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson *Board chairman*	1,710	250	–	1,960
Andrew Cripps *Deputy chairman*	810	–	125	935
Karen Guerra *Board member*	685	125	–	810
Robert F. Sharpe *Board member*	685	125	–	810
Meg Tivéus *Board member*	685	–	250	935
Joakim Westh *Board member*	685	–	125	810
Total	**5,260**	**500**	**500**	**6,260**

	2010			
TSEK	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson *Board chairman*	1,575	230	–	1,805
Charles A. Blixt *Board member*	630	115	–	745
Andrew Cripps *Deputy chairman*	745	–	115	860
Karen Guerra *Board member*	630	115	–	745
Arne Jurbrant *Board member*	630	–	–	630
Kersti Strandqvist *Board member*	630	–	115	745
Meg Tivéus *Board member*	630	–	230	860
Total	**5,470**	**460**	**460**	**6,390**

Remuneration and other benefits to Group Management Team

The Annual General Meeting on May 2, 2011 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

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 GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The total remuneration paid to GMT consists of fixed salary, variable components in the form of annual short term variable remuneration and longterm variable remuneration, pension, other benefits and terms related to termination of employment.

1. *Fixed salary:* The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.
2. *Variable salary:* The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. A maximum of 25 percent of the short term variable salary may be based on individual objectives established by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

   The Company shall have the right to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.
3. *Profit Sharing System:* All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS").
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 GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.
5. *Severance pay, etc:* A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.
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 GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

Application of principles on variable salary for 2011

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the GMT the variable salary will include a short term cash incentive and a long term cash incentive program where the short term program will include an incentive for the GMT to purchase and retain shares in the Company while the long term program shall include an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively. No payments will be made under the programs if the employment has been terminated by the member or by the Company for cause during the performance period.

Short term variable salary: The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 per cent respectively of their 2011 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 70 percent of the 2011 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped, shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT and by the Board of Directors in relation to the President.

Long term variable salary: The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be 45 percent of the 2011 base salary. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of the GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

Remuneration and other benefits to Group Management Team

TSEK	Year	Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance Costs
President	**2011**	**5,723**	**6,729**	**167**	**2,089**	**14,708**	**–**	**–**
	2010	5,399	6,287	142	1,977	13,805	–	–
Other members of Group Management Team employed by the Parent Company	**2011**	**11,041**	**11,711**	**621**	**3,438**	**26,810**	**–**	**–**
	2010	10,869	10,120	643	3,201	24,833	–	4,921
Other members of Group Management Team employed by subsidiaries	**2011**	**7,014**	**6,948**	**851**	**2,237**	**17,050**	**8,050**	**4,434**
	2010	11,924	13,920	2,182	3,988	32,014	26,023	–
Total	**2011**	**23,778**	**25,388**	**1,638**	**7,764**	**58,568**	**8,050**	**4,434**
	2010	28,192	30,327	2,967	9,166	70,652	26,023	4,921

Comments to the table

- At the end of 2011, the Group Management Team consisted of eight persons including the President. During 2011, nine persons, including the President, have been assigned to the Group Management Team. The President and five other members of the Group Management Team are employed by the Parent Company and two members are employed by subsidiaries.

  At the end of 2010, the Group Management Team consisted of ten persons including the President. During 2010, twelve persons, including the President, were assigned to the Group Management Team. The President and five other members of the Group Management Team were employed by the Parent Company and four members were employed by subsidiaries.
- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive program based on achieved results.
- 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 fees relating to defined contribution pension plans (excluding payroll taxes).

Variable salary

In 2011, Group Management Team participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The performance criterion for the CEO and the heads of corporate functions in the short term and long term incentive programs 2011 was Group operating profit (excluding share of net profit in STG) less 12 percent charge for the average operating capital (excluding shares in STG). The CEO and two heads of corporate functions also had an additional criterion, constituting a maximum of 10 percent of the short term incentive, based on individual objectives established by the Compensation Committee. Other members of the Group Management Team had the same performance criterion as the CEO in the long term incentive program. In the short term incentive program, those members of Group Management Team who were division Presidents had partly the same criterion as the CEO and partly incentive criteria linked to the division.

The result of the performance criterion Group operating profit (excluding share of net profit in STG) less 12 percent charge for the average operating capital (excluding shares in STG) in relation to 2011 was established to 3,144 MSEK by the Compensation Committee. The threshold for any payout and target for maximum payout, in the short term as well as in the long term program for 2011, were 2,783 MSEK and 3,080 MSEK respectively.

In addition to the programs noted above the President of the US 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.

Options

The Group had in 2009 an option program that could result in an allotment of call options on shares in Swedish Match AB during 2010. The options under the 2009 program were granted at the beginning of 2010 and vested immediately. In 2010, 713,670 options were allotted. These can be exercised between March 1, 2013 and February 28, 2015. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 197.45 SEK per share.

	2011		2010	
Number and weighted average of exercise prices for shares under options SEK	**Weighted average exercise price**	**Number of underlying shares**	**Weighted average exercise price**	**Number of underlying shares**
Outstanding at beginning of period	156.63	5,504,234	145.48	5,321,190
Granted during period	–	–	197.45	713,670
Exercised during period	127.10	523,817	99.75	530,625
Expired during period	–	–	99.75	1
Outstanding at period-end	**159.74**	**4,980,417**	**156.63**	**5,504,234**
Exercisable at period-end	161.64	2,549,799	138.34	1,464,836

The average share price for share options exercised in 2011 was 195.74 SEK (164.26).

The options outstanding at December 31, 2011 and which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2010-03-01–2012-02-29	144.60	941,019	–	931,702
2011-03-01–2013-02-28	171.60	1,608,780	–	1,592,851
2012-03-01–2014-02-28	141.24	1,716,948	–	1,716,948
2013-03-01–2015-02-28	197.45	713,670	–	713,670
Total		**4,980,417**		**4,955,171**

Pensions

President

The President's retirement age is 62 and he is covered by the Swedish standard retirement plan for white-collor employees (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 defined contribution pension plan of his choice.

Other members of Group Management Team

For members of Group Management Team who are residents in Sweden, all are subject to terms and conditions in accordance with the principles noted above under the principles for remuneration. In addition to the ITP plan, the Company pays a pension premium amounting to 35 percent of fixed salary above 30 times the income base amount. To one member of the Group Management Team resident in Sweden the Company contributes 35 percent of the fixed salary to a defined contribution plan. One member of Group Management Team, who is resident abroad, is covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary (bonus) is capped at 50 percent of the fixed salary in the calculation of retirement 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. 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. One member of the Group Management Team, who reside abroad, is entitled to terminate his employment in a change in control situation, provided his employment conditions are significantly changed, with 6 months notice and up to 18 months severance pay.

6. Audit fees

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

Audit fees	2011	2010
KPMG		
Audit services	8	13
Audit related services	0	1
Tax services	1	4
Other services	3	12
Total	**11**	**30**

Other services include assisting with testing of IT-controls. In addition, 2010 includes costs for due diligence reports.

7. Operating expenses classified by nature

Operating expenses	2011	2010
Personnel expenses	1,749	2,326
Depreciation and amortization	290	288
Other operating expenses	6,251	7,405
Total	**8,290**	**10,019**

Expenses for research and development are recognized in the income statement as other operating expenses. During 2011 expenses for research and development amounted to 80 MSEK (96).

8. Net finance cost

Financial income	2011	2010
Interest income relating to pension receivables	1	6
Interest income relating to financial instruments held for trading	17	8
Interest income relating to financial liabilities pertaining to fair value hedge	–	8
Interest income relating to cash and bank	17	14
Net gain on financial liabilities revalued to fair value	2	4
Total	**37**	**40**

Financial expenses	2011	2010
Interest expense relating to pension liabilities	–56	–69
Interest expense relating to financial liabilities measured at amortized cost	–476	–396
Interest expense relating to cash flow hedges transferred from equity[1]	0	–77
Interest expense relating to financial liabilities held for trading	–8	–
Net foreign exchange losses	–1	–11
Other financial expenses	–19	–49
Total	**–560**	**–602**
Net finance cost	**–523**	**–562**

[1] The total realized value of interest as a result from repurchase of 50 MSEK bonds maturing 2012. For 2010 the result pertains to repurchase of 171 MEUR.

9. Income tax

The major components of income tax expense/income for the years ended 31 December 2011 and 2010 are:

Income tax expense reported in the income statement	2011	2010
Current tax:		
Current tax on earnings for the year	–612	–647
Adjustments in respect of prior years	16	19
Total current tax	**–596**	**–628**
Deferred tax:		
Origination and reversal of temporary differences	–28	–20
Adjustments in respect of prior years	–18	–
Total deferred tax	**–46**	**–20**
Income tax expense	**–642**	**–649**

Income tax reported outside of the income statement	2011	2010
Deferred tax	143	39
Total	**143**	**39**
This comprises:		
Tax reported in other comprehensive income		
Actuarial net gains/losses attributable to pensions	138	49
Revaluation of cash flow hedges net gain/loss	6	–9
Total tax reported in other comprehensive income	**143**	**39**

The deductible and taxable temporary differences for the years ended 31 December 2011 and 2010 are summarized below:

	2011			2010		
Deferred tax assets and deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Trade receivables	2	–	2	4	–	4
Pensions and other post-employment benefits	588	23	565	470	39	431
Employment benefits	98	–	98	90	–	90
Intangible assets	–	232	–232	–	242	–242
Fixed assets	14	192	–178	14	165	–151
Tax allocation reserve	–	30	–30	–	–	–
Inventory	2	70	–68	2	63	–61
Unremitted earnings in foreign subsidiaries	–	8	–8	–	12	–12
Financial assets	18	–	18	14	–	14
Other	114	–	114	115	8	107
Total	**835**	**555**	**280**	**708**	**528**	**180**
Netting of assets and liabilities	–57	–57	–	–56	–56	–
Net deferred tax balances	**778**	**498**	**280**	**652**	**472**	**180**

The net of deferred tax liabilities and assets for the years ended 31 December 2011 and 2010 are summarized below:

Movement in deferred tax liabilities and assets, net	2011	2010
Opening balance, net	–180	102
Deferred tax income in the income statement	46	20
Deferred tax in other comprehensive income	–143	– 39
Disposals of subsidiaries	–	–280
Translation differences	–3	17
Closing balance, net	**–280**	**– 180**

No deferred tax liabilities are recognized for potential temporary differences associated with investments in subsidiaries and associates. The company can normally control the timing of the reversals of such temporary differences and none are probable in the foreseeable future.

As of December 31, 2011 the Group's non-recognized deductible temporary differences are in total 20 MSEK whereof non-recognized tax losses carried forward are 11 MSEK and expire as follows:

Year	Amount
2012	7
2013	3
Thereafter	–
Total tax losses carried forward recognized	**–**
Total tax losses carried forward not recognized	**11**

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended 31 December 2011 and 2010 is as follows:

	2011		2010	
Reconciliation of effective tax rate	%	MSEK	%	MSEK
Accounting profit before income tax		**3,180**		**3,607**
Swedish statutory tax rate	**26.3**	**836**	**26.3**	**949**
Effect of tax rates in foreign jurisdictions	–2.5	–81	–2.7	–99
Results from associated companies reported net of tax	–2.7	–86	0.5	17
Current income tax in respect of prior years	0.2	6	–0.5	–19
Income not subject to tax	–1.5	–47	–5.3	–190
Expenses not deductible for tax purposes	0.5	15	0.3	11
Utilization of previously unrecognized tax losses	0.0	0	–0.6	–21
Other items	0.0	–1	0.0	1
Reported effective tax	**20.2**	**642**	**18.0**	**649**

10. Earnings per share

Basic	2011	2010
Profit for the year attributable to equity holders of the Parent	2,538	2,957
Weighted average number of shares outstanding, basic	209,001,190	225,331,835

Diluted	2011	2010
Profit for the year attributable to equity holders of the Parent	2,538	2,957
Weighted average number of shares outstanding, basic	209,001,190	225,331,835
Effect of issued options	1,295,728	637,212
Weighted average number of shares outstanding, diluted	**210,296,918**	**225,969,047**

Earnings per share, SEK	2011	2010
Basic	12.14	13.12
Diluted	12.07	13.09

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.

All of the options issued have an exercise price below the average market price during 2011. As of December 31, 2011 the Company has call options corresponding to 5.0 million shares outstanding. These call options can be exercised in gradual stages between 2012 and 2015 at exercise prices varying between 144.60 SEK and 197.45 SEK. For a table detailing options outstanding at December 31, 2011, see *Note 5 Personnel*.

11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets 1)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Cost at beginning of year	**620**	**2,658**	**988**	**1,984**	**86**	**202**	**1,694**	**4,844**
Purchases/investments	–	–	–	1	22	50	22	51
Acquisitions 2)	–	29	–	–	–	–	–	29
Divestments	–	–1,871	–	–958	0	–150	0	–2,980
Sales/disposals	–	–	–	–	–	–1	–	–1
Translation differences, etc.	–1	–196	4	–38	0	–15	3	–250
Cost at end of year	**619**	**620**	**992**	**988**	**108**	**86**	**1,719**	**1,694**
Accumulated amortization and impairment losses at beginning of year	**–39**	**–49**	**–599**	**– 859**	**–28**	**–144**	**–667**	**–1,052**
Amortization for the year 3)	–	–	–47	–50	–10	–3	–57	–53
Divestments	–	9	–	296	0	104	0	410
Sales/disposals	–	–	–	–	–	1	–	1
Translation differences, etc.	–	1	–4	14	0	13	–4	28
Accumulated amortization and impairment losses at end of year	**–39**	**–39**	**–650**	**–599**	**–38**	**–28**	**–727**	**–667**
Net carrying value at end of year	**580**	**581**	**343**	**389**	**69**	**57**	**992**	**1,027**

1) Other intangible assets mainly consist of software and licenses.
2) During 2010 goodwill increased by 29 MSEK (4 MUSD) relating to an earn-out based on pre-determined performance targets pertaining to the acquisition of Cigars International in 2007.
3) Amortization charges for 2010 include an adjustment of 41 MSEK pertaining to reversals of amortization charges on assets reported as held for sales to STG from January 15, 2010 when Swedish Match announced the agreement to form a strategic partnership with STG, until October 1, 2010 when the transaction was finalized.

No borrowing costs have been capitalized during 2011 for intangible assets.

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. Amortization has been charged to the income statement as stated below;

	Amortization 1)	
	2011	2010
Cost of goods sold	–1	–1
Selling expenses	–49	–51
Administrative expenses	–6	–1
Total	**–57**	**–53**

1) During 2010, the adjustments for assets held for sale has affected cost of goods sold by 1 MSEK, selling expenses by 32 MSEK and administrative expenses by 8 MSEK.

Goodwill

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 based on products groups and geographical markets, 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 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. 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 terminal growth factor is applied to calculate the terminal value. The first year in the forecast for the 2011 testing is based on the budget for 2012. Sales growth and cost structure, which are the key assumptions for the projected cash flows during the explicit forecast period, are in line with historical development. The discount rates are calculated by weighting cost of debt and cost of equity with Swedish Match's target debt ratio. The calculation of cost of debt is based on local risk-free interest rates with a country specific risk premium for applicable markets, local tax rates and a Swedish Match specific interest margin. Cost of equity is computed using the Capital Asset Pricing Model, applying average beta for the industry adjusted for capital structure, local risk-free interest rates, and an equity risk premium. As local interest rates are included in the computation of the discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill was tested for impairment in 2011, the value in use exceeded the carrying values for all cash generating units. For US mass market cigar operations and match operations, which represent the majority of the Group's goodwill, a terminal growth rate of 1.5 percent (1.5) and –1.0 percent (–1.0) respectively has been applied to calculate the cash flows after the explicitly forecasted period. Combined, these two cash generating units correspond to approximately 70 percent of the Groups total reported goodwill. For further information, see table below. When performing sensitivity analysis 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 the match operations, the value in use was close to the carrying value when the discount rate was increased by 2 percentage points.

	Goodwill in cash generating units				
Cash generating units	**Operating segment**	**Pre-tax WACC 2011, %**	**2011**	**Pre-tax WACC 2010, %**	**2010**
US chewing tobacco operations	Other tobacco products	11.7	59	13.1	66
US mass market cigar operations	Other tobacco products	7.2	292	8.1	273
Lighter operations	Lights	12.8	35	12.7	36
Match operations	Lights	17.6	134	22.7	136
US snuff operations	Snus and snuff	9.3	59	10.0	65
Other	–		–		5
Total			**580**		**581**

12. Property, plant and equipment

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

	Buildings and land[1]		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Cost at beginning of year	**901**	**1,268**	**2,755**	**3,603**	**650**	**723**	**362**	**402**	**4,668**	**5,995**
Purchases/investments[2]	92	13	190	124	88	39	–148	111	221	287
Acquisitions	–	–	–	–	–	–	–	–	–	–
Divestments	–2	–339	–4	–865	0	–57	–1	–25	–7	–1,286
Sales/disposals	–2	–17	–74	–35	– 10	–41	–1	–	–87	–93
Reclassifications	7	24	113	96	1	3	–120	–124	0	0
Translation differences, etc.	–4	–48	–9	–169	–4	–17	0	–1	–17	–234
Cost at end of year	**990**	**901**	**2,971**	**2,755**	**724**	**650**	**93**	**362**	**4,779**	**4,668**
Accumulated depreciation and impairment losses at beginning of year	**–338**	**–516**	**–1,901**	**–2,569**	**–458**	**–500**	**0**	**–1**	**–2,697**	**–3,587**
Depreciation for the year[3]	–24	–26	–158	–153	–51	–56	–	–	–233	–235
Impairment losses during year	–	–	–	–	–	–	–	–	–	–
Divestments	0	164	3	650	0	46	0	1	4	861
Sales/disposals	2	16	73	27	9	40	–	–	85	83
Reclassifications	–	–	0	–	0	–	–	–	0	–
Translation differences, etc	1	25	9	145	4	11	0	0	13	180
Accumulated depreciation and impairment losses at end of year	**–358**	**–338**	**–1,973**	**–1,901**	**–497**	**–458**	**0**	**0**	**–2,828**	**–2,697**
Net carrying value at end of year	**632**	**563**	**998**	**854**	**228**	**192**	**92**	**362**	**1,950**	**1,971**

1) Buildings and land include land and land improvements at a book value of 111 (117).
2) Capital expenditures for 2010 includes 36 MSEK pertaining to businesses transferred to STG up until October 1 2010, when the transaction was completed.
3) Depreciation charges for 2010 includes an adjustment of 52 MSEK pertaining to reversals of depreciation charges on assets reported as held for sale to STG during the period January 15, 2010 when Swedish Match announced the agreement to form a strategic partnership with STG, up until October 1, 2010 when the transaction was finalized.

Construction in progress primarily relates to investments in production facilities.

No borrowing costs have been capitalized for property, plant or equipment.

Depreciation for the year totaling 233 MSEK (235) was charged to cost of goods sold in the income statement in an amount of 183 MSEK (174), to administrative expenses of 11 MSEK (8), and to selling expenses of 40 MSEK (52).

13. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2011	2010
Carrying value at beginning of year	**126**	**116**
Purchases/investments/new planting	24	24
Sales/disposals during the year	–	–1
Change in fair value	–3	1
Transfer to inventories	–9	– 12
Translation differences, etc.	–12	–2
Carrying value at end of year	**125**	**126**

The Group's forest plantations comprise poplar and pine forests with a total area of 5,600 hectares at December 31, 2011. 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 in the product area Lights.

Timber felled during 2011 had an estimated value of 9 MSEK at the time of felling, and made up 81,000 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area. Volume growth during 2011 had a negative effect of 4 MSEK on fair value, while higher market prices for timber had a positive effect of 1 MSEK on fair value.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2011, 98 hectares (86) 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 associated companies and joint ventures

The Group's investments in associated companies and joint ventures are accounted for in accordance with the equity method.

Investments in associated companies

On October 27, 2011 Swedish Match acquired 49 percent of the shares in VMSM Holding AB. Through its subsidiaries, the company provides road transportation services with Swedish Match Distribution AB as a major client.

On October 1, 2010 the transaction between Swedish Match and Scandinavian Tobacco Group to form a new company was finalized. Swedish Match contributed its cigar business (excluding the US mass market cigar business and the holding in Arnold André) as well as the pipe tobacco and accessories businesses to the new company and acquired 49 percent of the shares. As Swedish Match continues to own 49 percent of the net assets transferred to the new company, 49 percent of the total capital gain has been deferred. Hence, in the Group's accounts, the carrying value of the STG investment is adjusted by the deferred capital gain.

On March 16, 2010 Swedish Match acquired 20 percent of the shares in Caribbean Cigar Holding Group S.A. (Caribbean Cigar) for 110 MSEK (15.6 MUSD) from San Cristobal Holdings S.A. The Swedish Match portion of the net profit during 2010 was 4 MSEK and a dividend of 1 MSEK was received during the year. The company was transferred to STG on October 1, 2010.

The numbers in the tables below represent the change in carrying value:

Associates	2011	2010
Carrying value at beginning of year	**4,079**	**119**
Investments in associated companies	0	4,155
Share of net profit/loss in associated companies[1]	357	–42
Share of other comprehensive income in associated companies	90	55
Dividends from associated companies	–3	–12
Associated companies transferred to STG	–	–114
Translation differences	–45	–82
Carrying value at end of year	**4,478**	**4,079**

[1] 2010 includes share of net profit from Caribbean Cigars up until October 1, 2010 when the transaction with STG was closed.

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

	VMSM Holding AB		Arnold André GmbH & Co. KG		Malaysian Match Co. SDN. BHD.		Scandinavian Tobacco Group A/S		Total	
Country (share of ownership)	Sweden (49%)		Germany (40%)		Malaysia (32%)		Denmark (49%)			
MSEK	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Sales	11	–	249	233	24	22	3,235	851	3,519	1,106
Profit/loss (excluding other comprehensive income)	0	–	18	12	2	2	337	–60	357	–46
Assets	52	–	184	167	15	12	8,184	7,446	8,435	7,625
Liabilities	52	–	82	79	5	4	3,278	2,924	3,416	3,007
Equity interest	**1**	–	**102**	**88**	**10**	**8**	**4,906**	**4,522**	**5,018**	**4,618**
Goodwill	–	–	–	–	3	4	–	–	3	4
Deferred capital gain, net of tansaction costs	–	–	–	–	–	–	–543	–543	–543	–543
Carrying value at end of year	**1**	–	**102**	**88**	**13**	**12**	**4,362**	**3,979**	**4,478**	**4,079**

Investments in joint ventures

In 2009, Swedish Match and Philip Morris International established an exclusive joint venture company, SMPM International AB, to commercialize Swedish snus and other smokeless products worldwide, outside Scandinavia and the United States. The joint ventures agreement is a 50 percent holding of SMPM International. Swedish Match share of the net loss for 2011 was 30 MSEK.

The numbers in the tables below represent the change in carrying value:

Joint ventures	2011	2010
Carrying value at beginning of year	**6**	**13**
Investment in joint ventures	28	13
Net loss of joint ventures	–30	–20
Carrying value at end of year	**3**	**6**

The table below specifies the share in sales, expenses, assets and liabilities of the joint ventures:

	2011	2010
Sales	1	0
Expenses	–31	–20
Loss	**–30**	**–20**
Total assets	14	12
Total liabilities	10	7
Equity interest	**3**	**6**

Transactions with associated companies and joint ventures

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 35 MSEK (290). Total sales to associated companies and joint ventures amounted to 171 MSEK (108). Payables to these companies totaled 30 MSEK (11). Total purchases from associated companies and joint ventures amounted to 139 MSEK (103).

15. Other non-current receivables and other receivables

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

Non-current receivables	2011	2010
Non-current financial receivables	340	384
Finance lease[1)]	–	3
Net assets in pension plans	67	117
Other non-current receivables	209	212
Total	**617**	**716**

1) The finance lease amount pertained to a sale-lease back agreement of a production line. During the year this lease agreement has generated an income of 1 MSEK. The agreement was terminated during 2011 as a result from sale of the underlying assets.

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

Other non-current receivables mainly pertain to deposits for disputed VAT claims in a non-Swedish subsidary.

Other current receivables at December 31 comprised the following items:

Other current receivables	2011	2010
Current financial receivables	9	274
VAT receivables	11	11
Other current receivables	66	44
Total	**86**	**329**

The credit risk of the Group's non-current and current receivables are deemed to be low.

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:

	2011			2010		
Inventories	Current	Non-current	Total	Current	Non-current	Total
Finished goods	535	–	535	409	–	409
Work in progress	42	–	42	36	–	36
Leaf tobacco	314	254	568	294	272	567
Other input materials and consumables	195	–	195	190	0	191
Total	**1,085**	**254**	**1,339**	**929**	**272**	**1,202**

Other input materials and consumables includes harvested trees which are reported at fair value. Harvested trees constitues an immaterial part of other input materials.

17. Trade receivables

Trade receivables, net, at December 31 comprised the following:

Trade receivables	2011	2010
Trade receivables	1,416	1,202
Less provision for impairment of trade receivables	–18	–21
Net total	**1,398**	**1,181**

Movements on the group provision for impairment of trade receivables are as follows:

Trade receivable provision	2011	2010
Carrying value at beginning of year	**–21**	**–39**
Provision	–9	–11
Recovery	9	6
Write-off	2	9
Companies divested	0	12
Translation differences, other deductions or additions, etc.	1	1
Carrying value at end of year	**–18**	**–21**

As of December 2011, trade receivables of 37 MSEK (27) were past due but not impaired. The aging of these trade receivables is as follows:

Age of trade receivables	2011	2010
Current	1,360	1,154
Overdue <31 days	28	17
Overdue 31–60 days	6	5
Overdue >60 days	3	5
Total	**1,398**	**1,181**

Swedish Match does not generally hold collateral against trade receivables. The Group has a diverse customer base and the customer concentration level is insignificant. The ten largest customers represent percent 39 percent (29) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables are deemed to be low. For more information see *Note 25 Financial instruments and financial risks*.

18. Cash and cash equivalents, and other investments

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

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

	2011	2010
Other investments		
Other financial investments	–	1
Cash and cash equivalents		
Cash and bank	2,533	3,275
Total	**2,533**	**3,276**

19. Equity

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 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 proposes a dividend of 6.50 SEK, equivalent to 54 percent of the earnings per share for the year. Based on the number of shares outstanding at the end of the year, the total proposed dividend amounts to 1,327 MSEK. The dividend for 2010, paid in 2011, amounted to 1,152 MSEK corresponding to 5.50 per share, which was equivalent to 55 percent of the earnings per share for the year, excluding larger one time items.

The number of shares in held in treasury and cumulative repurchases of own shares included in retained earnings are detailed below:

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2011	2010	**2011**	2010
Balance at beginning of year	**16,203**	**19,700**	**–18,398**	**–15,437**
Repurchase of own shares during the year	11,149	17,034	–2,371	– 3,014
Stock options exercised during the year	–524	–531	67	53
Allocated to retained earnings by cancellation of shares	–18,000	–20,000	30	31
Bonus issue	–	–	–30	–31
Balance at end of year	**8,828**	**16,203**	**–20,702**	**–18,398**

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 209.4 million shares and the total number of cancellation of shares amounts to 190.9 million shares. Total number of shares sold as a result of option holders exercising options amounts to 9.7 million shares.

The Annual General Meeting on May 2, 2011 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 18 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 30.4 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 213.0 million shares with a quotient value of 1.8287 SEK.

During the year 11.1 million shares were repurchased for 2,371 MSEK at an average price of 212.66 SEK. As at December 31, 2011 Swedish Match held 8.8 million shares in its treasury, corresponding to 4.14 percent of the total number of shares. During the year the Company has also sold 0.5 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 204.2 million. In addition, the Company has call options outstanding at year end corresponding to 5.0 million shares exercisable in gradual stages from 2012–2015.

Changes in reserves of cumulative other comprehensive income and non-controlling interest

2010	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	**–59**	**252**	**4**
Profit for the year pertaining to non-controlling interest	–	–	1
Transfer of non-controlling interest to STG of partly owned subsidiary	–	–	–2
Translation differences related to foreign operations for the year	–	–504	0
Translation differences included in profit and loss	–	278	–
Effective portion of changes in fair value cash flow hedges	58	–	–
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	–24	–	–
Income tax relating to components of other comprehensive income[1]	–9	–	–
Balance at end of year	**–34**	**26**	**2**

2011	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	**–34**	**26**	**2**
Profit for the year pertaining to non-controlling interest	–	–	1
Translation differences related to foreign operations for the year	–	–57	0
Translation differences included in profit and loss	–	0	–
Effective portion of changes in fair value cash flow hedges	–22	–	–
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	0	–	–
Income tax relating to components of other comprehensive income[1]	6	–	–
Balance at end of year	**–50**	**–31**	**2**

[1] For further details on tax components relating to the various items recognized in other comprehensive income, see *Note 9 Income tax*.

Hedge reserve

The hedge reserve includes the accumulated effective portion of changes in fair value of cashflow hedges attributable to exchange and interest rate hedges.

Translation reserve

The translation reserve includes 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).

20. Interest bearing liabilities

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

Year	2011	2010
2011	–	1
2012	1	1,596
2013	1,160	1,176
2014	1,266	1,294
2015	1,997	1,996
2016	453	–
2017 and later	3,658	3,146
Total	**8,535**	**9,209**

The Group's current interest-bearing liabilities at December 31 comprised the following items:

Current interest-bearing liabilities	2011	2010
Current portion of non-current loans	1,281	525
Bank overdraft facilities used	2	–
Total	**1,283**	**525**

See further information on interest-bearing liabilities in *Note 25 Financial instruments and financial risks*.

21. 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 Group's major defined benefit plans cover employees in the US, UK and Sweden. In the US, plans are also in place to provide post-employment medical benefits to employees.

Provisions for post-employment defined benefit plans are reported based on actuarial valuations. The Group recognizes the full amount of actuarial gains and losses in other comprehensive income, i.e. the net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

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

Post-employment defined benefits	2011	2010
Defined benefit plans, net liabilities	598	445
Post-employment medical benefits, net liabilities	844	705
Other long term employee benefits, net liabilities	7	8
Provision for pensions and similar obligations	**1,449**	**1,158**
Defined benefit plans, net assets	–67	–117
Included in non-current receivables	**–67**	**–117**
Net post-employment liability	**1,382**	**1,041**

The table below specifies the net liability for defined benefit post-employment obligations:

	Defined-benefit plans		Post-employment medical benefits	
Post-employment defined benefits	**2011**	**2010**	**2011**	**2010**
Present value of funded obligations	2,242	2,025	–	–
Fair value of plan assets	–1,808	–1,845	–	–
Deficit(+)/Surplus(–), net	**434**	**180**	**–**	**–**
Present value of unfunded obligations	81	99	843	704
Unrecognized past service costs	–	–	1	1
Unrecognized assets due to recoverability limit	15	49	–	–
Net asset(–)/liability(+) in the balance sheet	**530**	**328**	**844**	**705**
Amounts in the balance sheet				
Liabilities	598	445	844	705
Assets	–67	–117	–	–
Net asset(–)/liability(+) in the balance sheet	**530**	**328**	**844**	**705**

Actuarial assumptions

The post-employment defined benefits have been calculated based on actuarial assumptions. The discount rate is set per country with reference to high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. 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 both historical performance and future outlook given the long term perspective. For the post-employment defined benefit plans all actuarial gains and losses are recognized in other comprehensive income as they occur in accordance with the actuarial valuation.

The year 2011 was characterized by an overall decrease in discount rates. Conseqently, the Group experienced an increase in the net pension liability, and has recognized an actuarial loss during the year.

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

	Defined-benefit pension plans		Post-employment medical benefits	
Actuarial assumptions	**2011**	**2010**	**2011**	**2010**
Discount rate, %	4.5	5.1	4.5	5.2
Expected return on plan assets, %	7.0	5.3	–	–
Future salary increases, %	3.2	3.5	3.1	3.5
Future pension increases, %	2.7	3.0	–	–
Medical cost trend rate, %	–	–	8.5	8.5

Sensitivity analysis for medical benefit schemes

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 11 MSEK (12) and the defined benefit obligation by 75 MSEK (73). A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 9 MSEK (10) and the defined benefit obligation by 95 MSEK (93).

Change in the defined benefit obligations and plan assets

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

	Defined-benefit pension plans		Post-employment medical benefits	
Defined benefit obligations	**2011**	**2010**	**2011**	**2010**
Balance at beginning of year	**2,124**	**4,505**	**704**	**704**
Current service cost	40	83	30	31
Interest cost	103	201	34	39
Contributions by plan participants	–	0	2	2
Past service cost	–	77	–	–1
Actuarial losses (+)/gains (–)	124	328	108	11
Benefits paid	–114	–269	–29	–26
Settlements (liability)	6	–2,618	–24	–33
Translation differences	40	–183	18	–22
Balance at end of year	**2,323**	**2,124**	**843**	**705**

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

	Defined-benefit pension plans		Post-employment medical benefits	
Plan assets	**2011**	**2010**	**2011**	**2010**
Fair value at beginning of year	**1,845**	**4,197**	**0**	**0**
Expected return on plan assets	117	209	–	–
Actuarial losses (–)/gains (+)	–154	139	–	–
Employer contributions	94	178	27	24
Employee contributions	–	1	2	2
Benefits paid	–114	–269	–29	–26
Assets distributed on settlements	–6	–2,468	–	–
Translation differences	25	–143	–	–
Fair value at end of year	**1,808**	**1,845**	**0**	**0**

The actual return on plan assets in 2011 was a loss of 36 MSEK (gain 349).

Plan assets at December 31 are comprised as follows:

Plan assets	**2011**	**2010**
Equity securities	771	755
Debt instruments	468	818
Real estate	54	61
Other	515	211
Total	**1,808**	**1,845**

Expenses relating to post-employment benefit plans recognized in the income statement

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

	Defined-benefit plans		Post-employment medical benefits	
Post-employment defined benefits income and expenses	**2011**	**2010**	**2011**	**2010**
Current service costs	40	83	30	31
Interest on obligation	103	201	34	39
Expected return on plan assets	–117	–209	–	–
Recognized past service costs	6	77	0	–1
Gain from transfer of defined benefit obligations[1]	–	–150	–	–33
Gains on curtailments	–	–	–24	–
Cost for settlement[2]	6	–	–	–
Net income(–)/expense(+) reported in the income statement	**37**	**2**	**40**	**36**

1) Effect from net book values of defined benefits obligations transferred to STG and net book values of the Swedish pension plans transferred to external insurance companies.
2) Relates to final settlement cost for Swedish plans transferred to insurance companies in 2010.

During the year a curtailment gain has been recognized in the income statement in an amount of 24 MSEK relating to post employment medical plan in the US.

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

	Defined-benefit pension plans		Post-employment medical benefits	
Post-employment defined benefits income and expenses	**2011**	**2010**	**2011**	**2010**
Cost of goods sold	12	22	13	13
Administrative expenses	–12	8	–20	3
Selling expenses	18	21	13	13
Larger one time items	–	–73	–	–33
Interest income	–1	–6	–	–
Interest expense	19	30	35	40
Net income(–)/expense(+) reported in the income statement	**37**	**2**	**40**	**36**

Actuarial gains and losses

The Group's cumulative actuarial gains and losses at December 31 are as follows:

Cumulative actuarial gains and losses recognized in other comprehensive income[1]	**2011**	**2010**
Cumulative actuarial losses (+)/gains (–), beginning of year	**588**	**1,415**
Actuarial losses (+)/gains (–) during year	386	200
Cumulative actuarial gains and losses transferred on settlements	–	–987
Translation differences	30	–39
Cumulative losses (+)/gains (–), end of year	**1,004**	**588**

1) Cumulative actuarial gains and losses exclude effects from asset limits and payroll taxes.

Expected contribution next year

Expected contributions for post-employment benefit plans for the year ending December 31, 2012 amounts to 126 MSEK (126).

Five year summary

Historical information	**2011**	**2010**	**2009**	**2008**	**2007**
Present value of funded defined benefit obligations	2,242	2,025	4,405	4,180	3,329
Fair value of plan assets	–1,808	–1,845	–4,197	–3,908	–3,506
Deficit (+)/surplus(–)	**434**	**180**	**208**	**272**	**–176**
Present value of unfunded obligations	924	803	804	730	518
Total net post-employment asset (–)/liability(+)	**1,358**	**983**	**1,012**	**1,002**	**342**
Experience adjustments on plan liabilities losses (–)/gains (+)	–56	–185	–54	–35	3
Experience adjustments on plan assets losses (–)/gains (+)	4	77	252	–768	–35

Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 101 MSEK (69). The increase in the cost is mainly relating to the transfer of the Swedish pension obligations in December 2010, see below.

Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan which commenced in 2010, when the pension obligations for salaried personnel in Sweden, were transferred to Alecta. Alecta is not able to provide specific information for each customer's obligation and fair value of related assets, and therefore it has been accounted for as a defined contribution plan. As a result of the transaction of last year, in 2010 a settlement gain of 59 MSEK was recognized in the income statement and an actuarial loss of 166 MSEK, including payroll taxes, was recognized in other comprehensive income of last year.

22. Provisions

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

Non-current provisions	2011	2010
Income tax	93	104
Restructurings	0	1
Other operating provisions	169	178
Deferred compensation	250	230
Other provisions	60	65
Total non-current provisions	**572**	**577**

Current provisions	2011	2010
Restructurings	0	2
Other operating provisions	83	97
Total current provisions	**84**	**98**
Total non-current and current provisions	**656**	**676**

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other provisions	Total
Carrying value at beginning of year	**104**	**3**	**275**	**230**	**65**	**676**
Provisions made during the year	3	0	25	62	–	89
Provisions used during the year	–	–2	–29	–13	–4	–48
Provisions reversed during the year and changes in estimates	–6	0	–3	0	–	–10
Companies divested	–	–	0	–	–	0
Reclassifications	–2	–	–	–30	–	–32
Translation differences, etc.	–5	0	–15	1	–	–19
Carrying value at end of year	**93**	**1**	**252**	**250**	**60**	**656**

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.

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 of up to five years.

Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. Whilst coupons and returns are expected to be realized within the year, these are replaced within the year, and as such the provisions are classified as non-current. Another large part of the 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). Deferred compensation includes earned remuneration to certain employees and accruals for the long term incentive plan. Certain emplyees can select to defer a portion of their normal salary and/or bonus awards until a later date, and they may defer their compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years. The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years.

Other Provisions

Other provisions represent long term legal obligations. The timing of settlement is expected to be within five years.

For further information about provisions for pensions, see *Note 21 Employee benefits*.

23. Other liabilities

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

Other non-current liabilities	2011	2010
Non-interest bearing non-current liabilities	17	26
Non-current financial liabilities, derivatives	321	294
Total	**338**	**320**

Other current liabilities at December 31 comprised the following:

Other current liabilities	2011	2010
Tobacco taxes	1,235	896
VAT liabilities	382	288
Current financial liabilities, derivatives	33	18
Other	135	248
Total	**1,786**	**1,449**

24. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2011	2010
Accrued wage/salary-related expenses	199	138
Accrued vacation pay	56	54
Accrued social security charges	57	56
Accrued interest	198	192
Other	305	312
Total	**815**	**754**

25. 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 is 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

	2011			2010		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	207	–	0	13	0	0
Interest-rate derivatives *	8,687	62	313	9,297	78	242
Total	**8,894**	**62**	**313**	**9,310**	**78**	**242**
***Of which hedge accounting**						
Cash flow risk in financing						
Cash flow hedges	6,846	–	279	7,081	–	205

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 11 MSEK (7) in the operating profit and 1 MSEK (11) in the 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 Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD. The largest exposure is in NOK due to the sales of snus in Norway which is produced in Sweden.

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 900 MSEK on an annual basis. It is divided as following; 600 MSEK in NOK (67 percent), 94 MSEK in EUR (10 percent), 47 MSEK in PHP (5 percent), 38 MSEK in GBP (4 percent), 34 MSEK in JPY (4 percent) and in other currencies 90 MSEK (10 percent). Swedish Match's policy for managing the Group's transaction exposure is to hedge within certain limits. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. Transactions are mainly initiated via currency forward contracts with durations of up to 12 months, and relate to forecasted currency flows. At December 31, 2011, no transaction exposure for 2012 has been hedged. A general rise of 10 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by 90 MSEK (70), which of 60 in MNOK, 9 in MEUR, 5 in MPHP, and 16 in other currencies for the year ending December 31, 2011.

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 and BRL. 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 exposures of net investment are 1,972 MSEK in USD (62 percent), 711 MSEK in EUR (22 percent) and in other currencies 490 MSEK (16 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 10 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 320 MSEK, which of 200 in MUSD, 70 in MEUR, and 50 in other currencies based on the exposure at December 31, 2011.

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 and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match 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 fixing is to achieve an even and low cost of interest. Interest rate swaps and currency swaps are used mainly to convert our borrowing into SEK and fixed interest rates. At December 31, 2011, the average interest maturity period for Group loans was 3.6 years (4.0 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2011 was as follows:

	Loans		Loans and effects from derivatives	
Year	Fixed	Variable	Fixed	Variable
2012	330	952	1,015	267
2013	1,160		1,160	
2014	598	668	1,043	223
2015	1,997		1,997	
2016	453		453	
2017–	3,658		3,658	
Total	**8,196**	**1,620**	**9,326**	**490**

At December 31, 2011, a general rise of 1 percent (100bp) in interest rates was estimated to increase consolidated earnings before tax by approximately 20 MSEK (25) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 8,886 MSEK (7,650). 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 increase the amount by 206 MSEK (254).

Refinancing risk and liquidity

Refinancing risk is defined as the risk of 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 160 MEUR, which matures in Jan 2016. This was unutilized at year-end and contained no financial covenants. At year-end 2011, available cash funds and committed credit facilities amounted to 3,959 MSEK. Of this amount, confirmed credit lines amounted to 1,426 MSEK and cash and cash equivalents making up the remaining 2,533 MSEK.

Most of Swedish Match's 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, 2011, a total of 453 MSEK of the Swedish program and 9,310 MSEK of the global program were outstanding. The average maturity of the Group's bond borrowing at December 31, 2011 was 3,6 years.

Swedish Match's undiscounted cash flows regarding sources of loans, including interest payments, negative derivatives (derivatives with positive market values are excluded), trade payables and their maturity profiles are distributed as follows:

Year	MTN Loans incl. interest	Negative derivatives	Trade payables	Total value	Total booked value
2012	1,668	152	653	2,473	2,058
2013	1,509	112		1,621	1,228
2014	1,522	103		1,625	1,311
2015	2,266	45		2,311	2,027
2016	613	45		658	483
2017–	3,800	232		4,032	3,685
Total	**11,378**	**689**	**653**	**12,720**	**10,792**

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, 2011 were as follows:

	2011	2010
Swedish MTN, %	4.6	4.2
Global MTN, %	4.9	4.8

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 unit. Exceptions are only allowed when regulations prohibit cash pools or internal deposits.

Cash flow and fair value hedges

Cash flow hedges

The table below shows the yearly change of market value, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2011.

	2011				2010			
Changes in hedge reserve	Jan. 1	Change of market value	Allocated to earnings	Dec. 31	Jan. 1	Change of market value	Allocated to earnings	Dec. 31
Hedging instruments, derivatives	–46	–21	0	–67	–80	10	24	–46
Total	**–46**	**–21**	**0**	**–67**	**–80**	**10**	**24**	**–46**

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.

	2012	2013	2014	2015	2016	2017–
Interest payment for loans	287	250	191	165	165	165
Market-value derivatives	–17	–14	–16	–7	–7	–6

Fair value hedges

The table below shows the change of fair value hedges during the year recognized in earnings. At yearend there were no fair value hedges outstanding.

	2011			2010		
	Jan. 1	Earnings	Dec. 31	Jan. 1	Earnings	Dec. 31
Hedged item	–	–	–	–9	9	–
Hedging instruments, derivatives	–	–	–	9	–9	–
Total	**–**	**–**	**–**	**0**	**0**	**–**

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, 2011, the average interest maturity for the Group's current investments was approximately 0.2 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least A from Standard & Poor's or 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, 2011, credit exposure in derivative instruments amounted to 24 MSEK, and credit exposure in cash and deposits at banks amounted to 2,533 MSEK. Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable, by dividing accounts receivable among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,398 MSEK. For more information see *Note 17 Trade receivables*.

Credit ratings

At December 31, 2011, 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 category of financial instruments at December 31, 2011. All items, except loans and borrowings, have a short duration and are non interest-bearing, and therefore, the total carrying value and the estimated fair value are reported the same. All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy presented in IFRS 7. The values presented are indicative and may not necessarily be realized.

2011	Items carried at fair value via the income statement [1]	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	–	1,398	–	–	–	1,398	1,398
Non-current receivables	58	–	–	18[4]	541[3]	617	617
Other receivables	0	–	–	–	86	86	86
Prepaid expenses and accrued income	11	–	–	–	65	76	76
Other investments	–	–	–	–	–	–	–
Cash and cash equivalents	807	1,726	–	–	–	2,533	2,533
Total assets	**876**	**3,124**		**18**	**692**	**4,710**	**4,710**
Loans and borrowings	–	–	9,818	–	–	9,818	10,252[2]
Other liabilities	27	–	–	336	1,761	2,124	2,124
Accrued expenses and deferred income	–	–	173	24	618	815	815
Trade payables	–	–	651	–	–	651	651
Total liabilities	**27**	**–**	**10,642**	**360**	**2,379**	**13,408**	**13,842**

2010	Items carried at fair value via the income statement [1]	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	–	1,181	–	–	–	1,181	1,181
Non-current receivables	83	–	–	34[4]	599[3]	716	716
Other receivables	0	–	–	–	329	329	329
Prepaid expenses and accrued income	11	–	–	–	67	78	78
Other investments	1	–	–	–	–	1	1
Cash and cash equivalents	619	2,656		–	–	3,275	3,275
Total assets	**714**	**3,837**	**–**	**34**	**995**	**5,580**	**5,580**
Loans and borrowings	–	–	9,734	–	–	9,734	10,011[2]
Other liabilities	38	–	–	276	1,455	1,769	1,769
Accrued expenses and deferred income	–	–	162	30	562	754	754
Trade payables	–	–	555	–	–	555	555
Total liabilities	**38**	**–**	**10,451**	**306**	**2,017**	**12,812**	**13,089**

1) All items relates to instruments held for trading.
2) The estimated fair value is the revaluation of the loans and borrowings to the fair values based on the market rates for December 31, 2011 and 2010.
3) Includes shares in other companies amounting to 16 MSEK (13) that are classified as available for sale, measured at cost.
4) 0 MSEK (24) are allocated to earnings and 18 MSEK (10) are changes of market value. The instruments are interest rates swaps at nominal amount of 5,403 MSEK (5,529). There are no conditions in these transactions that can cause any differences in amounts and maturities between these derivatives and their underlying liabilities.

26. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2011 amounted to 45 MSEK (79, including 32 MSEK pertaining to businesses transferred to STG as of October 1, 2010).

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

Minimum lease payments	2011	2010
Within one year	45	44
Between 1–5 years	97	113
Later than 5 years	29	36
Total	**172**	**193**

The operating lease agreements are mainly attributable to the rental of real estate.

27. Pledged assets

As per December 31, 2011 the Group had 33 MSEK (29) in assets pledged, pertaining to endowment insurance policies pledged as security for pension obligations. The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

28. Commitments and contingent liabilities and assets

Contingent liabilities

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. Guarantees to associated companies pertain to undertakings on behalf of subsidiaries transferred to STG. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco and guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Contingent liabilities	2011	2010
Guarantees on behalf of subsidiaries	52	61
Guarantees to associated companies	61	171
Guarantees to external companies	0	–
Other guarantees and contingent liabilities	170	208
Total	**282**	**440**

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.

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. Swedish Match North America, Inc. is also named as one of the defendants in an individual claim filed in federal court in Mississippi in October, 2011, related to alleged health effect from use of chewing tobacco. 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

As per December 31, 2011, the Group had no contingent assets.

29. Group companies

Subsidiary holdings[1]	Subsidiary's domicile, country	Ownership share, % 2011	2010
SM Treasury SEK SA	Belgium	100	100
SM Treasury EUR SA	Belgium	100	100
SM Treasury USD SA	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[2]	Bulgaria	–	99.9
SM Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Dominicana BV[3]	Netherlands	–	100
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Sales.com[4]	Netherlands	–	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100

Subsidiary holdings[1]	Subsidiary's domicile, country	Ownership share, % 2011	2010
SM Distribution AB	Sweden	100	100
SM Industries Aktiebolag	Sweden	100	100
SM North Europe AB	Sweden	100	100
Svenska Tändsticks Aktiebolaget	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Cigars Holding	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100

[1] The designation includes both directly and indirectly owned companies. Dormant companies are not included.
[2] Company divested.
[3] Company liquidated.
[4] Company liquidated.

30. 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 investments*.

Interest paid and interest received	2011	2010
Interest received	35	32
Interest paid	–479	–477
Total	**–444**	**–445**

Interest payments and interest receipts are reflected in cash flow from operations.

Adjustments for non cash items and other	2011	2010
Depreciation and amortization	290	288
Share of profits/loss in associated companies and joint ventures	–327	62
Dividend received from associated companies and joint ventures	14	3
Capital gain/loss from sale of non-current assets	0	5
Capital gain on businesses transferred to STG	–	–585
Capital gain on divested companies	–1	–
Net gain from pension settlement	–	–59
Change in fair value of forest plantations	3	–1
Change in provisions	–43	–75
Change in accrued interest	8	–2
Change in market value revaluations and unrealized exchange rate differences	88	158
Realized exchange rate differences moved to financing	–94	–80
Other	–11	–12
Total	**–73**	**–297**

Investments in associated companies, joint ventures and other companies

Investments in joint ventures during 2011 pertain to investment of 28 MSEK (12) in Swedish Match´s and Philip Morris International´s joint venture company and 1 MSEK in VMSM Holding AB. Investments in other companies pertain to acquisition of 13 percent of the shares in Secure Vending AB in an amount of 4 MSEK. During 2010 investments in associated companies pertain to purchase of 20 percent of the shares in Caribbean Cigar Holdings Group, S.A in an amount of 110 MSEK. For further information see *Note 14 Investments in associated companies and joint ventures.*

No acquisitions of subsidiaries have been made during 2011 nor 2010.

Divestment of subsidiaries

The cash flows from sale of subsidiaries during 2011 pertain to repayment of loans from STG of 140 MSEK net of final transaction adjustment. Furthermore in June 2011, the subsidiary SM Plam Bulgaria was divested for a total purchase price of 12 MSEK, whereof at completion of the transaction, 6 MSEK was received in cash.

Divestment of subsidiaries	2011
Divested assets and liabilities	
Intangible fixed assets	0
Tangible fixed assets	3
Inventories	8
Trade receivables	4
Other receivables	1
Cash and cash equivalents	3
Total assets	**18**
Accounts payable	–1
Non-current financial liabilities	–1
Other liabilities	–6
Total liabilities	**–7**
Divested assets, net	**12**
Net purchase price consideration received	**6**
Less transaction costs relating to divested operations	0
Less cash and cash equivalents in divested operations	–3
Effect on cash and cash equivalents	**3**

No divestments of subsidiaries and other business units were made 2010.

STG transaction

On October 1, 2010 the transaction between Swedish Match and Scandinavian Tobacco Group to form a new company was finalized. Swedish Match contributed its cigar business (excluding the US mass market cigar business and the holding in Arnold André) as well as the pipe tobacco and accessories businesses to the new company. Swedish Match acquired 49 percent of the shares in the new STG company.

The numbers in the tables below represent the assets and liabilities that were transferred to STG and the analysis of cash flow effect from the transaction with STG.

Assets and liabilities transferred to STG	2010
Non-current financial assets	9
Other non-current assets	3,148
Current operating assets	2,335
Cash and cash equivalents	103
Inter-company financial receivables	591
Other inter-company receivables	22
Total assets transferred	**6,207**
Non-current liabilities	406
Current liabilities	404
Inter-company financial liabilities	2,381
Other inter-company liabilities	1,442
Total liabilities transferred	**4,634**
Transferred assets, net	**1,573**

Analysis of cash flow effect from transaction with STG	2010
Repayment of loans, received from STG[1)]	1,560
Less cash and cash equivalents in transferred operations	–103
Effect on cash and cash equivalents from net assets transferred	**1,457**
Transaction costs relating to 49% investment in STG	–19
Effect on cash and cash equivalents from net investment[2)]	**–19**
Net cash effect from transaction with STG	**1,439**

1) As per October 28, 2010 STG made a repayment of loans of 170 MEUR (1 560 MSEK) to Swedish Match. Additional loans amounting to 16 MEUR (140 MSEK) were repayed during 2011. The loans were provided from Swedish Match to STG in connection with the formation of the new company and include the 30 MEUR cash consideration as compensation for the relative differences in enterprise values of the businesses contributed from the former Scandinavian Tobacco Group and Swedish Match. Final purchase price adjustments were determined and settled in the second quarter of 2011.

2) For further information about the 49 percent investment in STG, see *Note 14 Investments in associated companies and joint ventures.*

31. Related parties

The Group's related parties include joint venture, associated companies and key management personnel with significant influence over the Company. Key management personnel with significant influence over the company are Swedish Match Board of Directors and members of the Group Management Team. Related parties transactions are conducted at an arms-length basis. For further information about the Group´s transactions with joint ventures and associated companies, see *Note 14 Investments in associates and joint ventures*. Information about remuneration to the Board of Directors and Group Management Team, see *Note 5 Personnel*. Besides this, disregarded intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other related parties transactions have been conducted during the year.

32. Information about the Parent Company

Swedish Match AB (publ) 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 Västra Trädgårdsgatan 15, post address: Box 7179 SE-103 88 Stockholm, Sweden.

The consolidated financial statements for 2011 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies and joint ventures.

Parent Company income statement

MSEK	Note	2011	2010
Sales	1	51	57
Administrative expenses	2, 7, 8, 26	–165	–358
Other operating income and expenses	3	–1	0
Operating loss		**–115**	**–301**
Result from participation in group companies	4	2,974	3,722
Result from participation in joint venture	4	–12	–20
Interest income from receivables carried as non-current assets	4	133	213
Interest income and similar items	4	0	18
Interest expenses and similar items	4	–1,330	–1,076
Profit after financial items		**1,650**	**2,556**
Appropriations	5	–124	0
Profit before income tax		**1,526**	**2,556**
Income tax expense	6	–107	–197
Profit for the year		**1,419**	**2,359**

Parent Company statement of comprehensive income

MSEK	Note	2011	2010
Profit for the year		**1,419**	**2,359**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		–22	58
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		0	–24
Income tax relating to components of other comprehensive income	6	6	–9
Other comprehensive income, net of tax for the year		**–16**	**25**
Total comprehensive income for the year		**1,403**	**2,384**

Parent Company balance sheet

MSEK	Note	December 31, 2011	December 31, 2010
Assets			
Intangible assets	7	58	43
Tangible assets	8	2	2
Non-current financial assets			
Participations in group companies	9	49,234	41,626
Participation in joint venture	10	–	6
Receivables on group companies	11	–	8,850
Other non-current receivables	12	109	146
Deferred income tax assets	6	30	39
Total non-current financial assets		**49,373**	**50,667**
Total non-current assets		**49,433**	**50,711**
Current assets			
Receivables on group companies		2,051	2,058
Receivables on associated companies		2	258
Receivables on joint venture		1	1
Current income tax receivables	6	88	–
Other receivables	13	3	4
Prepaid expenses and accrued income	14	27	32
Total current assets		**2,172**	**2,353**
TOTAL ASSETS		**51,605**	**53,064**
Equity	15		
Restricted equity			
Share capital, 213,000,000 shares at 1.8287 and 231,000,000 at 1.6862 respectively		390	390
Unrestricted equity			
Hedge reserve		–49	–34
Retained earnings		17,766	18,863
Profit for the year		1,419	2,359
TOTAL EQUITY		**19,525**	**21,578**
Untaxed reserves	16	**124**	**1**
Provision for pensions and similar obligations	26	–	37
Other provisions	17	71	77
Total provisions		**71**	**114**
Non-current liabilities			
Bond loans	18	8,535	9,209
Liabilities to group companies	19	18,101	18,100
Other liabilities	20	324	297
Total non-current liabilities		**26,960**	**27,606**
Current liabilities			
Bond loans		1,281	525
Trade payables		17	25
Liabilities to group companies		3,348	2,918
Liabilities to associated companies		3	–
Current income tax liabilities	6	–	41
Other liabilities		49	26
Accrued expenses and deferred income	21	225	231
Total current liabilities		**4,924**	**3,765**
TOTAL EQUITY AND LIABILITIES		**51,605**	**53,064**
Pledged assets	22	33	29
Contingent liabilities	22	112	232

Statement of changes in Parent Company equity

MSEK 2010	Note	Restricted equity Share capital	Unrestricted equity Hedge reserve	 Retained earnings	 Profit for the year	 Total equity
Equity at beginning of year	15	**390**	**–59**	**18,321**	**4,578**	**23,229**
Profit for the year		–	–	–	2,359	2,359
Other comprehensive income, net of tax for the year		–	25	–	–	25
Total comprehensive income for the year		**–**	**25**	**–**	**2,359**	**2,384**
Allocation of profit		–	–	4,578	–4,578	–
Dividend		–	–	–1,089	–	–1,089
Repurchase of own shares		–	–	–3,014	–	–3,014
Stock options exercised		–	–	53	–	53
Cancellation of shares		–31	–	31	–	–
Bonus issue		31	–	–31	–	–
Share-based payments, contributions from subsidiaries		–	–	14	–	14
Equity at end of year		**390**	**–34**	**18,863**	**2,359**	**21,578**

2011	Note	Restricted equity Share capital	Unrestricted equity Hedge reserve	 Retained earnings	 Profit for the year	 Total equity
Equity at beginning of year	15	**390**	**–34**	**18,863**	**2,359**	**21,578**
Profit for the year		–	–	–	1,419	1,419
Other comprehensive income, net of tax for the year		–	–16	–	–	–16
Total comprehensive income for the year		**–**	**–16**	**–**	**1,419**	**1,403**
Allocation of profit		–	–	2,359	– 2,359	–
Dividend		–	–	–1,152	–	–1,152
Repurchase of own shares		–	–	–2,371	–	–2,371
Stock options exercised		–	–	67	–	67
Cancellation of shares		–30	–	30	–	–
Bonus issue		30	–	–30	–	–
Equity at end of year		**390**	**–49**	**17,766**	**1,419**	**19,525**

Cash flow statement for the Parent Company

MSEK	Note	2011	2010
Operating activities	23		
Profit after financial items		1,650	2,556
Adjustments for non-cash items and other		–475	–1,397
Income tax paid		–221	–301
Cash flow from operating activities before changes in working capital		**954**	**858**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		48	–23
Increase (+)/Decrease (–) in operating liabilities		–13	34
Net cash generated from operating activities		**989**	**869**
Investing activities			
Purchase of property, plant and equipment		–	–2
Purchase of intangible assets		–22	–42
Proceeds from sale of subsidiaries, net of cash disposed of		140	18
Capital redemption subsidiaries		–	2,500
Shareholders contribution paid		–	–558
Shareholders contribution paid to joint venture		–15	–12
Proceeds from sale of joint venture, net of cash disposed of		9	–
Investments in other companies		–4	–
Proceeds from sale of other companies, net of cash disposed of		4	–
Net cash from investing activities		**111**	**1,904**
Financing activities			
Repurchase of own shares		–2,371	–3,014
Stock options exercised		67	53
Proceeds from non-current borrowings		1,000	4,242
Repayment of borrowings		–853	–2,961
Dividend		–1,152	–1,089
Share-based payments, contributions from subsidiaries		–	14
Changes in financial receivables/liabilities group companies		2,205	–51
Other		3	33
Net cash used in financing activities		**–1,100**	**–2,773**
Net increase/decrease in cash and cash equivalents		**–**	**–**
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at end of year		**–**	**–**

Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2010.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 5 Personnel* for the Group on page 58.

1. Sales

Sales pertains to services provided to group companies and associated companies.

2. Audit fees

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

Audit fees	2011	2010
KPMG		
Audit services	4	4
Audit related services	–	0
Tax services	0	3
Other services	3	12
Total	**7**	**19**

Other services include assisting with testing of IT-controls. In addition, 2010 includes costs for due diligence reports.

3. Other operating income and expense

Other operating income and expense mainly pertains to foreign exchange gains and losses.

4. Financial items

	Result from participation in Group companies		Result from participation in joint ventures	
	2011	2010	2011	2010
Dividends received	2,492	4,286	–	–
Group contribution received	2,038	1,952	–	–
Group contribution granted	–199	–58	–	–
Impairment losses	–1,241	–2,757	–12	–20
Loss/gain on sale of Group companies	–116	299	–	–
Total	**2,974**	**3,722**	**–12**	**–20**

The impairment loss of 1,241 MSEK (2,757) was recognized following dividends paid from subsidiaries. Loss/gain on sale of shares in Group companies amounting to –116 MSEK (299) relates to subsidiaries sold to STG in 2010.

Result from participation in joint venture are reported in the Group accounts in accordance with the acquisition method.

The result of –12 MSEK (–20) relates to SMPM International AB, a joint venture together with Philip Morris International. During the year the participation has been transferred to another Group company.

	Interest income from receivables carried as non-current assets		Interest income and similar items	
	2011	2010	2011	2010
Interest income relating to group companies	133	213	0	16
Interest income relating to financial instruments held for trading	–	–	0	0
Interest income relating to other financial instruments held for trading	–	–	–	1
Net foreign exchange gains	–	0	0	1
Total	**133**	**213**	**0**	**18**

Interest expenses and similar items	2011	2010
Interest expense relating to group companies	–847	–572
Interest expense relating to financial liabilities measured at amortized cost	–475	–393
Interest expense relating to cash flow hedges transferred from equity [1]	0	–77
Interest expense relating to financial liabilities pertaining to fair value hedge	0	9
Net gains on financial liabilities held for trading	2	4
Other financial expenses	–11	–44
Net foreign exchange losses	–	–3
Total	**–1,330**	**–1,076**

1) The total realized value of interest as a result from repurchase of 50 MSEK bonds maturing 2012. For 2010 the result pertains to repurchase of 171 MEUR.

5. Appropriations

Appropriations	2011	2010
Difference between reported amortization/ depreciation and according to plan		
Software and licenses	–9	–
Equipment, tools and fixtures	0	0
Subtotal	**–9**	**0**
Change in tax allocation reserve		
Tax allocation 2011	–115	–
Subtotal	**–115**	**–**
Total	**–124**	**0**

6. Income tax

Income tax reported in income statement	2011	2010
Current tax expense for the period	–92	–216
Deferred tax due to temporary differences	–15	19
Total	**–107**	**–197**

Income tax reported in other comprehensive income	2011	2010
Effective portion of changes in fair value of cash flow hedges	6	–15
Reclassification adjustments for gains/losses on cash flow hedges incuded in profit and loss	0	6
Total	**6**	**–9**

Reconciliation of effective tax rate	2011 (%)	2011	2010 (%)	2010
Income before tax		**1,526**		**2,556**
Swedish statutory tax rate	**26.3**	**–402**	**26.3**	**–672**
Non-taxable dividends	–42.9	655	–44.1	1,127
Tax exempt items	–0.1	1	–3.1	79
Non-deductible impairment losses	21.6	–330	28.6	–730
Other non-deductible items	2.1	–31	0.1	–2
Taxes related to prior years	0.0	0	–0.0	1
Reported effective tax	**7.0**	**–107**	**7.7**	**–197**

The change to the current tax asset/liability during the period is explained below:

	Current income tax assets		Current income tax liabilities	
	2011	2010	2011	2010
Opening balance at beginning of year	**–**	**–**	**41**	**126**
Current tax expense	–98	–	–5	216
Paid tax	186	–	–35	–301
Closing balance at end of year	**88**	**–**	**–**	**41**

Tax asset amounts to 88 MSEK and consists of taxes to be received on income for the year. The previous year tax liability of 41 MSEK consisted of taxes to be paid 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:

	Deferred income tax assets		Deferred income tax liabilities	
	2011	2010	2011	2010
Hedge reserve	18	12	–	–
Provision	11	13	–	–
Provision for pension and similar obligations	–	12	–	–
Other	1	2	–	–
Total	**30**	**39**	**–**	**–**

The following reconciles the net balance of deferred tax assets (+)/liabilities (–) at the beginning of the year to that at the end of the year.

2011	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	12	–	6	18
Provision	13	–2	–	11
Provision for pension and similar obligations	12	–12	–	–
Other	2	–1	–	1
Total	**39**	**–15**	**6**	**30**

2010	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	21	–	–9	12
Provision	7	6	–	13
Provision for pension and similar obligations	–	12	–	12
Other	1	1	–	2
Total	**29**	**19**	**–9**	**39**

7. Intangible assets

Other intangible assets	2011	2010
Cost at beginning of year	**45**	**3**
Purchase	22	42
Cost at end of year	**68**	**45**
Accumulated amortization at beginning of year	**–3**	**–2**
Amortization for the year	–6	–1
Accumulated amortization at end of year	**–9**	**–3**
Net carrying value at end of year	**58**	**43**

Amortization is included in administrative expenses in the income statement in the amount of 6 MSEK (1).

All intangible assets are acquired.

Other intangible assets consist of licenses and software and are amortized over five to seven years. During the year an investment in software development on an ERP system for the Group has been capitalized.

No borrowing costs have been capitalized during 2011 nor during 2010.

8. Tangible assets

Equipment, tools and fixtures	2011	2010
Cost at beginning of year	**3**	**2**
Purchase	–	2
Sales/disposals	–	–1
Cost at end of year	**3**	**3**
Accumulated depreciation at beginning of year	**–1**	**–2**
Depreciation for the year	0	0
Sales/disposals	–	1
Accumulated depreciation at end of year	**–1**	**–1**
Net carrying value at end of year	**2**	**2**

Depreciation of tangible assets is included in administrative expenses in the income statement in the amount of 0 MSEK (0).

No borrowing costs have been capitalized during 2011 nor during 2010.

9. Group companies

2011	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	**51,025**	–	8,850	–	–5,158	–	–	**54,717**
Impairments	**–9,399**	–	–	–	5,158	–1,241	–	**–5,483**
Carrying value	**41,626**	**–**	**8,850**	**–**	**–**	**–1,241**	**–**	**49,234**

2010	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	**53,418**	2,036	5,145	–2,500	–	–	–7,074	**51,025**
Impairments	**–9,410**	–	–	–	–	–2,757	2,768	**–9,399**
Carrying value	**44,008**	**2,036**	**5,145**	**–2,500**	**–**	**–2,757**	**–4,306**	**41,626**

Impairments are reported in the result from participation in group companies in the income statement.

The impairment loss of 1,241 MSEK (2,757) was recognized following dividends paid from subsidiaries.

Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2011	Ownership, %	2010
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	100	15,750
Swedish Match Distribution AB	556571-7039	Stockholm	1,000	100	2,350	100	2,350
Swedish Match Cigars Holding AB	556367-1253	Stockholm	2,000	100	500	100	500
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm	34,403,000	100	236	100	286
Swedish Match Industries AB	556005-0253	Tidaholm	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm	96,000	100	9	100	9
Svenska Tändsticks AB	556105-2506	Stockholm	1,000	100	7	100	1,100
Svenskt Snus AB	556367-1261	Stockholm	1,000	100	1	100	1
Svenska Tobaks AB	556337-4833	Stockholm	8,000	100	1	100	1
GC Sweden AB	556680-3028	Stockholm	100,000	100	0	100	0
Swedish Match Treasury SEK SA [1]	0890.171.968	Belgium	9,999,999	99.99	22,688	99.99	13,838
Swedish Match Treasury USD SA [1]	0894.153.126	Belgium	999,999	99.99	5,065	99.99	5,065
Swedish Match Treasury EUR SA [1]	0440.934.581	Belgium	20,169	99.99	429	99.99	429
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	1,083	100	1,174
Swedish Match North America Inc	62-1257378	USA	100	100	849	100	849
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Distribution A/S [2]	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille [3]		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd [4]		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd [5]		Burma	4,000	100	0	100	0
Swedish Match Sales.com B.V.[6]	17154863	Netherlands	–	–	–	100	7
Carrying value at end of year					**49,234**		**41,626**

1) Remaining shares owned by subsidiary.
2) Change of company name from Nitedals Taendstiker A/S.
3) Nationalized in 1963.
4) Nationalized in 1968.
5) Nationalized in 1969.
6) Company liquidated.

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

10. Joint ventures

2011	Balance at beginning of year	Shareholder's contribution	Impairments	Divestment	Balance at end of year
Cost	**35**	15	–	–50	**–**
Impairments	**–29**	–	–12	41	**–**
Carrying value	**6**	**15**	**–12**	**–9**	**–**

2010	Balance at beginning of year	Shareholder's contribution	Impairments	Divestments	Balance at end of year
Cost	**23**	12	–	–	**35**
Impairments	**–9**	–	–20	–	**–29**
Carrying value	**14**	**12**	**–20**	**–**	**6**

Impairments for the year are reported in the result from participation in joint venture in the income statement. During the year the participation has been transferred to another Group company.

Company name/Corp. Reg.No./Domicile	Number of shares	No. of votes & Ownership, %	2011	No. of votes & Ownership, %	2010
SMPM International AB, 556771-7128, Stockholm	–	–	–	50%	6
Carrying value at end of year			**–**		**6**

11. Receivables from Group companies

Receivables from Group companies	2011	2010
Carrying value at beginning of year	**8,850**	**6,424**
Increase of lending	–	2,500
Repayments	–8,850	–74
Carrying value at end of year	**–**	**8,850**

12. Other non-current receivables

Other non-current receivables	2011	2010
Endowment insurances	33	29
Derivatives	76	117
Carrying value at end of year	**109**	**146**

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

Endowment insurances are pledged as security for pension obligations. The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

13. Other receivables

Other receivables	2011	2010
VAT receivables	2	0
Other current receivables	1	4
Carrying value at end of year	**3**	**4**

14. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2011	2010
Accrued interest income	11	11
Prepaid bank charge	8	6
Accrued compensation for pension costs	–	4
Prepaid rent	1	1
Prepaid insurance premiums	0	1
Other prepaid expenses	7	9
Carrying value at end of year	**27**	**32**

15. Equity

For information regarding the change in Parent Company equity see Statement of changes in Parent Company equity.

Number of registed shares in the Parent Company are detailed below:

Number of registered shares	2011	2010
Issued at beginning of year	231,000,000	251,000,000
Cancellation	–18,000,000	–20,000,000
Total shares outstanding at end of year	**213,000,000**	**231,000,000**
Of which held by Swedish Match AB	–8,827,859	–16,202,894
Total shares outstanding, net of shares held by Swedish Match AB	**204,172,141**	**214,797,106**

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2011, the Parent Company's holding of treasury shares amounted to 8,827,859 shares (16,202,894).

Historical summary of repurchases of own shares included in retained earnings is detailed below:

Effect on equity	2011	2010
Cumulative effect on equity at beginning of year	**–18,398**	**–15,437**
Repurchase of own shares during the year	–2,371	–3,014
Stock options exercised during the year	67	53
Cancellation of shares	30	31
Bonus issue	–30	–31
Cumulative effect on equity at end of year	**–20,702**	**–18,398**

The Annual General Meeting on May 2, 2011 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 18 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 30.4 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 213 million shares with a quotient value of 1.8287 SEK.

During the year 11.1 million shares were repurchased for 2,371 MSEK at an average price of 212.66 SEK. As at December 31, 2011 Swedish Match held 8.8 million shares in its treasury, corresponding to 4.14 percent of the total number of shares. During the year the Company has also sold 0.5 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 204.2 million. In addition, the Company has call options outstanding at year end corresponding to 5.0 million shares exercisable in gradual stages from 2012–2015.

Dividend

After the balance sheet date, the Board proposed a dividend for 2011 of 6.50 SEK (5.50) per share. The dividend then amounts to 1,327 MSEK based on the number of shares outstanding at the end of 2011. Prior year total dividend amounted to 1,152 MSEK and corresponded to 209,408,074 number of shares.

Hedge reserve

The change to the hedge reserve during the year is explained below:

Hedge reserve	2011	2010
Carrying value at beginning of year	**–34**	**–59**
Effective portion of changes in fair value of cash flow hedges	–22	58
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	0	–24
Income tax	6	–9
Carrying value at end of year	**–49**	**–34**

16. Untaxed reserves

Excess amortization/depreciation	2011	2010
Intangible assets		
Carrying value at beginning of year	0	0
Excess amortization for the year	9	–
Total	**9**	**0**
Tangible assets		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
Total	**0**	**0**
Tax allocation reserve		
Carrying value at beginning of year	–	–
Tax allocation 2011	115	–
Total	**115**	**–**
Carrying value at end of year	**124**	**1**

17. Other provisions

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

Other provisions	2011	2010
Endowment insurances	41	36
Long term incentives	29	15
Other provisions	1	26
Carrying value at end of year	**71**	**77**
Where of total non-current	70	59
Where of total current	1	18

Movements in provisions during the year were as follows:

2011	Endowment insurance	Long term incentives	Other provisions	Total
Carrying value at beginning of year	**36**	**15**	**26**	**77**
Provisions made during the year	6	15	–	21
Provisions used during the year	–	–1	–13	–14
Provisions reversed during the year and changes in estimates	–1	0	–12	–13
Carrying value at end of year	**41**	**29**	**1**	**71**

2010	Endowment insurance	Long term incentives	Other provisions	Total
Carrying value at beginning of year	**25**	**–**	**–**	**25**
Provisions made during the year	11	15	26	52
Carrying value at end of year	**36**	**15**	**26**	**77**

Endowment insurance

Provisions recognized for endowment insurances. A corresponding amount is recognized as a pledged asset in the balance sheet, excluding payroll tax. Payments are expected to be realized after five years.

Long term incentives

The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years.

Other provisions

Provisions of operating characters and not related to personnel compensation.

18. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 3,658 MSEK (3,186).

19. Liabilities to Group companies

Liabilities due for payment later than five years after the balance sheet date amount to 18,100 MSEK (18,100).

20. Other liabilities

Other liabilities consist of the change in fair value of the derivatives, due to increase or decrease of interest rates and currencies. Derivatives with maturity over five years after the balance sheet date amount to 215 MSEK (161).

21. Accrued expenses and deferred income

Accrued expenses and deferred income	2011	2010
Accrued interest expenses	197	191
Personnel expenses	4	7
Accrued incentives incl. social security charges	18	18
Accrued vacation pay	2	2
Other accrued expenses	4	13
Carrying value at end of year	**225**	**231**

22. Pledged assets and contingent liabilities/assets

Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 33 MSEK (29). The corresponding amount is recognized as an operating provision in the balance sheet includes payroll tax.

Contingent liabilities	2011	2010
Guarantees on behalf of subsidiaries	52	61
Guarantees to associated companies	61	171
Total	**112**	**232**

Contingent assets

As per December 31, 2011, the Parent Company had no contingent assets.

23. Supplementary information to cash flow statement

Interest paid and received and dividend received	2011	2010
Dividend received [1)]	2,492	2,250
Interest received, non-Group companies	1	11
Interest paid, non-Group companies	–468	–473
Interest received, Group companies	181	240
Interest paid, Group companies	–847	–572
Total	**1,359**	**1,456**

1) Amount for 2010 excludes 2,036 MSEK which refers to dividends in the form of subsidiaries.

Interest payments and interest receipts are reflected in cash flow from operations.

Adjustments for non cash items and other	2011	2010
Depreciation and amortization	7	1
Impairment losses	1,253	2,777
Change in accrued interest	54	9
Change in market value revaluations	–2	–4
Exchange rate differences	0	2
Dividends in kind	–	–2,036
Group contributions	–1,839	–1,894
Loss/gain on sale of subsidiaries	96	–299
Change in pension provision	–46	46
Other	2	1
Total	**–475**	**–1,397**

24. Related parties

Summary of transactions with related parties	Subsidiaries 2011	Subsidiaries 2010	Associated companies 2011	Associated companies 2010	Joint ventures 2011	Joint ventures 2010
Revenues						
Dividend	2,492	4,286	–	–	–	–
Group contribution	2,038	1,952	–	–	–	–
Interest income	133	229	–	1	–	–
Sale of goods/ services	44	37	1	–	5	5
Expenses						
Group contribution	–199	–58	–	–	–	–
Interest expenses	–847	–572	–	–	–	–
Purchase of goods/ services	–13	–20	–	–	–	–
Receivables	**2,051**	**10,908**	**2**	**258**	**1**	**1**
Liabilities	**21,450**	**21,018**	**3**	**–**	**–**	**–**
Guarantees	**52**	**61**	**61**	**171**	**–**	**–**

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 5 Personnel* for the Group. In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 9 Group companies*.

25. 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 category of financial instruments at December 31, 2011. All items, except loans and borrowings, have a short duration and are non interest-bearing, and therefore, the total carrying value and the estimated fair value are reported the same. All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy presented in IFRS 7. The values presented are indicative and may not necessarily be realized.

2011	Items carried at fair value via the income statement[1)]	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	58	–	18[3)]	33	109	109
Other receivables	0	–	–	3	3	3
Prepaid expenses and accrued income	11	–	–	16	27	27
Total assets	**69**	–	**18**	**52**	**139**	**139**
Loans and borrowings	–	9,816	–	–	9,816	10,250[2)]
Other liabilities	26	–	336	11	373	373
Accrued expenses and deferred income	–	173	24	28	225	225
Trade payables	–	20	–	–	20	20
Total liabilities	**26**	**10,009**	**360**	**39**	**10,434**	**10,868**

2010	Items carried at fair value via the income statement[1)]	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	83	–	34[3)]	29	146	146
Other receivables	–	–	–	4	4	4
Prepaid expenses and accrued income	11	–	–	21	32	32
Total assets	**94**	**–**	**34**	**54**	**182**	**182**
Loans and borrowings	–	9,734	–	–	9,734	10,011[2)]
Other liabilities	38	–	276	9	323	323
Accrued expenses and deferred income	–	162	29	40	231	231
Trade payables	–	25	–	–	25	25
Total liabilities	**38**	**9,921**	**305**	**49**	**10,313**	**10,590**

1) All items relates to instruments held for trading.
2) The estimated fair value is the revaluation of the loans and borrowings to the fair values based on the market rates for December 31, 2011 and 2010.
3) 0 MSEK (24) are allocated to earnings and 18 MSEK (10) are changes of market value. The instruments are interest rates swaps at nominal amount of 5,403 MSEK (5,529). There are no conditions in these transactions that can cause any differences in amounts and maturities between these derivatives and their underlying liabilities.

26. Employee benefits

Post-employment employee benefits

Some post-employment benefit obligations are insured by Swedish pension trust arrangements. During 2011 parts of the PSF pension obligations that were not included in the transfer to insurance companies in 2010 and therefore were directly assumed by Swedish Match AB are now also covered by the Swedish pension trust arrangement. Awaiting the final liquidation of the PSF pension trust the remaining plan assets in PSF have been transferred to the Swedish pension trust during the year.

As of December 2008 Swedish Match AB assumed the role as Sponsor and Principal Employer for the pension trust for former employees in the divested Swedish Match UK Ltd.

As per December 31, 2011 the Swedish pension trust arrangement and the pension plan for employees in UK show a net surplus.

The tables below specifies the pension obligations assumed by Swedish Match AB:

Defined benefit plans	2011	2010
Present value of funded obligations	– 675	–660
Fair value of plan assets	752	736
Surplus, net	**77**	**75**
Net surplus in pension trust not recognized in balance sheet	–77	–75
Present value of unfunded obligations	–	–37
Net pension liability recognized in the balance sheet	–	**–37**

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

Net pension liability	2011	2010
Balance at beginning of year	**–37**	**0**
Costs recognized attributable to assumed pension liabilities	–	–37
Reversal of assumed pension liabilities	37	–
Benefits paid	–5	–4
Contribution received from pension trust	5	4
Balance at end of year	**–**	**–37**

–62 MSEK (–11) of the total net pension asset/liability is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Income and expenses attributable to pension	2011	2010
Current service costs	–	– 1
Difference between contribution received from pension trust and benefits paid	0	0
Interest cost on obligation	–33	– 35
Actual return on plan assets	–43	46
Net expense/income for pension	**–76**	**11**
Pensions covered by insurance premiums:		
Costs for assumed pension obligations	–	–37
Settlements	37	–
Costs for pension insurance premiums recognized in income statement	–14	–13
Decrease/increase in surplus in pension trust	76	–11
Net pension income/costs recognized in income statement attributable to pension	**23**	**–50**

The expenses attributable to pension are recognized in the income statement in administration costs.

The actual return on plan assets is 6 percent (6).

Plan assets at December 31 are comprised as follows:

Plan assets	2011	2010
Debt instruments	153	553
Equity securities	192	179
Other	407	4
Total	**752**	**736**

Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 4.7 percent (4.9).

No contributions attributable to the pension plans above are expected to be paid for the coming year.

Proposed distribution of earnings

As shown in the balance sheet of the parent company the following funds are available for appropriation by the Annual General Meeting:

Retained earnings including hedge reserve	SEK	17,716,492,023
Profit for the year	SEK	1,419,407,056
	SEK	**19,135,899,079**

The Board of Directors propose that these earnings be appropriated as follows:

To the shareholders, a dividend of 6.50 SEK per share (based on 204,172,141 shares outstanding at the end of 2011)	SEK	1,327,118,917
Retained earnings to be carried forward	SEK	17,808,780,162
	SEK	**19,135,899,079**

The income statements and balance sheets will be presented to the Annual General Meeting on May 2, 2012 for adoption. The Board of Directors also proposes May 7, 2012 as the record date for shareholders listed in the Swedish Securities Register Center, Euroclear Sweden AB.

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 (EG) 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 21, 2012

Conny Karlsson
Chairman of the Board

Andrew Cripps
Deputy Chairman

Kenneth Ek
Board member

Karen Guerra
Board member

Eva Larsson
Board member

Joakim Lindström
Board member

Robert F. Sharpe
Board member

Meg Tivéus
Board member

Joakim Westh
Board member

Lars Dahlgren
President and CEO

Our auditor's report was submitted on March 8, 2012

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Swedish Match AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 38–90.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Account Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standard, as adopted by the EU, and the Annual Accounts Act. The Board of Directors' report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Swedish Match AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President are discharged from liability for the financial year.

Stockholm, March 8, 2012
KPMG AB

Thomas Thiel
Authorized Public Accountant

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.

Swedish Match is subject to a variety of rules that affect its governance, including 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.

Swedish Match applies the Swedish Code of Corporate Governance, which is available on the website of the Swedish Corporate Governance Board, at www.corporategovernanceboard.se. The Company is not reporting any deviations from the Code for 2011, except with regard to the Code's regulation that auditors are to 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 is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems.

This Corporate Governance Report 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 are informed of their legal rights to have issues addressed at General Meetings through the Company's website at www.swedishmatch.com/agm. The Company's Articles of Association do not include any limitations on how many votes each shareholder may cast at a General Meeting. Each share entitles the holder to one vote at a General Meeting. The Company does not apply any special arrangement on how the General Meeting works, neither due to provisions in the Articles of Association nor, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved 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 2011 was held on May 2, 2011. The minutes of the meeting are available on the Company's website: www.swedishmatch.com.

Authorisation granted by the General Meeting

The General Meeting has not granted the Board of Directors authorization to resolve that the Company shall issue new shares. For information as to the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 40.

Direct or indirect shareholding

No shareholder has a shareholding in the Company representing one tenth or more of the votes of all shares of the Company.

Articles of Association

The Company's Articles of Association do not include any provisions concerning the appointment and dismissal of directors and amendment of the Articles of Association.

Nominating Committee

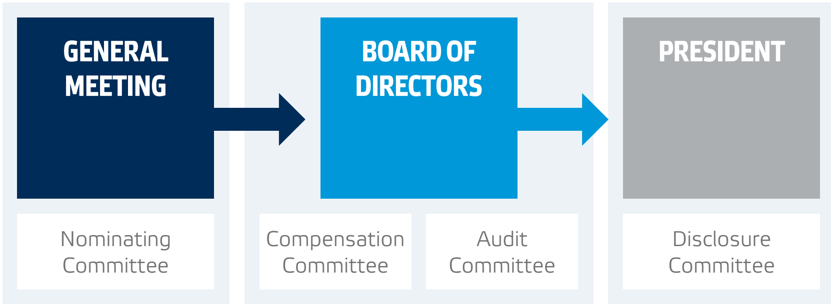
The Nominating Committee is established according to the principles resolved by the Annual General Meeting each year. Pursuant to a resolution of the 2011 Annual General Meeting, the Nominating Committee is to include the Chairman of the Board of Directors and one representative of each of the four largest shareholders who wish to appoint a representative to the Committee. The four largest shareholders are to be identified on the basis of the known numbers of votes on August 31, the year before the forthcoming Annual General Meeting.

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.

In the autumn of each year, the Board of Directors commissions an external consultant to conduct an evaluation of the Board as regards the conduct and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board members and requirements for the future. The Nominating

Committee is to 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, General Counsel Fredrik Peyron. The 2011 Annual General Meeting resolved 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.

GOVERNANCE OF THE SWEDISH MATCH GROUP



Nominating Committee for the Annual General Meeting 2011

The Nominating Committee for the Annual General Meeting in 2011 comprised the following five members: Mads Eg Gensmann (Parvus Asset Management), Andy Brown (Cedar Rock Capital), William Lock (Morgan Stanley Investment Management), Anders Oscarsson (AMF & AMF Funds) and the Chairman of the Board of Swedish Match Conny Karlsson. Mads Eg Gensmann served as Chairman of the Nominating Committee. The Committee held four meetings during the period between the 2010 and 2011 Annual General Meetings combined with informal contacts and discussions between the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2011.

Nominating Committee for the Annual General Meeting 2012

The Nominating Committee for the Annual General Meeting in 2012 was announced on the Company's website on October 26, 2011, in connection with publishing the interim report for the third quarter. The Nominating Committee consists of the following members, in addition to the Chairman of the Board of Swedish Match Conny Karlsson: Andy Brown (Cedar Rock Capital), William Lock (Morgan Stanley Investment Management), Björn Lind (AMF & AMF Funds) and William von Mueffling (Cantillon Capital Management). Andy Brown serves as Chairman of the Nominating Committee.

Contacting the Nominating Committee

Shareholders may submit proposals to the Company's Nominating Committee at any time. However, any proposal should be submitted to the Committee no later than two months prior to the Annual General Meeting, so that the Nominating Committee can consider proposals received with due care.

Proposals are to be submitted to:
Swedish Match AB
The Nominating Committee
c/o General Counsel Fredrik Peyron
Box 7179
SE-103 88 Stockholm, Sweden
E-mail: nominating.committee@swedishmatch.com

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 2011, the Swedish Match Board of Directors comprised six 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, Charles A. Blixt, (until the Annual General Meeting 2011), Andrew Cripps, Karen Guerra, Arne Jurbrant, (until the Annual General Meeting 2011), Robert F. Sharpe (from the Annual General Meeting 2011), Kersti Strandqvist, (until the Annual General Meeting 2011), Meg Tivéus, and Joakim Westh (from the Annual General Meeting 2011). During the year, Kenneth Ek, Eva Larsson, and Joakim Lindström served as employee representatives on the Board, with Håkan Johansson, Eva Norlén-Moritz, and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on pages 98–99.

Meetings

The Board of Directors convenes for six scheduled meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board may be summoned 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 meet with the Board without the presence of the President or any other member of the Group Management Team.

Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for establishing the Swedish Match 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 controls and the quality of its financial reporting through the internal control system described in detail in the section entitled *Risk management and internal control over financial reporting*; page 97.

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 must have an Audit Committee and a Compensation Committee.

Activities of the Board of Directors during 2011

The number of Board meetings during 2011 was seven, of which six were scheduled meetings and one was the statutory meeting. The Board of Directors elected at the 2011 Annual General Meeting held its 2011 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 the monitoring and control of the Company's operations and allocation of surplus funds, the Board in its work devoted considerable time to the Company's organization and management benefit structures and the monitoring of the Company's business objectives and strategy.

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 the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February 2011 to present the audit report and observations from the audit. In conjunction with the Board's meetings in June, the Board visited the Company's operations in Norway.

COMPOSITION OF THE BOARD AND ATTENDANCE 2011

	Board of Directors	Audit Committee	Compensation Committee	Independent [1]
Total number of meetings	**7**	**5**	**2**	
Conny Karlsson (Chairman)	7		2	Yes
Charles A. Blixt (until April 2011)	1		1	Yes
Andrew Cripps (Deputy Chairman)	7	5		Yes
Karen Guerra	7		2	Yes
Arne Jurbrant (until April 2011)	1			Yes
Robert F. Sharpe (from April 2011)	6		1	Yes
Kersti Strandqvist (until April 2011)	1	1		Yes
Meg Tivéus	7	5		Yes
Joakim Westh (from April 2011)	6	3		Yes
Kenneth Ek	7			
Eva Larsson	7			
Joakim Lindström	7			
Håkan Johansson	7			
Eva Norlén-Moritz	6			
Gert-Inge Rang	7			

[1] As defined in the Swedish Code of Corporate Governance.

Chairman of the Board

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills 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 monitors 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 2011, Conny Karlsson served as Chairman of the Board.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. In 2011, the members were Meg Tivéus, (Chairman), Andrew Cripps, Joakim Westh (as of the Annual General Meeting 2011), and Kersti Strandqvist (until the Annual General Meeting 2011). Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the accounting and financial reporting processes of the Company and its subsidiaries and the efficiency of the internal controls, internal audit and risk management of the Company. The Committee is also to review and monitor the impartiality and independence of the auditor and to assist the Nominating Committee in preparing proposals underlying the General Meeting's resolution regarding election of auditors and auditors fees. It also keeps itself informed regarding the audit of the annual report and consolidated accounts. In conjunction with the Audit Committee's review of the financial reporting, 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 authority has been delegated to the Committee by the Board pertaining to:
(i) approval of non-audit services to be provided by the auditors;
(ii) approval of transactions between the Company and related parties; and
(iii) deciding on any specific audit of interim reports by auditors.

Throughout the year, the Chairman of the Committee kept the Board of Directors regularly informed of the Committee's work and decisions.

In consultation with Committee members, the Chairman of the Committee is to decide where and how frequently the Committee is to meet. The number of meetings in 2011 was five. The Company's auditors, as well as the head of the Internal Audit, participated in all of the meetings of the Audit Committee in 2011 and, at two of these meetings, also met with the Committee without the presence of the management of the Company.

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members in 2011 were Conny Karlsson, (Chairman), Charles A. Blixt (until the Annual General Meeting 2011), Karen Guerra, and Robert F. Sharpe (as of the Annual General Meeting, 2011). 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 resolutions on the following issues:
(i) guidelines to be proposed to the Annual General Meeting, for the determination of salaries and other compensation, as well as other terms of employment for the Company's President and other members of the Group Management Team;
(ii) any 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) matters relating to other compensation and employment terms that, according to law or other regulations, the Swedish Code of Corporate Governance or established practice are to be resolved by a General Meeting or the Board of Directors;
(v) approval of significant engagements outside the Company with respect to the President; and
(vi) the Board of Directors' report of the results of the Committee's evaluation of the variable remuneration, the application of the guidelines for remuneration and the current remuneration structures and levels in the Company as may be required by the Code.

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) 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;
(iii) salary and other compensation that, within the framework of the guidelines resolved by the Annual General Meeting, is to be paid to, and other terms of employment that are to apply for, members of Group Management Team other than the President, including performance criteria, and targets in any long-term incentive plan;
(iv) approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President, and
(v) study fees paid to the employee representatives on the Board.

In addition, the Committee is to monitor and evaluate:
(i) programs for variable remuneration, both ongoing and those that have ended during the year, for the Group Management Team, and
(ii) the application of the guidelines for remuneration that the Annual General Meeting is legally obliged to establish, as well as the current remuneration structures and levels for the members of the Group Management Team in the Company.

During the year, the Committee's Chairman kept the Board of Directors regularly informed about the Committee's work and decisions.

The Committee is to meet as often as necessary but at least twice annually. Two meetings were held in 2011.

During 2011, the Committee devoted special attention to determination of variable compensation for 2010 to be paid in 2011, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2012 and determination of salaries and variable compensa-

MEMBERS OF THE COMMITTEES OF THE BOARD OF DIRECTORS 2011

COMPENSATION COMMITTEE	AUDIT COMMITTEE
Conny Karlsson *(Chairman)*	Meg Tivéus *(Chairman)*
Karen Guerra	Andrew Cripps
Robert F. Sharpe	Joakim Westh

tion for other members of the Group Management Team for 2012. In addition, the Committee submitted a proposal to the Board concerning guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

Evaluation of the work of the Board of Directors

The Board of Directors must ensure that its work is evaluated annually. During autumn 2011, 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

According to the Nominating Committee, all of the Board members are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to 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 2011 pursuant to the resolution of the Annual General Meeting in 2011. No compensation for directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2011 Annual General Meeting, compensation to the Board for the period from the 2011 Annual General Meeting up to and including the 2012 Annual General Meeting should amount to 1,710,000 SEK to the Chairman of the Board, 810,000 SEK to the deputy Chairman and 685,000 SEK to each member of the Board elected by the General Meeting. In addition, the Chairmen of the Compensation and Audit Committees were granted 250,000 SEK each for committee work, with other members serving on these committees receiving 125,000 SEK each. For further information about Directors' fees for 2011, see *Note 5 Personnel*, page 58.

Management

President

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules 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, thus 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. During 2011, Lars Dahlgren served as President and CEO. Detailed information about the President is provided on page 100.

Group Management Team

In 2011, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and CEO; Rich Flaherty, President of US Division; Emmett Harrison, Senior Vice President Corporate Communications and Sustainability; Elisabeth Hellberg, Senior Vice President Group Human Resources; Martin Källström, President of Smokefree Division (until March 11, 2011); Lars Olof Löfman, President of Swedish Match Distribution until March 10, 2011 and thereafter President of Smokefree Products Division; Jonas Nordquist, President of Scandinavia Division; Fredrik Peyron, Senior Vice President Legal Affairs; and Joakim Tilly, CFO and Senior Vice President Group Finance and IT.

Compensation to Group Management

The 2011 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 5 Personnel*, page 58. For information concerning compensation and other benefits to the Group Management Team and the Company's option programs, see *Note 5 Personnel*, page 58.

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 auditing the management of the Board and President as well as 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 2011, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax advice and support in relation to liquidation of legal entities not needed. Consulting services regarding testing of IT controls have as well been provided.

For information concerning compensation to the Swedish Match's auditors during 2011, see *Note 6 Audit fees*, page 62.

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 be prepared in accordance with the Group's prevailing routines. Members of the Committee during 2011 were the heads of Business Control, Corporate Communications and Sustainability, Group Reporting and Tax, and Legal Affairs. The head of Legal Affairs served as the Chairman of the Committee.

Risk management and internal control over financial reporting

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal controls regarding financial reporting.

Control environment

The basis for internal control over financial reporting is the control environment that has been documented and communicated in governing documents such as internal policies on business ethics, delegation of authority, related party transactions and fraud response. In addition, a set of policies and instructions for accounting and reporting, as well as for internal control and IT security, has been established. All policies are regularly updated and distributed through a system whereby key individuals confirm implementation within their area of responsibility. Fundamental to creating an effective control environment is the establishment of clear decision-making and review structures. Swedish Match has established a system of regular review meetings between the Group, operating units and local management during which the Group values are reinforced.

Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

Information and communication

Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting.

Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls. Internal Audit's work is based on risk-driven plans that are triggered by specific changes and events. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO.

Financial accounts are provided on a monthly, quarterly and annual basis to the Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. The Disclosure Committee monitors the sufficiency of financial accounts with regard to disclosure requirements.

Stockholm, February 21, 2012

The Board of Directors of
Swedish Match AB

Auditors' report on the Corporate Governance report

To the annual meeting of the shareholders in Swedish Match AB (publ.), Corporate Identity Number 556015-0756

It is the Board of Directors who is responsible for the Corporate Governance report for the year 2011 on pages 92–97 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, March 8, 2012

KPMG AB
Thomas Thiel
Authorized Public Accountant

Board of Directors

Conny Karlsson

Andrew Cripps

ANDREW CRIPPS
Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.
Other board assignments: Non Executive Director and Chairman of the Audit Committees of the Booker Group Plc., and 2 Sisters Food Group.
Previous positions: Head of Acquisitions and Head of Strategy Development, British American Tobacco Plc.; Director of Corporate Finance, Rothmans International Plc.; Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA.
Own and related parties' shares: 15,200

KAREN GUERRA
Born 1956. B.Sc.in Management Science. Board member since 2008. Member of the Compensation Committee.
Other board assignments: Non Executive Director of Amcor Ltd., of Davide Campari-Milano S.p.A and of Samlerhuset Group B.V.
Previous positions: President and Director General, Colgate Palmolive France SAS; Chairman and Managing Director, Colgate Palmolive UK Ltd.; Marketing Manager, Pepsi Cola International Holland and Ireland.
Own and related parties' shares: 9,447

Karen Guerra

CONNY KARLSSON
Born 1955. M.Sc. in Economics and Business. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.
Other board assignments: Chairman of Rörvik Timber AB. Board member of TeliaSonera AB and CapMan OYJ.
Previous positions: Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.
Own and related parties' shares: 26,000

Robert F. Sharpe

ROBERT F. SHARPE
Born 1952. J.D. Wake Forest University, B.A. DePauw University, and BSE Purdue University. Board member since 2011. Member of the Compensation Committee.
Other board assignments: Board member of Ameriprise Financial Inc.
Previous positions: President of Commercial Foods, ConAgra Foods Inc.; Executive Vice President and Chief Administrative Officer, ConAgra Foods Inc.; Partner, Brunswick Group; Senior Vice President and General Counsel, PepsiCo Inc.
Own and related parties´ shares: 6,200

Holdings of own and related parties shares as of December 31, 2011. For a detailed report of remuneration and benefits for the Board of Directors, refer to *Note 5 Personnel.*

Independence of Board members

According to the Nominating Committee, all the board members are considered to be independent under the rules of the Swedish Code of Corporate Governance in relation to the Company's major shareholders and in relation to the management and the Company.

MEG TIVÉUS
Born 1943. M.Sc. in Economics and Business. Board member since 1999. Chairman of the Audit Committee.
Other board assignments: Chairman of Folktandvården Stockholm AB, Arkitektkopia AB, Marknadsförbundet and Björn Axén AB. Board member of Cloetta AB, Paynova AB and Nordea Fonder AB.
Previous positions: President and Chief Executive Officer, Svenska Spel AB; Vice President, Posten AB; Division Manager, Holmen AB; Division Manager, Åhléns AB; Director, AB Nordiska Kompaniet; Product Manager, Modo AB; Project Manager, McCann Gunther & Bäck.
Own and related parties' shares: 17,000

JOAKIM WESTH
Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Owner and Management Consultant, J. Westh Företagsutveckling AB and Chairman and co-owner of EMA Technology AB. Board member since 2011. Member of the Audit Committee.
Other board assignments: Board member of Absolent AB, SAAB AB, Intrum Justitia AB and Rörvik Timber AB.
Previous positions: Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman and owner, Absolent AB; Partner, McKinsey & Co. Inc.
Own and related parties' shares: 2,000

AUDITORS

KPMG AB Senior Auditor: Thomas Thiel. Born 1947. Authorized Public Accountant. Swedish Match auditor since 2004. Thomas Thiel's other auditing assignments include Axfood, Folksam, PEAB, Ratos, Skandia, SKF, and Stena.

Changes in the Board of Directors until March 2012

Charles A. Blixt, Arne Jurbrant and Kersti Strandqvist left the board at the AGM 2011. Robert F. Sharpe and Joakim Westh were selected as new members. Joakim Lindström left the board in March 2012 and was replaced by Håkan Johansson. Patrik Engelbrektsson has been appointed as new deputy member.

Secretary to the Board of Directors

Since 2007 Fredrik Peyron, Senior Vice President Legal Affairs and General Counsel is secretary of the Board.

EMPLOYEE REPRESENTATIVES

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 plants in Gothenburg and Kungälv, Sweden. Works with strategic technical projects at Swedish Match's plants in Gothenburg and Kungälv.
Previous positions: Technical Manager, Electrical Manager, and Electrician, at Swedish Match's snus factory in Gothenburg.
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 the Swedish Match match plant in Tidaholm.
Previous positions: Line Operator at 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' Trade Union Association (Livs) in Solna, Stockholm, Sweden. Module technician at the Swedish Match 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
Born 1963. Deputy member since 2004. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Module Technician at the Swedish Match distribution facilities in Gothenburg, Sweden.
Previous positions: Module Technician, Swedish Match's distribution facilities in Malmö; Line Operator, Svenska Tobaks AB in Malmö.
Own and related parties' shares: 0

EVA NORLÉN-MORITZ
Born 1960. Deputy member since 2010. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chemist and works with chemical analysis of tobacco and products as well as quality assurance concerning analytical methods at the R&D department within Swedish Match Smokefree Products Division.
Previous positions: The Customs (and Excise) Department Stockholm; Astra Pharmaceutical Production Södertälje.
Own and related parties' shares: 0

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. Production Supervisor at Swedish Match Industries in Vetlanda.
Previous positions: Supervisor, Swedish Match Industries in Vetlanda.
Own and related parties' shares: 1,000

www.swedishmatch.com
For updated information on Board members and their shareholdings and options, please refer to the Company's website.

Group Management

LARS DAHLGREN
President and Chief Executive Officer of Swedish Match AB since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics.
Previous positions: Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director Swedish Match Philippines; Financial analyst, SBC Warburg.
Own and related parties' shares: 11,900
Call options: 154,062

EMMETT HARRISON
Senior Vice President, Corporate Communications and Sustainability since 2010. Joined Swedish Match in 1990. Member of the Group Management Team since 2010. Born 1960. B.A. Economics College of William and Mary, and MBA Duke University.
Previous positions: Senior Vice President Investor Relations and Sustainability, Swedish Match AB; Vice President Investor Relations, Swedish Match; Global Marketing Director, Swedish Match Lighter Division; Marketing Manager, Swedish Match North America Division.
Own and related parties' shares: 1,000
Call options: 33,352

RICHARD FLAHERTY
President, US Division since 2009. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LLM Taxation New York University.
Previous positions: Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.
Own and related parties' shares: 2,000
Call options: 131,393

ELISABETH HELLBERG
Senior Vice President, Group Human Resources since 2010. Joined Swedish Match in 2010 as a member of the Group Management Team. Born 1957. Studies in international business administration at Uppsala University.
Previous positions: Head of Human Resource operations MTG; Cabin HR Manager, Skyways; Business Controller, Bandit 105,5; Business Controller, Lugna favoriter 104,7.
Own and related parties' shares: 250
Call options: 0

LARS OLOF LÖFMAN
President of Smokefree Products Division since 2011. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM.
Previous positions: President, Swedish Match Distribution AB; 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 North Europe Division.
Own and related parties' shares: 3,150
Call options: 124,840

JONAS NORDQUIST
President of Scandinavia Division since 2009. Joined Swedish Match in 2006. Member of the Group Management Team since 2009. Born 1971. M.Sc. in Electrical Engineering from the Royal Institute of Technology and M.Sc. in Business and Economics from the Stockholm School of Economics.
Previous positions: Chief Financial Officer, Swedish Match North Europe Division; Head of Siemens Mobile Phones Division India; various management positions within Siemens in Germany and India.
Own and related parties' shares: 1,150
Call options: 22,181

FREDRIK PEYRON
Senior Vice President, Legal Affairs and General Counsel since 2007. Joined Swedish Match in 2000. Member of the 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; Associate, Mannheimer Swartling law firm.
Own and related parties' shares: 2,881
Call options: 58,484

JOAKIM TILLY
Senior Vice President, Group Finance and IT, and Chief Financial Officer since 2008. Joined Swedish Match in 1994. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics.
Previous positions: Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division.
Own and related parties' shares: 1,440
Call options: 42,330

Holdings of own and related parties shares and call options as of December 31, 2011. For a detailed report of remuneration and benefits for senior executives, refer to *Note 5 Personnel*.

www.swedishmatch.com
For updated information on members of the Group Management Team and their shareholdings and call options, refer to the Company's website.

Changes in the Group Management Team during 2011

Lennart Freeman, former Executive Vice President of Swedish Match AB and President of the former division Lights, left the Group Management Team in January, 2011. In March, 2011, Lars Olof Löfman assumed the role of President of the new Smokefree Products Division. Martin Källström, President of former Smokefree Division, left the Company in March, 2011.

Swedish Match’s vision is to be the global smokefree leader, while also leveraging strong platforms to maximize long term profitability for Other tobacco products (cigars and chewing tobacco), and maintaining a focus on operational excellence and profitability in its lights businesses.

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