

# 2012 Annual Report



Moving  
toward  
our vision

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## THE NUMBERS

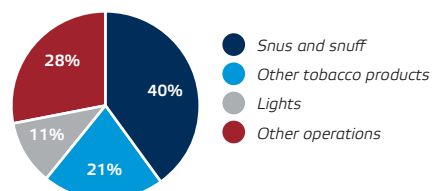
SALES

**12,486** MSEK

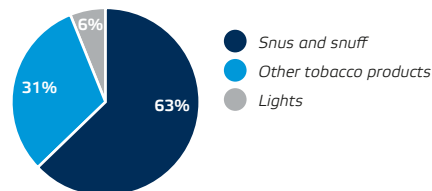
OPERATING PROFIT  
FROM PRODUCT AREAS

**3,666** MSEK

SALES BY PRODUCT AREA



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



<sup>1)</sup> Excluding Other operations and share of net profit in STG and larger one time items.

Key data, MSEK	2012	2011	2010
Sales <sup>1)</sup>	12,486	11,666	11,222
Operating profit from product areas <sup>2)</sup>	3,666	3,365	3,158
Operating profit <sup>3)</sup>	4,062	3,702	4,169
Operating margin from product areas, % <sup>2)</sup>	29.4	28.8	28.1
Operating margin, % <sup>3)</sup>	32.3	31.7	25.2
EBITDA from product areas <sup>2)</sup>	3,962	3,655	3,441
EBITDA <sup>3)</sup>	4,328	3,992	3,813
Profit for the year	2,907	2,538	2,958
Earnings per share, basic, excluding larger one time items, SEK	14.18	12.14	9.92
Earnings per share, basic, SEK	14.33	12.14	13.12
Dividend per share, SEK	7.30 <sup>4)</sup>	6.50	5.50

<sup>1)</sup> Sales excluding businesses transferred to STG post October 1, 2010.

<sup>2)</sup> Excluding businesses transferred to STG, share of net profit/loss in STG and larger one time items.

<sup>3)</sup> Including larger one time items, operating profit from businesses transferred to STG until October 1, 2010, as well as the share of net profit/loss in STG post October 1, 2010.

<sup>4)</sup> Board proposal.

[www.swedishmatch.com](http://www.swedishmatch.com)

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



# SWEDISH MATCH IN BRIEF

## THE COMPANY

**Swedish Match develops, manufactures, and sells quality products with market-leading brands in the product areas Snus and snuff, Other tobacco products (cigars and chewing tobacco), and Lights (matches and lighters). Well known brands include *General snus*, *Longhorn moist snuff*, *White Owl cigars*, *Red Man chewing tobacco*, *Fiat Lux matches*, and *Cricket lighters*.**

The Group sells products across the globe, with production units in six countries. More than a third of total company sales and more than half of the operating profit come from the product area Snus and snuff.

In Sweden, the Group has an independent distribution company. Swedish Match also owns 50 percent of SMPM International (a joint venture with Philip Morris International for snus outside of Scandinavia and the US). In addition, Swedish Match holds a 49 percent ownership interest in Scandinavian Tobacco Group (STG).

The Swedish Match share is listed on NASDAQ OMX Stockholm.

The Swedish Match head office, where the CEO and Corporate functions are based, is located in Stockholm.

Group sales for 2012 amounted to 12,486 MSEK and the average number of employees during the year was 3,848.



### Swedish Match's organization

**PRESIDENT & CEO**

### CORPORATE FUNCTIONS

Group Finance & IT

Group Human Resources

Legal Affairs

Corporate Communications & Sustainability

### OPERATING UNITS

SMOKEFREE  
PRODUCTS  
DIVISION

SCANDINAVIA  
DIVISION

US  
DIVISION

LIGHTS  
LATIN  
AMERICA

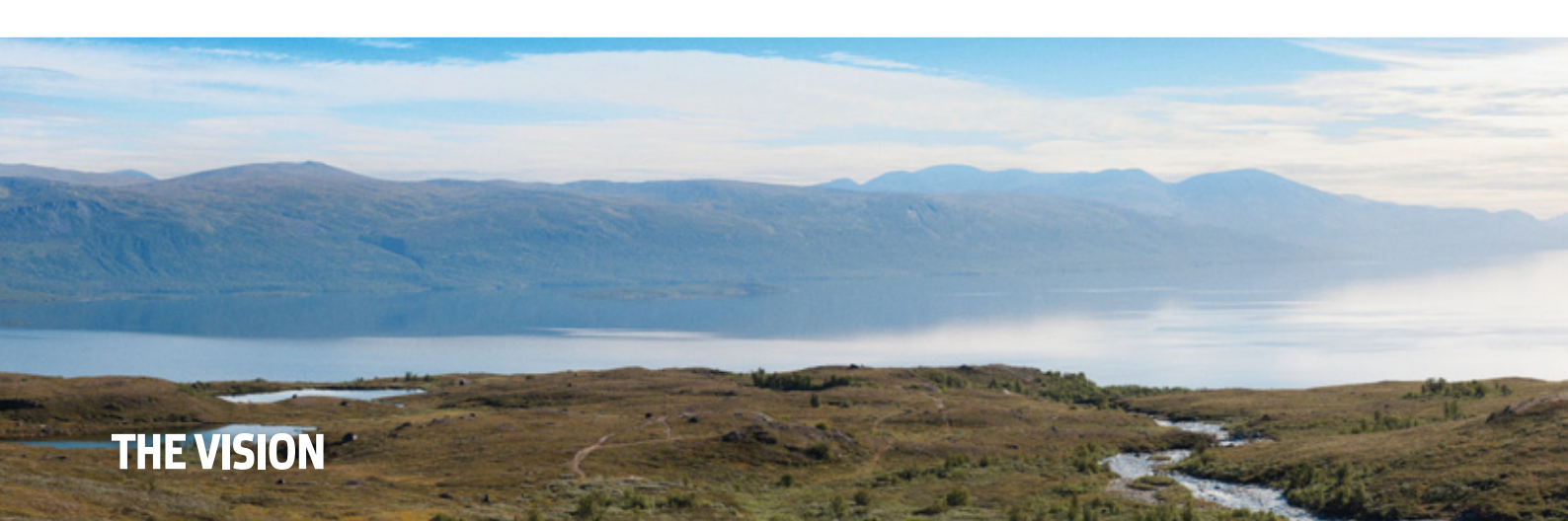
LIGHTS  
INTER-  
NATIONAL

SWEDISH  
MATCH  
DISTRIBUTION  
AB

Strategic partnerships  
/ associated companies

SMPM  
INTER-  
NATIONAL  
50%

STG  
49%



# THE VISION

Swedish Match's vision is to be the global smokefree leader. The Company will continue to leverage the strengths of its operations and product areas to help to achieve that vision. With its strong platforms, not only in Snus and snuff, but also in Other tobacco products, and Lights, the Company is able to pool its talent and resources to explore new market opportunities, develop new

product concepts, and expand its geographic footprint. Further support in achieving the vision comes from the Company's partnerships, such as the joint venture, SMPM International, and resources generated from the 49 percent ownership of Scandinavian Tobacco Group (STG).

## Vision

### TO BE THE GLOBAL SMOKEFREE LEADER

## Goals

#### Snus and snuff product area

- Be the preferred choice by the consumer
- Be the most valued partner to the trade
- Be the industry authority for regulators

#### Other product areas

- Maximize long term value
- Realize synergies in distribution, skills, and scale to support the Company's vision

## Strategy

#### Leverage our unique Snus and snuff platform to build global smokefree leadership

- Drive category growth and maintain a leading position in Scandinavia
- Develop the snus category in the US and establish a strong presence in the market
- Strengthen our position in the US moist snuff market
- Explore global opportunities for Swedish snus through SMPM International

#### Leverage strong market positions and brands

- Leverage strong platforms to maximize long term profitability in Other tobacco products
- Continue to focus on operational excellence and profitability in Lights
- Realize the potential of STG through active ownership

## Mission

To responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits to our shareholders

## Core values



Communication



Teamwork



Trust



Innovation



Recognition



Growth

## THE BUSINESS

### SNUS AND SNUFF



OPERATING PROFIT

**2,349** MSEK

Swedish Match has a market leading position in the Scandinavian snus market. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company. The Company also has a 50/50 joint venture with Philip Morris International to explore and develop new markets for snus outside of Scandinavia and the US.

### LIGHTS



OPERATING PROFIT

**222** MSEK

Swedish Match is the market leader for matches in many markets throughout the world, with well known local brands. For lighters, the Cricket brand has strong market positions in a large number of countries, most notably in parts of Europe and Asia.

### OTHER TOBACCO PRODUCTS

OPERATING PROFIT

**1,161** MSEK

Swedish Match is a major player in the US market for cigars, and the largest manufacturer in the US for chewing tobacco.



# Continuing progress in the US



**Our company vision is to be the global smokefree leader, with a mission to responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits for our shareholders.**

During 2012, Swedish Match took significant steps toward achieving our vision. Swedish Match is the world's largest snus manufacturer, and we are able to leverage our technological lead, unique heritage, talented organization, and market leading snus brands, in our efforts to expand our footprint for snus outside of our Scandinavian home markets.

Looking back on the year, Swedish Match reached a number of milestones which I will highlight below, while we also faced challenges, particularly on the Swedish snus market with increased low priced activity.

**In Scandinavia**, Swedish Match snus sales grew in 2012, led by another solid year of volume growth on the Norwegian market, with such popular brands as *General*, *Nick and Johnny*, and *The Lab Series*. In Sweden, there was continued rapid growth in the lowest priced segment of the market at the expense of the full and mid-priced segments. The Company maintained its strong position in the full priced segment of the Swedish market, with approximately 95 percent volume share, and was also very active in the other segments.

We are determined to be a strong and active player in every segment by offering consumers outstanding quality and value. Our brands *General*, *Ettan*, *Grov*, and *Göteborgs Rapé*, known and admired for generations, have in recent years been joined by brands such as *Kronan* and *Kaliber*, value brands for the more price conscious consumer who still wants a quality product. In the short term, this mix shift toward lower priced products presents challenges with regard to sales and profitability growth. Over the long term, however, this full range offering provides benefits for Swedish Match, as this portfolio supports both market growth and allows us to meet the needs of a changing marketplace.

## HIGHLIGHTS 2012

### Q1 JANUARY-MARCH

Sales in local currencies increased for every product area.<sup>1)</sup>

US cigar volumes were up 36 percent.<sup>1)</sup>

### Q2 APRIL-JUNE

US cigar volumes were up by 11 percent.<sup>1)</sup>

Scandinavian snus sales increased by 8 percent.<sup>1)</sup>

<sup>1)</sup> Versus same quarter in 2011.

**In the US**, the *General* snus brand nearly tripled its distribution during the course of the year, and was available in more than 10,000 retail outlets by year end. While the overall US snus category is relatively small, we believe that there are very good prospects for this to become a much larger market in the coming years, and that Swedish Match is well positioned to be an important player in this emerging segment. Already, in a number of store chains, *General* has captured a large share of the snus category volumes. We are also showing good development of growth, in terms of can sales per week, in stores where we are present. Substantial investments behind placement and awareness building activities will continue in the coming years, as we continue to build distribution for snus in the US, and we look forward to the day when snus in the US becomes an important contributor to company profits.

For our US moist snuff business, we saw good growth for our *Longhorn* brand in 2012, supported by the launch of *Longhorn* tubs, which offer excellent consumer value. We also placed a great deal of emphasis on our assortment of pouch products, with new packaging with clear consumer benefits. The pouch segment is one of the fastest growing segments in the US moist snuff market, and further efforts are being made to strengthen our position.

We also expanded our test activities for snus internationally outside of Scandinavia and the US, through our joint venture company, SMPM International. SMPM International has been testing the snus concept in Canada and Russia, and in 2012 began testing snus in Israel. Tests are also being conducted in Asia, on the Malaysian market. Learnings from these activities provide a greater understanding of potential opportunities for snus globally, in the years ahead.

**All Swedish Match snus** is manufactured according to the **GOTHIA TEK**® quality standard, and complies with the recommendations set forth by the WHO with regard to acceptable limits of undesired elements in

smokeless tobacco. Our snus, having reached this milestone on compliance with WHO recommendations, further supports our conviction that snus can play an important role in harm reduction, as more and more adult consumers look for a less harmful alternative to cigarette smoking when choosing among tobacco alternatives.

As a tobacco company, Swedish Match must adhere to a vast array of continually changing regulations specific to our industry. We believe that truly effective regulation needs to be evidence based and requires an exchange of knowledge and experience between decision makers and industry. The European Union is currently in the process of revising its Tobacco Products Directive. The European Commission presented its proposal for revisions to this directive in late December 2012. The final outcome and time of adoption is difficult to predict. The process can last a long time and its content can be changed before a finished directive is enacted. We sincerely hope that in the end, the new revised directive will take into account the well documented scientific support for snus as a less harmful alternative to cigarettes.

**Our US cigar and chewing tobacco businesses**, making up Other tobacco products, continued to deliver strong profitability. For cigars, we reached an important milestone, delivering more than one billion cigars in a single year, under such well known brands as *White Owl* and *Garcia y Vega*. Volumes grew by more than 18 percent, supported by innovative new products such as the *White Owl Silver* and *Garcia y Vega Black* offerings. We look forward to further growth in the year ahead, supported by new product offerings and further distribution opportunities. For chewing tobacco, despite continuing and longstanding market declines, the business delivered stable sales and operating profit only slightly below 2011 levels.

**Our lights businesses** had a mixed performance, with further growth of our lighter business, particularly in Asia, substantially

offsetting weakness for our match business in certain parts of the world – in part due to currency fluctuations, but also due to somewhat higher costs.

**Scandinavian Tobacco Group (STG)**, in which Swedish Match has a 49 percent holding, is the largest mass market cigar player on the European market, the world's largest pipe tobacco company, and has a substantial fine cut tobacco business. During the year, STG took major steps to upgrade its US setup, as well as implementing a new ERP (order and production) system. We received our first dividend from STG in 2012, and look forward to good cash flows from our ownership of this company.

**Swedish Match is committed** to being a sustainable and responsible tobacco company, and works continuously to improve on its social, environmental, and economic endeavors. We are convinced that these efforts provide valuable benefits, not only to Swedish Match and the communities we work in and serve, but also to society as a whole. We are constantly looking for ways to make more efficient use of resources and reduce costs, while strengthening the corporate reputation and brand as well as being an attractive employer.

**Our financial performance** during 2012 recorded continued growth in both sales and earnings per share. Total company sales increased by 7 percent to 12,486 MSEK. Basic earnings per share for the year reached 14.33 SEK, up 18 percent from the previous year. For 2012 the proposed dividend will be 7.30 SEK, an increase of 12 percent. The Company bought back 7.4 million shares as part of its ongoing share repurchase program.

I would like to express my gratitude to our employees, customers, and our loyal consumers, for making it possible for us to deliver a strong and solid business to you, our shareholders.

Stockholm, March, 2013

Lars Dahlgren, President and CEO

## Q3 JULY–SEPTEMBER

US cigar sales were up by 14 percent.<sup>1)</sup>

*General* snus is available in 9,000 stores in the US.

## Q4 OCTOBER–DECEMBER

Swedish snus in the US grew significantly.<sup>1)</sup>

Sales increased by 3 percent.<sup>1)</sup>

# Delivering quality

### THE VALUE CHAIN



1

Consumer Insight



2

Research & Development (R&D)



3

Production



4

Consumer marketing

### 1. Consumer Insight

As a branded consumer products company, Swedish Match must, first and foremost, listen to the consumers and work to address consumer needs. Consumers not only want high quality, but also brands they trust, clear labeling, convenient packaging, and a price that fits the product. In order to strengthen Swedish Match as a consumer and knowledge driven company, the Company uses a structured consumer insight approach that leads to an increased understanding of brands, consumers, customers, trends, and competitors. With ongoing consumer engagement, Swedish Match better understands consumer desires and can work to deliver products that meet those desires. Consumer insight comes from many sources, but is most often generated by the various operating units by marketing departments, business development departments, and from customer and consumer engagement.

### 2. Research & Development (R&D)

When considering new or improved products, Swedish Match evaluates consumer needs while also considering a host of other factors. As part of the product development and innovation processes, it is essential to consider such factors as cost, ingredients and packaging, regulatory issues, time to

market, the life cycle of the product, potential level of demand and volume, technological feasibility, and environmental impact. Both suppliers and materials to produce the finished product must be readily available, quality levels must be assured and quality standards must be met, throughout the value chain. Swedish Match has extensive R&D facilities for snus in Sweden that not only works to develop new products, but also helps in monitoring and improving existing products in the ongoing effort to improve within the **GOTHIA TEK**<sup>1)</sup> standard<sup>1)</sup>. R&D for smokeless tobacco products is handled by Smokefree Products Division, in facilities in both Sweden and the US. During 2012, R&D facilities were upgraded in Gothenburg, Sweden. For lights products and cigars, R&D generally is conducted at the factory level.

### 3. Production

Production of snus takes place in Gothenburg and Kungälv, Sweden. Both loose and original portion-packed (pouch) snus products are manufactured in the Gothenburg factory. 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 chew-

ing tobacco takes place in Owensboro, Kentucky, the US. The Owensboro factory has developed a flexible production setup which enables the Group to efficiently adapt to production changes. In addition to producing its own products, Swedish Match produces chewing tobacco for a third party (National Tobacco). Cigars for the US are produced in Santiago, the Dominican Republic, and in Dothan, Alabama, the US. Production of matches takes place in Tidaholm and Vetlanda, Sweden and in Curitiba and Pirai do Sul, Brazil. Lighter facilities are located in Manila, the Philippines, in Assen, the Netherlands, and in Manaus, Brazil.

### 4. Consumer marketing

Swedish Match is firmly committed to maintaining high standards when marketing to its consumers, and works to ensure that the Company meets requirements of all local laws, rules, and regulations with regard to marketing practices. Swedish Match products are marketed to adult consumers. The marketing departments are responsible for consumer marketing such as determining what the product and packaging should be, how it should be priced, where it should be sold, and how to communicate with consumers. Marketing is generally handled at the local/national level, except for international brands, such as for

<sup>1)</sup> For more information about **GOTHIA TEK**<sup>®</sup>, see [www.swedishmatch.com/GOTHIA TEK](http://www.swedishmatch.com/GOTHIA TEK).



## Organization

In order to rapidly meet changing market conditions, and to provide customers and consumers with the products they want, when they want them, Swedish Match has put in place an organizational structure that facilitates flexibility and innovation. Through continuous dialogue and a spirit of partnership with both customers and suppliers, Swedish Match is able to quickly and efficiently develop, produce, and deliver the products adult consumers can enjoy.

For smokeless tobacco products (snus, moist snuff, chewing tobacco), supply chain management (including production and product development) is managed by the Company's Smokefree Products Division, while the Scandinavia and US Divisions focus on local marketing and partnerships with customers. Snus products outside Scandinavia and the US are marketed through SMPM International, a 50/50 joint venture between Swedish Match and Philip Morris International.

The Smokefree Products Division works closely with both the Scandinavia and US Divisions, as well as SMPM International, to ensure that new products are developed and produced to meet changing consumer tastes and desires. Marketing and supply chain management for cigars is handled by the US Division. For matches and lighters, marketing and supply chain management is handled by the operating units Lights International and Lights Latin America.



5

Sales & Trade marketing



6

Distribution



7

Customer/Retailer



8

Consumer

*General snus or Cricket lighters*, where some marketing is carried out on a pan-geographic basis.

### 5. Sales & Trade marketing

Sales & Trade marketing allows customers/retailers the opportunity to better understand the products offered by Swedish Match, which in turn allows customers/retailers to properly merchandise and sell the product to consumers. Through dialogue with Swedish Match employees, the customers/retailers are able to take advantage of the Company's category management tools in order to get the most appropriate product mix for their merchandising needs. Sales & Trade marketing is usually carried out at the local/national level.

### 6. Distribution

For the Swedish and Norwegian markets, Swedish Match's products are shipped through Swedish Match Distribution AB, the Group's distribution company's facilities in Stockholm and Gothenburg, Sweden. These facilities also distribute other products, such as most tobacco products in Sweden. In the US, Swedish Match ships products to both wholesaler and selected retailer locations throughout the country direct from its production facility and through company owned and third party warehouses. 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 of lights products 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.

### 7. Customer/Retailer

The primary sales channels for Swedish Match products are supermarkets, convenience stores, tobacconists, and gasoline stations. Other important channels include bars and restaurants, as well as Scandinavian Travel Retail outlets, such as airports and ferries. Since retail prices are set by retailers, prices can vary. The Scandinavia Division, US Division, and the two Lights operating units strive to work in true partnership with their customers to build the customers' businesses. Sales representatives work closely with customers/retailers to optimize their business in selling Swedish Match's products to consumers. Through in-depth discussions and active dialogue, customers/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. 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. Retailers are responsible for ensuring that all tobacco products are only sold to those who can legally purchase them. Swedish Match believes that no consumer under the age of 18 should be allowed to purchase tobacco, and supports retailers' efforts to demonstrate their endorsement of the Swedish Match "Under 18, No Tobacco" principle<sup>1)</sup>.

### 8. Consumer

When all parts of the value chain work together, the ultimate consumer has the opportunity to choose to purchase a Swedish Match product. Consumers can be confident that their purchase, and their views on the product, will further influence the value chain and the product development cycle.

<sup>1)</sup> For more information about "Under 18, No Tobacco" principle, see page 25.

# Swedish Match – a growth player in tobacco

**Swedish Match participates in the smokeless tobacco markets in Scandinavia and the US, with its snus, moist snuff, and chewing tobacco products, and is exploring opportunities for snus products in other markets through SMPM International (a joint venture with Philip Morris International). The Company participates in the US mass market cigar market and in the global match and lighter markets. Swedish Match also owns 49 percent of Scandinavian Tobacco Group, which participates in the global pipe tobacco, fine cut tobacco, and cigar markets. Swedish Match can therefore be considered a niche player in the global tobacco market, as the Company does not participate in the largest segment, cigarettes.**

### The global tobacco market

The largest single segment of the global tobacco market is cigarettes, which account for roughly 90 percent of all tobacco consumed.<sup>1)</sup> A small number of large global tobacco companies rely on cigarettes for the bulk of their revenues and profits. Generally,

cigarette consumption has been declining over the past decade in most developed countries, while in many emerging markets cigarette consumption has continued to increase.<sup>1)</sup>

In addition to cigarettes (and similar products, such as fine-cut/roll-your-own tobacco), the global tobacco market is composed of other smoking and smokeless tobacco products, such as pipe tobacco, cigars, various forms of chewing tobacco, snus, moist snuff, and nasal tobacco.

The global tobacco market is exposed to ever-increasing levels of restrictions and regulations, as governments and other regulatory and non-governmental organizations seek to reduce tobacco consumption, and, most notably, cigarette consumption. These regulations, along with taxation measures, have had impacts on tobacco growing, tobacco production, product availability, packaging and labeling, consumer pricing, and location of use.

Consolidation within the global tobacco market among industry manufacturers has been limited in 2012, with very little M&A

activity among leading industry players. Among publicly traded tobacco companies, Swedish Match is globally a small player, active primarily in the Scandinavian and US markets.

### The global smokeless tobacco market

Smokeless tobacco is a relatively small tobacco category compared to the much larger cigarette category, and is consumed in many parts of the world in different types and formats. In Scandinavia, the dominant form of smokeless tobacco is snus. In the US, snus is a small but growing segment, while the dominant forms of smokeless tobacco are moist snuff and chewing tobacco. In other parts of the world, such as India and certain countries in Africa and Asia, local variants of oral and nasal smokeless tobacco products are consumed. In the European Union and certain other countries, snus and other oral tobacco products not intended to be chewed are prohibited, while chewing tobacco products are allowed to be sold.

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

## SHORT FACTS

- The global tobacco market is composed of smoking and smokeless tobacco products, such as cigarettes, cigars, pipe tobacco, snus, moist snuff, and chewing tobacco.
- The largest segment is cigarettes, accounting for roughly 90 percent of all tobacco consumed globally.
- Smokeless tobacco is a relatively small but growing category, accounting for approximately two percent of all tobacco consumed globally.

Source: Euromonitor.



## Swedish Match's markets

### *Snus and snuff*

Swedish Match's primary tobacco markets are in Scandinavia and the US. Both the Scandinavian snus market and the US moist snuff/snus markets are growing in volume terms, and the combined Scandinavian/US snus and moist snuff markets are approximately 1.7 billion cans per year, with the Scandinavian snus market at approximately 310 million cans, and the US moist snuff market at slightly more than 1.3 billion cans.<sup>1)</sup> Both the Norwegian and Swedish markets experienced growth in volume terms during 2012.<sup>1)</sup> Swedish Match holds the leading position in the Scandinavian snus market, with approximately 75 percent volume share in Sweden, and 66 percent volume share in Norway during the final three months of 2012.<sup>2)</sup>

The smokeless tobacco markets in the US and Scandinavia have experienced increased product innovation and increased activity among large cigarette manufacturers in recent years, with the introduction of new varieties and formats, including non-traditional formats, such as dissolvable products.

In nearly all countries outside of Scandinavia and the US, snus is not widely known. Outside of Scandinavia and the US, Swedish Match is exploring, through SMPM International, other potential markets for snus. Markets currently being explored include Canada, Russia, Israel, and Malaysia.

### *Other tobacco products (cigars and chewing tobacco)*

The market for mass market cigars in the US excluding the little cigars segment (where Swedish Match does not participate) is estimated by Swedish Match to amount to approximately 5 billion cigars. The US mass market cigar market (excluding little cigars) is estimated to have been stable in volume terms in 2012.<sup>1)</sup> Swedish Match is the third largest player in the US mass market cigar market (excluding little cigars), with a growing market presence.<sup>1)</sup>

Swedish Match estimates that the US chewing tobacco market is a 250 million US dollar market (manufacturers' sales) and has been declining in volume terms in the range of 6–8 percent on average over the past three years. Swedish Match is the market leader in this category, with more than 45 percent volume share.<sup>3)</sup> The Company also has a contract manufacturing agreement, and produces close to two thirds of all chewing tobacco sold in the US.

### *Lights (matches and lighters)*

In addition to tobacco products, Swedish Match also participates in the global match and lighter markets. Swedish Match's largest match markets in Europe include the UK, the Nordic countries, France, and Spain. Swedish Match is also the market leader for matches in Australia and Brazil.

For lighters, Swedish Match holds a leading market position in Russia within the premium disposable category. The Group also has solid positions for lighters in Brazil, the Nordic countries, the UK, and France. In several markets in Asia, Swedish Match's lighters continued to demonstrate strong volume development, reflecting efforts to build business in this part of the world.

Swedish Match also has match sales in a number of African and Asian markets.

### **Market outlook 2013**

For the full year 2013, the Company expects continued growth of the Scandinavian snus market, led by volume growth of both the Norwegian market and the low priced segment of the Swedish market. In the US, both the moist snuff and snus markets are expected to grow, with the largest volume increases coming from value priced moist snuff. The US mass market cigar market is expected to be relatively stable in volume terms. Markets for matches and lighters will continue recent trends, with matches generally declining while lighters are in many cases stable. In some geographies, lighter markets are expected to continue some growth.

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

<sup>2)</sup> Source: Nielsen, 12 week data to December 30, 2012. Sweden estimates exclude tobacconists.

<sup>3)</sup> Source: Nielsen and Swedish Match estimates.

## SWEDISH MATCH'S MARKETS

Swedish Match is a global company, with strong local brands. Swedish Match also has international brands, such as *General* snus, and *Cricket* lighters. The Company's largest markets are in Scandinavia, the US, and Brazil, which together generate 98 percent of Company sales, and 98 percent of operating profit from product areas.

**Sweden and Norway:** The market leader for snus. The Company also has a strong presence with both matches and lighters.

**The US:** A strong and growing presence for mass market cigars, as well as the leading position for chewing tobacco. The Company also has a significant presence in the US moist snuff market, and is developing its position in the snus segment.

**Brazil:** A significant presence for both matches and lighters.

**Worldwide:** A strong presence for matches in many markets, most notably within Europe, Africa, and Australia/New Zealand. The Company has a strong position with the *Cricket* lighter brand in parts of Europe, especially in Russia, and a strong and growing presence in parts of Asia.

## SNUS AND SNUFF

### PRODUCT AREA OPERATIONAL HIGHLIGHTS

- Scandinavian sales revenues increased by 8 percent.<sup>1)</sup>
- US moist snuff operating profit virtually unchanged.<sup>1)</sup>
- Store distribution of General snus in the US grew to more than 10,000 stores by year end.
- SMPM International engaged in market testing for snus in Canada, Russia, Israel, and Malaysia.
- Operating profit up by 8 percent.<sup>1)</sup>

<sup>1)</sup> Versus full year 2011.

# Continuing to invest in growth

**In Sweden, rapid growth of the low priced segment of the market contributed to market growth. In Norway, snus consumption has risen rapidly in recent years, as more consumers are choosing snus instead of cigarettes. In the US, Swedish Match primarily sells moist snuff, with increased resources now being dedicated to the snus category, where Swedish Match has increased its distribution to more than 10,000 stores by year end.**

### Strategy

Swedish Match endeavors to be the global smokefree leader.

Swedish Match's strength in smokefree products lies in its quality products and established brands in combination with deep consumer insight.

Swedish Match will leverage its unique Snus and snuff platform to build global smokefree leadership, and will continue to innovate and develop new and improved products while leveraging its brands' strengths in order to meet changing consumer needs. Swedish Match will endeavor to drive category growth and maintain its leading position in Scandinavia, to develop the snus category in the US and establish a strong presence in the market, to strengthen the Company's position in the US moist snuff market, and to explore global opportunities for Swedish snus through SMPM International.



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

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.

### Financial development

Sales for the product area during the year increased by 7 percent to 5,049 MSEK (4,726).

Operating profit for the year increased by 8 percent to 2,349 MSEK (2,181).

In the Scandinavian market, Swedish Match sales increased by 8 percent, from improved pricing.

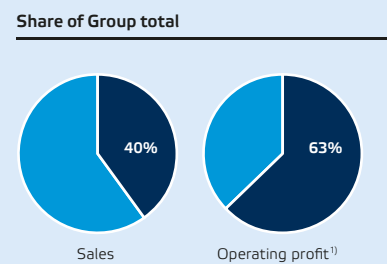
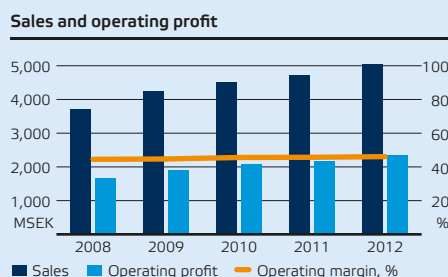
Shipment volumes increased in Norway during the year.

In the US, Swedish Match moist snuff sales were down slightly versus prior year due to lower volumes. Operating profit was virtually unchanged.

The operating margin was 46.5 percent (46.1) for the year, impacted by higher spending levels for Swedish snus expansion projects in both the US and through SMPM International.

Key data, MSEK <sup>1)</sup>	2012	2011	2010
Sales	5,049	4,726	4,522
Operating profit	2,349	2,181	2,080
Operating margin, %	46.5	46.1	46.0
Investments in property, plant and equipment	110	123	192
Average operating capital	1,929	1,965	1,957
Average number of employees	991	972	969

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



<sup>1)</sup> Excluding Other operations, share of net profit in STG and larger one time items.

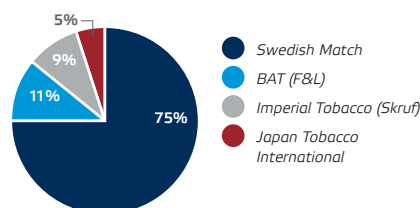
## SNUS IN SCANDINAVIA

### Main brands:

**Sweden:** *General, Göteborgs Rapé, Ettan, Grovsnus, Catch, Kronan, Kaliber*

**Norway:** *General, Nick and Johnny, The Lab Series, Catch, Göteborgs Rapé*

### COMPETITORS - SWEDEN



Source: Nielsen, 12 week data to December 30, 2012. Sweden estimates exclude tobacconists.

Swedish Match snus brands are available in a broad range of varieties and price points. In Sweden, *General* is the largest brand in the premium segment, *Kronan* in the mid priced segment, and *Kaliber* in the low priced pouch segment.<sup>4)</sup> 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

The Scandinavian snus market is estimated to have amounted to approximately 310 million cans in 2012, up by 4–5 percent from previous year.<sup>1)</sup> Over the past several years, consumption has been moving from traditional loose products to portion-packed products, which at the end of 2012 accounted for more than 75 percent of volumes in Scandinavia.<sup>2)</sup>

Sweden is by far the largest snus market in Scandinavia, with approximately one million consumers.<sup>3)</sup> The number of snus users has increased by approximately 4 percent in the final three months of 2012 versus the same period previous year, which is an

increase for the second year in a row.<sup>3)</sup>

The Swedish snus market in volume is estimated by Swedish Match to have grown by approximately 3 percent in 2012 versus prior year. Swedish Match is the leading manufacturer of snus, with a volume share in Sweden of approximately 75 percent in the final three months of 2012.<sup>2)</sup>

The Norwegian market has grown by more than 10 percent in recent years, and is estimated to have grown by 14 percent in 2012 versus prior year.<sup>4)</sup> In Norway, Swedish Match's volume share is estimated to be approximately 66 percent in the final three months of 2012.<sup>2)</sup> The number of men and women using snus on a regular basis is increasing in Norway.<sup>3)</sup>

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.<sup>3)</sup> The overall percentage of women using snus is lower than for men, and is similar in both Norway and Sweden. However, a higher proportion of both men and women between the ages of 18 and 29 use snus in Norway than in Sweden. For adults over the age of 30, a lower proportion of people in Norway use snus than in Sweden.<sup>3)</sup>

Competition from low priced products has intensified in Sweden during the year. This has contributed to market share erosion

for Swedish Match, and to volume declines for full priced products. Swedish Match had more than a 95 percent market share of the full priced segment in volume terms for the final three months of 2012, according to Nielsen. For the same time period, the total market share for Swedish Match in volume terms of 75 percent compared to 82 percent for the same period previous year, with a decline of the full priced segment's share of the total market to 64 percent from 71 percent.<sup>2)</sup> Swedish Match has built a strong position also in the low priced segment of the market with a market share of 29 percent in volume terms.<sup>2)</sup>

### Highlights in Scandinavia

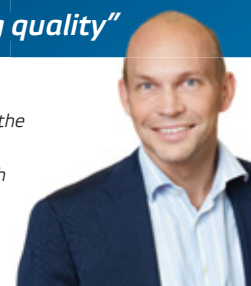
During 2012, Swedish Match revised its packaging for its best selling brand, *General*, for the Scandinavian market. The new graphics are part of the ongoing effort to visually enhance and support this flagship premium brand.

During the year, the Group launched a number of new products and line extensions. Launches in Sweden included the range of products under the *Nick and Johnny* brand. This brand has already proven itself to be a solid success on the Norwegian market.

*Kronan*, Swedish Match's number one brand in the mid priced segment in Sweden, upgraded its design during the year. The

### "Swedish Match snus delivers outstanding quality"

"The Scandinavian snus market was heavily impacted by increased competition and substantial volume growth for low priced products in the Swedish market. In Norway, the market continued to experience solid volume growth and Swedish Match volumes increased. Swedish Match snus delivers outstanding quality and value for money, and we look forward to providing more top quality products and service to our customers."



Jonas Nordquist, President Scandinavia Division

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

<sup>2)</sup> Source: Nielsen, 12 week data to December 30, 2012. Sweden estimates exclude tobacconists.

<sup>3)</sup> Ipsos Sweden, Market Report, 2012.

<sup>4)</sup> Source: Nielsen.

Kaliber brand has quickly become one of the leading brands in the low priced segment. In the Norwegian market, the Group has continued to grow volumes with strong traditional brands such as *General* as well as newer brands, including *Nick and Johnny* and *The Lab Series*. During the year, several line extensions of existing brands further strengthened the product assortment. For example, *The Lab Series 07* was introduced.

In December 2012, Swedish Match opened a snus store, "Svenskt snus", in the heart of Stockholm.

By logging on to: [www.swedishmatch.com/konsument](http://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.

### Tobacco taxes

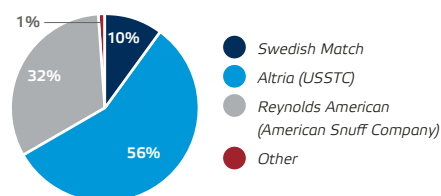
On January 1, 2012, Swedish excise taxes on snus were raised by 13.7 percent. In anticipation of higher prices, retailers ordered an estimated 2 million cans of additional inventory prior to year-end 2011. On January 1, 2013, Swedish excise taxes on snus were raised by 1.0 percent. In Norway, the excise tax on snus was raised by 1.1 percent on January 1, 2012. On January 1, 2013, excise taxes were raised by 2.2 percent in Norway.

## SNUS AND SNUFF IN THE US

### Main brands:

*Longhorn, Timber Wolf, Red Man, General*

### COMPETITORS - THE US



Source: Swedish Match estimates.



*General is both the most popular snus in Sweden and the most widespread snus brand internationally.*

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, priced in line with premium moist snuff products.

### Market

Moist snuff is sold throughout the US and volumes are particularly strong in the southern and mid-Atlantic states. The moist snuff market is extremely competitive,

brought on by high levels of price and product competition from the largest competitor brands. The vast majority of moist snuff users in the US are men. The recent rapid growth of the pouch segment of the market, and expanded product offerings by the industry, have broadened the appeal of moist snuff to a larger consumer base.

During the past five years, can consumption in the US moist snuff market has grown by more than 5 percent per year.<sup>1)</sup>

In 2012, the US moist snuff market is estimated by Swedish Match to have grown by 4-5 percent, with continued intense pricing and

promotional activity. For the full year 2012, Swedish Match estimates its market share by volume to have been approximately 10 percent, down slightly from 2011.

While the US snus market is still quite small, the potential for growth is strong, as snus may appeal to a wide segment of the adult tobacco consuming population. Snus is a discrete, spitless alternative to cigarettes and other tobacco products, and the industry has increased the availability and range of product offerings for this tobacco variety.

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



## 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 **GOTHIATEK®** 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 **GOTHIATEK®** 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 than loose snus. 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 can, which is then sealed with a lid, after which the cans are weighed and labeled.

## Highlights in the US

The premium priced segment of the moist snuff market declined in 2012, while the value segment grew.<sup>1)</sup> Combined with increased competitive activity for traditional value brands, the main reason for rapid growth in the value segment was that a major competitor has been pricing many of its premium branded products at prices positioned in the value segment. With this aggressive activity among large competitors, Swedish Match declined in volume and market share for its higher priced brands in the value segment. Swedish Match has a solid and growing position with its *Longhorn* brand, and during the year expanded its product assortment to include *Longhorn* tubs, a larger packaging format that offers consumers more value for money.

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

Approximately 90 percent of moist snuff in the US is sold in the traditional loose format.<sup>1)</sup> However, over the past several years, the percentage of moist snuff sold in pouches has increased. Swedish Match estimates the growth in the pouch segment to have been approximately 20 percent in volume terms in 2012. During 2012, Swedish Match improved its product offering for moist snuff in pouches, with the introduction of a disposal lid – a first for moist snuff in the US.

Swedish Match continued its efforts behind Swedish snus in the US market and significant investments have been incurred during the year to support the expansion of snus. Consumption in 2012 is estimated by Swedish Match to be in the range of 50 million cans. In the US, the Company markets the *General* snus brand – an authentic Swed-

ish snus, available in tobacconists, convenience stores, and other selected stores.

For *General* snus, the trends are encouraging and the brand expanded its distribution. By the end of 2012, the *General* brand was present in more than 10,000 stores, up from approximately 3,500 stores at the end of 2011.

## 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 2012, SMPM International continued to test market snus in a selected number of stores in Canada using the *General* snus brand. In St. Petersburg, Russia a test launch of snus is being conducted using the *Parliament* brand. While it takes time to build the category, test markets show good signs, and store count has been expanded in both markets.

A new test was initiated in Israel using the *Marlboro* brand for snus in the second half of the year. In the spring of 2012 a test market in Taiwan was concluded.

In addition, Swedish Match continued small activities with the *General* brand in Malaysia.



Production at the Kungälv factory in Sweden of the nicotine free product *Onico*, one of the brands packaged in star formation.

**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 plastic lid is made from polypropylene plastic. Polypropylene cans are typically 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 helps to keep the product fresh and is important for allowing the snus to mature acquire its characteristic aroma and flavor.

## SNUS AND HEALTH

Scientific data clearly demonstrate that the health risks associated with smokeless products in the Western world are significantly lower than those of cigarettes.

Swedish Match is convinced that smokeless tobacco products manufactured according to Swedish Match's quality standards, such as snus with its **GOTHIATEK®** standard, play an important role to achieve harm reduction, as has been demonstrated by several scientific studies. Smokeless tobacco provides a sensible alternative to cigarettes and other smoking products, foremost because it does not deliver toxic compounds due to combustion. In addition, environmental tobacco smoke is not an issue with smokeless tobacco.

Swedish Match does not claim that the Company's smokeless products could not have any adverse health effects. Swedish Match recognizes that tobacco use raises valid questions about nicotine dependence, and the role of nicotine in specific groups of the population such as during pregnancy and among patients with certain pre-existing medical conditions.

Substantial research conducted by independent (mostly university-based) research groups has been conducted with regard to Swedish snus and health.<sup>1)</sup> Some of the findings of this research indicate:

- Snus and oral cancer – there is no evidence of a link between snus and an increased risk of oral cancer.
- Snus and myocardial infarction – there is no evidence of a link between snus and an increased risk of myocardial infarction.
- Snus and stroke – there is no evidence of a link between snus and an increased risk of stroke.
- Snus and gastrointestinal disorders – there is no evidence of a link between snus and an increased risk of gastrointestinal disorders.
- Snus and smoking cessation – a large number of studies show that availability of snus contributes to low smoking rates.

<sup>1)</sup> More information and references on snus and health are available on the Company's website, [www.swedishmatch.com/snus-and-health](http://www.swedishmatch.com/snus-and-health).

## OTHER TOBACCO PRODUCTS: CIGARS AND CHEWING TOBACCO

### PRODUCT AREA OPERATIONAL HIGHLIGHTS

- Swedish Match cigar shipments surpass 1 billion stick threshold – up by 18 percent.<sup>1)</sup>
- Further market share gains for cigars.<sup>2)</sup>
- Maintained market share leadership for chewing tobacco.<sup>2)</sup>
- Sales up by 7 percent and operating profit up by 6 percent in local currency.<sup>1)</sup>

<sup>1)</sup> Versus full year 2011.

<sup>2)</sup> Source: Nielsen, YTD December 22, 2012 versus same period prior year.

# Another outstanding year for cigars



**Other tobacco products includes cigars and chewing tobacco for the US market. Swedish Match has over the past several years experienced rapid growth in both volumes and sales for cigars. Swedish Match maintains a leadership position in chewing tobacco, with solid performance in a declining product category.**

### Strategy

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

For cigars, the Company will drive profitable growth through consumer-driven innovation and strong sales execution. The Company continues to innovate, in order to introduce high quality products appreciated by consumers.

For chewing tobacco, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. 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 enabling sustainable profits.

### Financial development

Sales for the product area for the year increased by 11 percent to 2,661 MSEK (2,388), and operating profit increased by 11 percent to 1,161 MSEK (1,049). In local currency terms, sales grew by 7 percent.

In the US, cigars experienced significant sales and volume growth, while for chewing tobacco sales remained flat. The operating margin for the product area was 43.6 percent (44.0).

### *“Strong growth for the US business”*

*“The success of our innovations contributed to strong growth for the US business in 2012. We continued to gain share in the cigar category behind the strength of our new silver and black varieties. We introduced the first disposal lids for moist snuff pouch products and added large tub packaging to our Longhorn portfolio. And we ended the year with General snus distribution in over 10,000 stores, about three times the number of stores that had the product when we entered 2012. These efforts have put us in a great position to continue to grow the business in 2013 and beyond.”*

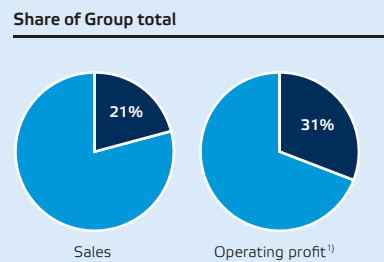
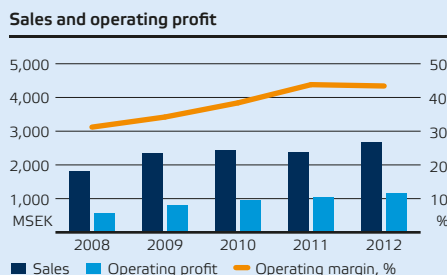


**Richard Flaherty**, President US Division



Key data, MSEK <sup>1)</sup>	2012	2011	2010
Sales	2,661	2,388	2,440
Operating profit	1,161	1,049	942
Operating margin, %	43.6	44.0	38.6
Investments in property, plant and equipment	54	61	30
Average operating capital	1,091	1,147	1,175
Average number of employees	1,486	1,470	1,407

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



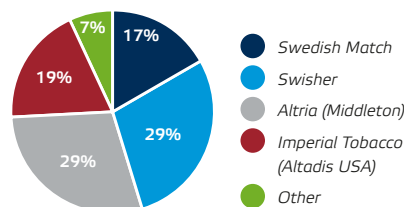
<sup>1)</sup> Excluding Other operations, share of net profit in STG and larger one time items.

## CIGARS

### Main brands:

*White Owl, Garcia y Vega, Game by Garcia y Vega*

#### COMPETITORS – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Nielsen, 12 week data to December 22, 2012.

Swedish Match maintains a growing presence with machine made mass market cigars in the US with such well known brands as *White Owl* and *Garcia y Vega*.

### Market and highlights

It is estimated by Swedish Match that the US mass market cigar market was stable in 2012 in volume terms and amounts to approximately 5 billion cigars excluding little cigars<sup>1)</sup> (where Swedish Match does not participate). The Company's share of market was approximately 20 percent in 2012, up from approximately 17 percent in 2011.<sup>2)</sup>

In the US, cigar manufacturers typically introduce several new products every year using well established brands. During 2012, Swedish Match launched a number of new cigar products under both the *Garcia y Vega* and *White Owl* brands using its FoilFresh<sup>®</sup> packaging concept. FoilFresh<sup>®</sup> cigars ensure that consumers get a softer, "fresher" cigar. In the spring of 2012 *White Owl Silver* and *Game by Garcia y Vega Silver*, and, in the summer *White Owl Black* and *Game by*

*Garcia y Vega Black* cigars were launched.

These new 2012 offerings follow the highly successful launch of products in the sweets cigar segment<sup>3)</sup> in 2010 and 2011. The new Silver and Black varieties provide a mild and smooth taste profile that many consumers prefer. Swedish Match reached an important milestone in 2012, delivering more than 1 billion sticks to the US mass market in one year.

<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20 (similar to cigarette packaging).

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

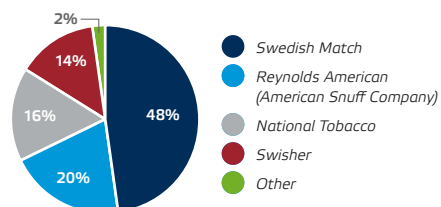
<sup>3)</sup> Sweets cigars is a category of mild, somewhat sweet cigars, generally without a characteristic flavor.

## CHEWING TOBACCO

### Main brands:

*Red Man, Southern Pride*

#### COMPETITORS – CHEWING TOBACCO



Source: Nielsen, 12 week data to December 22, 2012.

Swedish Match is the largest player in the US chewing tobacco category. Its *Red Man* brand is iconic.

### Market and highlights

The US market for chewing tobacco is in a long term state of decline. Volumes are typically declining by 6–8 percent annually.<sup>1)</sup> This occurs as consumers leave the category, some moving to moist snuff. The US chewing tobacco market declined by more than 5 percent in 2012.<sup>1)</sup>

The Group's best known chewing tobacco brand, *Red Man*, is by far the largest in the US, accounting for more than one third of all volumes sold on that market. Swedish Match brands account for more than 45 percent volume share of the market.<sup>1)</sup>

With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability. An example of this is the contract manufacturing agreement with National Tobacco, whereby Swedish Match

produces the chewing tobacco portfolio of this number three competitor in the Owensboro, Kentucky, US facility.

While the chewing tobacco market continues to decline, Swedish Match strong market share allows this business to remain highly cash generative, profitable, and important in the Swedish Match portfolio.

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



## LIGHTS: MATCHES AND LIGHTERS

### PRODUCT AREA OPERATIONAL HIGHLIGHTS

- Sales grew by 4 percent in local currencies.<sup>1)</sup>
- 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 8 percent, down by 4 percent in local currencies.<sup>1)</sup>

<sup>1)</sup> Versus full year 2011.

# Lighter volumes continue to grow

Swedish Match's brands of matches and lighters are known for quality and reliability and can be found in many markets across the globe. Match brands tend to be local, with one brand being iconic in its own country. For lighters, Swedish Match manufactures and sells *Cricket*, a well know brand of disposable lighters in many markets. *Cricket* lighters are marketed using the key selling points of quality, design, and safety.



Production of Redheads matches in the Tidaholm factory in Sweden.

### Strategy

With its portfolio of well known brands and strong market positions, Swedish Match works for continuous operational excellence in the Lights product area. The Company is committed to maintaining and improving its already efficient manufacturing operations as well as capitalizing on strong market positions 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

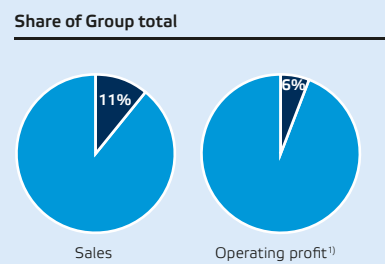
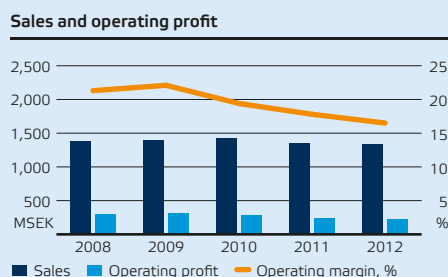
Sales for the product area for the year decreased by 1 percent to 1,339 MSEK (1,346). Operating profit decreased by 8 percent to 222 MSEK (240). The operating margin was 16.6 percent (17.9).

### Market

Swedish Match estimates that consumption of matches in markets where the Company has a presence declined during the year, in line with previous years. During 2012, Swedish Match lighter volumes in many European countries were in line with 2011, while in Russia and several Asian markets lighter volumes grew.

Key data, MSEK <sup>1)</sup>	2012	2011	2010
Sales	1,339	1,346	1,429
Operating profit	222	240	279
Operating margin, %	16.6	17.9	19.5
Investments in property, plant and equipment	61	56	52
Average operating capital	787	786	790
Average number of employees	1,141	1,187	1,271

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



<sup>1)</sup> Excluding Other operations, share of net profit in STG and larger one time items.

## LATIN AMERICA

### Main brands:

*Fiat Lux, Cricket*

### Highlights

In Brazil, the largest match market in Latin America, the Group holds a leading position with the Fiat Lux brand. Brazilian match consumption continued to decline in 2012 and Swedish Match estimates its market share to be stable in Brazil at approximately 45 percent, in terms of volume. On the Brazilian market, Swedish Match also offers a portfolio of complementary products, including disposable razors and batteries under the *Fiat Lux* brand.

Lighter volumes for the *Cricket* brand decreased slightly 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)*

### Highlights

During the year, Swedish Match maintained significant or leading market positions in its largest markets, including Australia (*Redheads*), the UK (*Swan*), France (*Feudor*), Spain (*Tres Estrellas*) and the Nordic countries (*Solstickan*, *Nitedals*, and *Tordenkjold*). Volumes generally declined, in line with

market trends. Match volume declines in developed markets were more than offset by increased deliveries to developing countries.

*Cricket* lighters volumes continued to grow in both Russia and Asia. In Asia, lighter volumes have grown by more than 50 percent over the past three years. Swedish Match uses the Scandinavian Tobacco Group distribution network in some countries in Europe and certain other markets for distribution of matches and lighters.

### COMPETITORS:

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



## "Our match position remains very strong"

"Our match position remains very strong with prominent local brands across the world. The *Cricket* expansion in Asia continued to deliver excellent lighter volume development and we expect to see sustained growth in this very important and dynamic region. In East Europe, particularly in Russia, we have strengthened our market position for lighters even further. We will continue to explore and invest in selective new market opportunities for both matches and lighters."



Håkan Söderberg, COO Lights International Peter Hedlund, COO Lights Latin America

# SCANDINAVIAN TOBACCO GROUP

## OPERATIONAL HIGHLIGHTS

- Sales increased by 4 percent on a comparable basis<sup>1)</sup>, from higher cigar and fine-cut tobacco volumes, together with positive mix effects.
- Adjusted EBITDA<sup>2)</sup> increased by 1 percent.
- Swedish Match share of net profit from Scandinavian Tobacco Group during the year amounted to 366 MSEK.

<sup>1)</sup> Versus full year 2011, excluding currency translation effects, divestment of certain brands in Australia in early 2011, and after adjusting for Lane being acquired on March 1, 2011.

<sup>2)</sup> Versus full year 2011, excluding currency translation effects, restructuring costs in the prior year, divestment of certain brands in Australia in early 2011, and after adjusting for Lane being acquired on March 1, 2011.

# Sales up 4 percent

**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.**



### 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*

### Financial development

Total Scandinavian Tobacco Group sales increased by 4 percent, stemming from higher volumes in both the cigar and fine cut tobacco businesses. Net profit for Scandinavian Tobacco Group amounted to 622 MDKK (578), an increase of 8 percent. The Swedish Match share of the net profit in Scandinavian Tobacco Group for 2012 amounted, after adjustments, to 366 MSEK (337). The share of net profit for Swedish Match in the prior year includes restructuring charges of 66 MSEK before tax.

Scandinavian Tobacco Group has taken a number of initiatives during the year, in order to more efficiently process its order

and production systems. It also invested in its US operations to facilitate future growth, expanding its marketing and sales force for its cigar and pipe and fine cut tobacco businesses. The Group implemented a new ERP system for its European cigar operations. While the implementation caused a temporary backlog situation and delivery problems during the third quarter, many of the issues were resolved prior to year end. With this new ERP system, the Company is better able to efficiently match orders with production and delivery, enabling faster time to market. Scandinavian Tobacco Group continued its integration efforts from the 2010/2011 incorporation of the former

## FACTS AND FIGURES

- The world's largest manufacturer of cigars, number one in US long filler cigars and number one in European machine made cigars.
- Global number one in pipe tobacco.
- Strong market positions in fine-cut tobacco, primarily in Scandinavia and the US.
- Approximately 9,500 employees in 20 countries.
- Sales companies in 16 countries.
- The production units are located in Belgium, Denmark, the Dominican Republic, Honduras, Indonesia, the Netherlands, Nicaragua, and the US.
- Roughly three fourths of Scandinavian Tobacco Group sales and gross profit come from cigars.
- The company manufactured approximately 2.7 billion machine made cigars and 140 million hand made cigars in 2012.
- 2,200 tons of pipe tobacco and 2,900 tons of fine-cut tobacco manufactured in 2012.
- The largest competitor is Imperial Tobacco.



Swedish Match and Lane units, and is in the process of rationalizing operations, including production units. This rationalization program will provide further synergies, estimated to be approximately 9 MEUR during 2014/2015.

### Market development

The US long filler cigar market is estimated to have been flat during 2012 versus 2011.<sup>1)</sup> The European machine made cigar market is estimated to have been flat to slightly lower in volume terms in 2012 and was close to five billion cigars.<sup>1)</sup> Scandinavian Tobacco Group sells cigars under its own brands, as well as having contract manufac-

turing agreements and private label manufacturing, making Scandinavian Tobacco Group 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 in volume terms. The most important markets are North America and Europe which account for an estimated 3,500 tons per year. Scandinavian Tobacco Group has 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, primarily in parts of Europe as well as Australia/New Zealand, are manufactured by Swedish Match. Scandinavian Tobacco Group products are distributed through both the company's own sales subsidiaries and third party distributors.

<sup>1)</sup> Source: Scandinavian Tobacco Group estimates.

# Our approach to Corporate Sustainability

**Corporate Sustainability is embedded in Swedish Match's corporate culture and way of doing business. For Swedish Match, Corporate Sustainability entails generating value for the Company, its stakeholders, and the environment – in order to assure long term and sustainable growth. During 2012, Swedish Match furthered its efforts to use a systematic approach to Corporate Sustainability in order to ensure improved transparency and a focus on business operations. Work was devoted to further strengthening the link to the Company's vision and strategy as well as implementing and enhancing systems and processes necessary to support the Company's long term efforts.**

## A sustainable and responsible business

In order to achieve its vision to be the global smokefree leader, Swedish Match must continue to work toward the Company's mission: to responsibly develop, manufacture, market, and sell high-quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering sustainable and growing profits to the Company's shareholders. This mission statement demonstrates that for Swedish Match, a sustainable and responsible business goes hand in hand. For Swedish Match, sustainability implies always striving to balance economic responsibility with environmental and social responsibility; or put in other words – **delivering sustainable and growing profits, mindful of the world around us.**

Consistent with the Swedish Match mission, the Company works systematically with Corporate Sustainability across the organization.

This work provides many long term benefits to the Company. It helps to make Swedish Match more competitive, to identify and reduce costs and risks, and to strengthen the corporate reputation and brand. It also enables the Company to be an attractive employer. Working with sustainability is thus an important element for Swedish Match's future growth and value creation.

Swedish Match's sustainability activities also aim to provide value to the Company's stakeholders and to the environment. This includes for example an improved workplace environment for employees, a reduced negative environmental impact, and adherence to high standards of conduct within the supply chain. Many of these activities also benefit consumers by enabling them to make well informed decisions based on product information provided by the Company (for example concerning nicotine and snus).

## STRATEGIC SUSTAINABILITY FOCUS AREAS AND OVERALL AMBITIONS<sup>1)</sup>

### Economic responsibility

To deliver sustainable and growing long term profits to shareholders, while maintaining strong cash flows, thus helping to create economic prosperity among the Company's stakeholder groups. This implies working to achieve long term shareholder/stakeholder buy-in of the business model through high levels of transparency and corporate governance, as well as efficient operations.

### Environmental responsibility

To consciously and actively reduce the negative impacts the Company has on the environment. This implies working efficiently with resource management, reducing waste and energy consumption, as well as maintaining sound environmental management processes.

### Societal responsibility

To build and strengthen relationships with society at large, such as with the regulatory and scientific community as well as in local communities where the Company operates. In addition to addressing societal issues such as human rights and child labor, this implies continuous dialogue and engagement as well as contributing to local communities through projects and activities that are relevant to local business operations.



Swedish Match's sustainability model

## Sustainability and tobacco

Some people may question whether a tobacco company can be sustainable in the long term. For Swedish Match, sustainability and tobacco are not incompatible. While the Company produces and sells tobacco products, the Group must still conduct business in a responsible and sustainable manner towards its stakeholders and the environment. Tobacco products are not without risk, however certain tobacco product categories carry higher levels of risk than others. Swedish Match believes that snus can play an important role in reducing tobacco harm (harm reduction) and providing consumers with health benefits compared to cigarettes, consistent with a society moving away from cigarettes.

## Stakeholder engagement

Swedish Match maintains an active dialogue with its stakeholders. For the past three years, Swedish Match has conducted a sustainability stakeholder survey among prioritized stakeholder groups (consumers, customers/retailers, employees, government/regulators, investors/financial analysts, scientific-health community, and suppliers). This methodical engagement helps the Company to consider the views of stakeholders and to examine whether (and to reaffirm that) the Company is focusing on sustainability activities that are material to stakeholders.

Based on the outcome of the 2012 study, Swedish Match decided to further conceptualize and focus its efforts on six strategic sustainability focus areas, each covering those aspects deemed to be material to the Company (see Swedish Match's sustainability model below). The Company has set overall ambitions within each area, and going forward the focus will be to set clear objectives and targets. Swedish Match works to encourage positive changes through its activities toward each stakeholder group.

## Employee responsibility

To attract, develop, and retain highly competent employees, to promote a culture of openness and trust, and a sound workplace environment. This implies addressing issues such as ethical business practices, workforce diversity, talent management, training and development, as well as workplace health and safety.

## Supplier responsibility

To work closely with the Company's suppliers in order to maintain adherence to Swedish Match's high standards of conduct and to support efforts to ensure that suppliers work responsibly in terms of economic, environmental, and social issues. This implies working closely with major suppliers, addressing issues related to human rights and working conditions, child labor and tobacco farming, as well as making sure honest and ethical business practices are conducted in the supply chain.

## Consumer and marketplace responsibility

To bring high-quality tobacco and lights products to consumers as well as take a lead in keeping high standards of corporate conduct within the Company's marketplace. This implies the labeling and marketing of all products in a responsible manner, and working closely with customers/retailers in order to promote high standards of conduct in the tobacco marketplace.

## HIGHLIGHTS 2012

- New sustainability data management software in place to enable more reliable reporting on sustainability data globally.
- New online environmental training program initialized internally via the Swedish Match intranet.
- Increased internal communication with regard to Corporate Sustainability.
- Increased scope of the sustainability stakeholder survey among Swedish Match's prioritized stakeholder groups.
- Improved disclosure score in the Carbon Disclosure Project (CDP).
- Expanded scope of the global employee survey.
- Third party confirmation of Swedish Match's 2011 self-declared GRI reporting level C.

## Sustainability reporting

Successful sustainability activities require a methodical approach to reporting. Swedish Match reports its sustainability information according to the guidelines set forth by Global Reporting Initiative (GRI) G3 in order to reach measurable, transparent, clear, and comparable results. The Company currently reports according to the GRI Sustainability Reporting Guidelines for self-reported B level. Third party Application Level Check provider Tofuture Oy has confirmed Swedish Match's self-declaration that the 2012 Sustainability Report meets GRI G3 B level reporting requirements.



[www.swedishmatch.com](http://www.swedishmatch.com)

More information on the Company's sustainability efforts is available on the website [www.swedishmatch.com/sustainability](http://www.swedishmatch.com/sustainability).

<sup>1)</sup> In this document, the sections *Environmental responsibility* and *Employee responsibility* are presented separately from *Social responsibility*. Employee responsibility refers to the Company's responsibility with regards to its internal stakeholder group while social responsibility entails responsibility towards external stakeholder groups such as suppliers, consumers and marketplace as well as society in large. *Economic responsibility* is not discussed in a separate section. For financial performance, please refer to the back part (pages 40–90) of this annual report. For other information regarding economic responsibility, please refer to Swedish Match's Sustainability Report 2012.

## Swedish Match's Code of Conduct

The Swedish Match Code of Conduct, established in 2004, is the foundation for the Company's position in areas related to Corporate Sustainability. The Group's commitment to Corporate Sustainability and responsibility ties directly to its core values: communication, teamwork, trust, innovation, recognition, and growth. The core values are central in Swedish Match's vision of how the Company wants to conduct its business. All values are reflected with regard to conduct internally among employees and externally in relation to business partners as well as other stakeholders in the Company's business environment. Each core value is accompanied by a statement describing how Swedish Match's employees can live the core values.



**Communication** – Strive for an active, open, and honest dialogue.



**Teamwork** – Develop better solutions by working together, using collective experience.



**Trust** – Demonstrate trust in fellow employees and encourage an open and trusting environment where we all work to do things that are in the long term best interest of Swedish Match.



**Innovation** – Nurture an environment that, in all respects, encourages new ideas and a willingness to implement them.



**Recognition** – Demonstrate an ongoing interest in people and their activities, and recognize their contributions.



**Growth** – Commit to the development of our people and the long term growth of Swedish Match.

The Swedish Match Code of Conduct reflects the position of the Swedish Match Group with regard to Corporate Sustainability issues, when interacting with employees (including workplace practices, business ethics, and communication), suppliers (supplier contracts), customers and marketplace (issues specific to tobacco products), general society (including human rights and child labor), and the environment (the Group's Environmental Management Systems and the Group Environmental Policy). These areas of the Code of Conduct comply with international conventions and guidelines on human rights and labor conditions.<sup>1)</sup> The Code of Conduct is available on the Company website, [www.swedishmatch.com/sustainability](http://www.swedishmatch.com/sustainability).

## Compliance with the Code of Conduct

The Swedish Match Code of Conduct is applicable to all employees within the Group, regardless of position and geographical location. Individual company policies in all business units must always conform to the principles stated in the Code of Conduct.

Every employee has a personal responsibility to make sure that actions taken comply not only with the words but the spirit of the Code of Conduct. Management has an additional responsibility to foster a culture in which compliance with the Code of Conduct is expected. Concerns about inappropriate conduct must be promptly addressed.

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 with the opportunity to report any suspicion of infringement of Group policies. Such suspicions can be submitted – anonymously – to an appropriate manager, or to the Chairman of the Audit Committee. The whistleblower function can easily be accessed through the Swedish Match intranet. In 2012, there were no reported infringements of Group policies using the whistleblower function.

## Reviews of the Code of Conduct

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 are aware of, understand, and comply with its content.

The Code of Conduct is reviewed internally and approved annually by the Swedish Match Board of Directors. In addition, reviews are conducted by the external partner AON (an international risk management company) who examines the Group's operating units at least once every two years at the factory level. These reviews include implementation of the Code of Conduct as such, with evaluations within the areas of social responsibility, workplace practices, business ethics, communication, and the environment. Topics include human rights, child labor, forced labor, supplier contracts, as well as health and safety matters. AON identifies improvement areas (which are re-evaluated the following year) and reports conclusions to 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 of Conduct while the SVP Corporate Communications and Sustainability is responsible for proposing further development and revision of the Code of Conduct.

<sup>1)</sup> The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the eight ILO Core Conventions (Nos. 87, 98, 29, 105, 100, 111, 138, and 182), and the OECD Guidelines for Multinational Corporations.



# Employee responsibility

**One of Swedish Match's success factors is the ability to attract, develop, and retain highly competent employees while simultaneously pursuing efforts to motivate them in order to build a strong and sustainable company.**

The Company's employee focus and the prioritized work with performance, talent, and employee processes was strengthened even further in 2012. A key objective is to continuously develop both leadership and employee skills in order to strengthen the result oriented culture while contributing to the improvement and growth of the Company.

In 2012, Swedish Match employed an average of 3,848 people, of whom 35 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 majority of the Group's HR activities are handled locally within the Company's operating units. Local units are represented

by dedicated HR professionals, who are members of the HR Council. The HR Council ensures clear communication and coordination of efforts relating to the Company's employees. On a group wide level, HR issues are managed by the CFO & SVP Group Finance & IT, who is a member of the Group Management Team, and reports to the CEO.

The HR organization supports the Company's efforts in managing talent and leadership development, works to provide clear and consistent documentation of activities, and upholds employee practices consistent with the Code of Conduct and local laws and regulations, among other tasks.

The HR organization annually coordinates and conducts a global employee survey to identify common improvement areas. In October 2012, the survey was con-



Snus production at the Gothenburg factory in Sweden.

### EMPLOYEE RESPONSIBILITY

**Ambition:** To attract, develop, and retain highly competent employees, to promote a culture of openness and trust, and a sound workplace environment.



ducted in eight countries in seven different languages, and a total of 88 percent of all employees participated. The survey measured levels of employee engagement, satisfaction, and employer attractiveness. It also evaluated communication effectiveness and other areas critical to the performance of the Company, such as leadership and management capabilities. The results were presented to employees at year end.

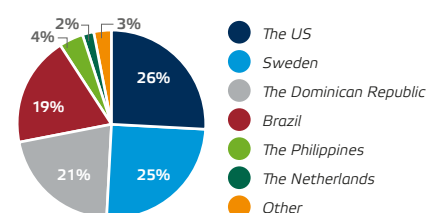
### Workplace practices

#### Recruitment and talent attraction

Swedish Match focuses on Employer Branding efforts in order to maintain its position as an attractive employer as well as to retain and attract a strong employee base. During 2012, efforts to recruit talents, both internally and externally, continued to secure the Company's competence base for both short and long term challenges.

Empowerment is a key component of the Swedish Match culture and leadership style. Initiatives and result oriented actions are 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.

### EMPLOYEES PER COUNTRY



Source: Swedish Match.

### **Leadership and talent pipeline**

Successful leadership is a focus area for Swedish Match. During the past year, key employees in the Company have been monitored closely by the Group management, with the objective of securing appropriate staffing of senior management and critical positions, as well as to identify and develop high potential employees in the Company.

This process, which starts locally, enables Swedish Match to gain an overall profile of the requirements and of the potential available within the Company as well as to identify management capabilities, potential future internal careers, and successors.

### **Developing competence and promoting careers**

In order to meet current and future competence needs and business objectives, Swedish Match focuses on strengthening and reinforcing an overall performance oriented culture by continuing to develop leadership and employee skills.

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

The Company continuously evaluates adequate training and development efforts to promote professional growth and career enhancement. The annual performance evaluation is an instrumental part in this career development as the tool helps to identify individual goals, targets, and development needs.

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. All members of the Swedish Match Group Management Team have been recruited internally and during this past year, most management vacancies were recruited internally as well. External recruitment is mainly carried out when a particular competence cannot be found internally.

### **Employee programs**

Social initiatives vary among countries and are closely linked to the social framework in which Swedish Match operates as an employer. The Group runs several employee programs across its operating units. These 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.

One example of a current employee program is the "Sons and Daughters" scholarship program in the US, whereby the Company has contracted Scholarship America, a non-profit organization, to administer this program.

In Brazil, the "Digital Space" project continued with the aim of familiarizing factory workers with the digital world.

In the Dominican Republic, small emergency loans are provided to employees for medical, educational, and/or relocation purposes.

Donations to employees and their families are also made for reasons such as natural disasters, terminal illness, or other traumatic occasions.

### **Occupational health and safety**

Swedish Match is dedicated to providing ergonomically sound workplaces that are free from health and safety hazards. Health

and safety committees and structures are in place in all manufacturing facilities and many proactive actions, including safety training and wellness programs, are taken at the Company's various workplaces. Potential safety issues are identified through regular factory audits conducted by AON, an international risk management company.

### **Meeting forums**

In order to create a strong leadership culture in the organization and to implement the Company's strategies, management conferences are arranged regularly for key managers.

Within the Company, cross-organizational cooperation also takes place through teams that transcend the operating units. Such teams may involve a number of functional areas. These various groups meet regularly to plan, coordinate, and evaluate company wide activities within each area, thereby ensuring efficient cross-functional communication and serving as aids in training and development efforts.

### **Collective bargaining**

Swedish Match supports the ILO Core Conventions regarding labor rights and believes that all employees should be free to form associations and to engage in collective bargaining. According to the Company's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.



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

# Social responsibility

**Social responsibility is broad and multifaceted, and for Swedish Match this implies working conscientiously and responsibly in relation to stakeholders external to the Company.**

### Swedish Match and social responsibility

For Swedish Match, social responsibility is about working towards the interests of stakeholder groups outside of the Company. Value creation derived from working tightly with these stakeholders can have positive direct benefits on the Group as well as on the stakeholders themselves. Swedish Match has chosen to structure its social responsibility communication around responsibility towards three stakeholder groups/areas external to the Company: supplier responsibility, consumer and marketplace responsibility, and societal responsibility (responsibility towards regulators, the scientific community, and local communities<sup>1</sup>).

### Social responsibility organization

Issues with regard to social responsibility are managed across the Company's operating units and Corporate functions. Employees working within the Swedish Match internal functions of HR, Legal, Marketing/Sales, Public Affairs, Procurement, R&D, as well as Supply Chain are all involved in addition to the Corporate Sustainability function. Community involvement projects are managed locally in the respective operating units. Dedicated resources are provided at the Corporate level to monitor and guide activities with regard to community involvement.

### SUPPLIER RESPONSIBILITY

**Ambition:** *To work closely with the Company's suppliers in order to maintain adherence to Swedish Match's high standards of conduct and to support efforts to ensure that suppliers work responsibly in terms of economic, environmental, and social issues.*



## SUPPLIER RESPONSIBILITY

Swedish Match seeks to treat its suppliers and business contacts fairly and impartially. In accordance with the Group Procurement Policy, the Company strives to work with suppliers who have a healthy long term financial situation. Swedish Match seeks stable long term relations with suppliers with whom the Company can develop goods and services through mutual collaboration.

### Supplier base

The largest suppliers to Swedish Match are involved in the purchase of tobacco. Swedish Match buys tobacco for its production of smokefree products and cigars from a small number of large global independent leaf tobacco suppliers, who are all major international organizations with their own regulatory frameworks and controls of ethical, social, and environmental issues. These suppliers, in turn, source tobacco from farmers in countries such as Brazil, the Dominican Republic, India, Indonesia, and the US, and process the tobacco according to Swedish Match's requirements.

Swedish Match sources forestry and paper products for its match production from a small number of suppliers, increasingly from Forest Stewardship Council™

(FSC™) certified sources (license code: FSC-C037294). In the Company's match production in Brazil, the supplier base is small as more than 95 percent of the wood used in the manufacturing process is sourced from the Company's own plantations.

The supplier base for indirect materials within the Company's operating units is larger and more local.

According to the Group Procurement Policy, when making the choice of supplier, all negotiations shall be carried out on a competitive basis, involving collection of at least three offers from selected qualified suppliers. The Procurement department primarily chooses suppliers who support Swedish Match's long term requirements regarding quality, service, economy, ethics, and environmental approach.

### Supplier commitment and ethics

Swedish Match endeavors to support and promote ongoing efforts with regard to ethical, social, and environmental issues within its tobacco supply chain. The Company's tobacco purchasers visit suppliers and each tobacco market on a yearly basis to proactively discuss social issues such as child labor, human rights, and other important matters. These tobacco suppliers are informed about the Swedish Match's Code of Conduct and significant tobacco suppliers<sup>2</sup> are required to sign and return a "social commitment document" with certain requirements and recommendations on business ethics, basic human rights as well as on health and safety. Significant tobacco suppliers are also required to complete an agronomy questionnaire regarding the way that the tobacco has been grown (including sourcing of seeds, use of fertilizers and agrochemicals on the tobacco crops). This process enables Swedish Match to keep track of and evaluate how these suppliers deal with ethical, social, and environmental issues.

<sup>1</sup> Regulatory engagement is discussed on pages 30–31.

<sup>2</sup> A significant supplier is defined as a supplier of tobacco from whom Swedish Match purchases more than 100,000 USD per year.

In accordance with the Swedish Match Code of Conduct, the Group 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, if deemed necessary, terminate the relationship.

Swedish Match does not perform social audits at the tobacco farm level. Swedish Match is a small purchaser in the global tobacco market; the Company buys less than one percent of the world's total tobacco supply. The Company's tobacco leaf suppliers are all audited by other large international tobacco companies. The suppliers also have own strict policies with regard to human rights, child labor, and farming practices.

At least once every two years, 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. The reviews are conducted by the external partner AON (an international risk management company).



Quality control at the match factory in Tidaholm, Sweden.

## CONSUMER AND MARKET-PLACE RESPONSIBILITY

**Ambition:** *To bring high-quality tobacco and lights products to consumers as well as take a lead in keeping high standards of corporate conduct within the Company's marketplace.*



## CONSUMER AND MARKET-PLACE RESPONSIBILITY

Swedish Match's portfolio of tobacco and lights products is intended to be used by adults. Consumer and marketplace responsibility implies working closely with customers/retailers to maintain high standards of corporate conduct in the marketplace – to prevent the underage sale of tobacco as well as to market both tobacco and lights products to adults only. It also implies to continuously work to reduce or eliminate undesired components in the Company's tobacco products and to increase knowledge about its potential impact on consumers.

### Product quality and safety

#### Harm reduction and consumer health

Swedish Match is convinced that smokeless tobacco products, such as Swedish snus manufactured according to Swedish Match's quality standard **GOTHIA TEK®**, play an important role to achieve harm reduction.

The adverse health effects of tobacco use are primarily related to inhalation of smoke. Scientific data clearly demonstrate that the health risks associated with smokeless products in the Western world are significantly lower than those of cigarettes. Data from both Scandinavia and the US show that smokeless tobacco is used by many smokers for smoking cessation purposes.

The availability of snus in Sweden has contributed to fewer people taking up smoking, often referred to as "the Swedish experience". Swedish males have very low rates of tobacco-related diseases although their overall rate of any tobacco use is comparable to that of other countries.

### Product quality and **GOTHIA TEK®**

Swedish Match's production of snus is aligned with the World Health Organization's (WHO) scientific recommendations about permitted acceptable limits of undesired elements in smokeless tobacco. The Swedish Match **GOTHIA TEK®** quality standard 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 undesired elements that occur naturally in tobacco, as well as requirements on raw material, the manufacturing process, and high quality product information to consumers.

### Match and lighter safety

Most of Swedish Match's matches are safety matches which means that the match only will be ignited when struck against a specially treated, chemically active friction surface on the side of the box. The most important properties of safety matches are that they strike easily, do not split or drop burning debris, do not easily break, do not continue to glow after the flame is extinguished, do not contain toxic heavy metals, and are environmentally friendly. Matches do not self-ignite during normal handling.

Regarding lighter safety, Swedish Match's largest lighter brand *Cricket* is one of the world's safest lighters. It is manufactured in self-extinguishing nylon, which cannot burn when the ignition source is removed. With *Cricket*, the "fixed flame technology" was invented to provide the best safety for consumers; a proprietary patented system where the flame is fixed and creates a uniform and reliable flame during the entire lifetime of the product. Innovative, advanced technology and quality ensure that *Cricket's* child-resistant lighters comply with very high demands. All *Cricket* pocket lighters are manufactured according to the quality standard ISO 9994:2006 and undergo more than 60 tests prior to being released on the market.



A customer/retailer in Gothenburg, Sweden.

### Responsible marketing communication and product labeling

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.

Swedish Match has an "Under 18 No Tobacco" principle 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 works 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" principle.

The Company is transparent with regards to the content of its snus products. Ingredients are listed on the Company's website and are disclosed to the relevant public health authorities. Certain laws and regulations concern labeling of tobacco products and Swedish Match's compliance with these laws and requirements is reviewed continuously.

### SOCIETAL RESPONSIBILITY<sup>1)</sup>

**Ambition:** *To build and strengthen relationships with society at large, such as with the regulatory and scientific community as well as in local communities where the Company operates.*



## SOCIETAL RESPONSIBILITY

For Swedish Match, societal responsibility implies contributing to society in various ways: by partnering with suppliers to promote the respect of human rights and eliminating child labor in the supply chain, by promoting an active and transparent dialogue with regulators and the scientific community as well as by supporting the local communities connected with the Company's business interests.

### Human rights

The Company's policy on human rights, included in Swedish Match's Code of Conduct, is based on international laws and accepted practices and guidelines.<sup>2)</sup> Swedish Match respects and promotes issues with regard to human rights. This means that

<sup>1)</sup> Regulatory engagement is a critical part of Swedish Match's societal responsibility and is presented separately on pp. 30–31.  
<sup>2)</sup> The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the eight ILO Core Conventions (Nos. 87, 98, 29, 105, 100, 111, 138, and 182), and the OECD Guidelines for Multinational Corporations.

the Company does not accept any form of slavery, torture, or forced labor nor tolerates any kind of harassment or discrimination based on race, color, nationality, ethnic origin, age, religion, gender, sexual orientation, marital status, disability, or other status.

The Company promotes freedom of opinion and expression and believes that every employee should be free to join or form (non-violent) assembly or associations.

### 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 factories are not considered by Swedish Match to have significant risk for incidents of child labor. In the Company's supply chain however, among tobacco farmers, there is a higher risk for incidents of child labor. The Company therefore continuously works with its tobacco suppliers and through industry collaboration 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 (see case highlighted below). The Company'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.

## SWEDISH MATCH'S COMMITMENT AGAINST CHILD LABOR

The ECLT (Eliminating Child Labour in Tobacco-growing) Foundation, established in 2001, is an international alliance of several parties active in different parts of the tobacco industry (trade unions, growers, and companies). The strength of ECLT is that members represent different parts of the tobacco industry and work together toward a common goal. ECLT has funded projects in seven countries: Kyrgyzstan, Malawi, Mozambique, the Philippines, Tanzania, Uganda, and Zambia. These projects have helped to remove 18,000 children from work in the tobacco industry and prevented even more from entering into child labor. Swedish Match has for several years been a member of ECLT.

Child labor is a symptom of a complex problem that derives from poverty, lack of education, and traditions. To permanently solve the problem of child labor, efforts must be focused directly on the causes. From an international perspective, Swedish Match is a small purchaser of tobacco and cannot resolve these issues on its own. ECLT is a unique opportunity for the tobacco industry with initiatives that can be supported by many partners and that can provide lasting results.

More information about ECLT and what the foundation does can be found on ECLT's website, [www.eclt.org](http://www.eclt.org).

## THE “BOM MENINO” PROJECT IN BRAZIL

Swedish Match began its involvement in the “Bom Menino” (Young Boy) project in the 1990’s. The project involves teenagers, aged 14–18 years, who come from poor communities. The aim is to introduce them to the corporate world and to develop professional capabilities in a broad perspective. The participants are instructed and trained to perform administrative tasks and services and Swedish Match is always careful to reinforce the learning of behavioral aspects – both personal and profes-

sional – and make them feel professionally respected and valued. If there is an opportunity, Swedish Match will offer those participants who have demonstrated good performance, interest, and dedication, a position at Swedish Match.

*Two past participants in the “Bom Menino” project who are now employed at Swedish Match.*



### Community involvement

Swedish Match has a long history of social investments and community involvement. The Company’s approach is to conduct community projects that are relevant to local business operations 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. Swedish Match may also decide to provide emergency relief in the event of natural disasters.

During 2012, Swedish Match has been involved in various social community projects, for example:

- The Solstickan Foundation, Sweden, established in 1936, which primarily works to promote the interests of children and the elderly by granting project funds and scholarships as well as giving out an annual Solstickan Award. For every product sold under the Solstickan brand, a portion of sales goes to the foundation.
- “Städa Sverige”, an anti-littering campaign for a cleaner and safer Sweden.
- The “Bom Menino” project, Brazil, which is a skill building program that enables youths aged 14 to 18 from low income families to develop educational, employment, and social skills. Read more about this project in the case highlighted above.

- Developing talents from marginalized students in the Philippines. During an 18 months in-plant training program, scholars complete an electro mechanics technology training program. After completing the program, scholars are qualified for and have the opportunity to be full time employees as technicians at Swedish Match.
- The Tobacco and Match Museum, Sweden, established in 1938, which is the custodian of an important part of Swedish industrial culture, with its extensive collections cared for by Swedish Match.

In the US, generous charitable contributions are primarily made to organizations in those geographical areas where the employees live and work. Contributions focus on children, community service, arts/culture, food shelters, education, and the environment. Community involvement is strongly encouraged and nearly all employees participate through donations, volunteer work, and other activities.

Many of the Company’s employees in Sweden support the Chiredzi Orphanage in Zimbabwe by donating an 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.



*The Tobacco and Match Museum in Stockholm, Sweden.*

# Environmental responsibility

### ENVIRONMENTAL RESPONSIBILITY

*Ambition: To consciously and actively reduce the negative impacts the Company has on the environment.*



**For Swedish Match, environmental responsibility implies working consciously and actively to reduce and mitigate environmental impacts of the Company's business operations.**

#### Swedish Match and environmental responsibility

Swedish Match's environmental responsibility extends across the value chain, from sustainable tobacco sourcing and forest management to efficient management of energy, waste, and water in manufacturing, to eco-efficiency measures in all facilities.

Although the production processes and raw materials used in the tobacco industry generally are considered to 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 Company as well as on the environment itself.

#### 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 SVP Corporate Communications and Sustainability also chairs the Group's Environmental Council, and presents findings and updates to the Board of Directors on a periodic basis.

The Group's 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 Swedish Match's Group Environmental Policy and the Environmental Management System (EMS) throughout the organization. This is achieved by regular meetings and by a structured information exchange between meetings.

#### Environmental management (quality and standards)

In 2012, the majority of Swedish Match's production facilities, with products accounting for more than 90 percent of Company sales of its own produced products, had been certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001. Of twelve production facilities, ten had ISO 9001 certification and nine had ISO 14001 certification.

In January 2013, the Manaus lighter factory in Brazil was certified for ISO 14001 bringing the total to ten manufacturing facilities with ISO 9001 certification and ten with ISO 14001 certification.

Basic environmental education is a requirement according to the environmental management standard ISO 14001 in those facilities that are certified according to the standard. The main purpose of the education is to promote environmental

## THE GROUP ENVIRONMENTAL POLICY

Swedish Match has adopted a Group Environmental Policy, designed to ensure that Swedish Match achieves a balance whereby the Group consistently reaches its commercial objectives while addressing the environmental requirements of the Company as well as its stakeholders. The policy is based on the principles of the environmental management standard ISO 14001 and is available on the Group's website and intranet. Due to the diversity of Swedish Match activities, subordinated environmental policies are formulated for each operating unit.

The main purpose of the Group Environmental Policy is to ensure that the Group commits itself to continuous environmental improvement with the aim of preventing and reducing negative environmental impacts in its activities. Other rationales of the policy are to ensure that:

- The Company operates an Environmental Management System (EMS), applicable on a corporate, operating unit, and factory level, which will safeguard that commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental objectives and targets.
- The Company commits to comply with all relevant environmental legislation, regulations, and other requirements to which it subscribes.
- The Company develops and communicates priority Key Performance Indicators (KPIs) for environmental factors, which are deemed to be of high importance by both Swedish Match and its stakeholders.
- The Company commits to continual documentation and communication of any changes of environmental impact due to its activities, products, and services.
- The Company undertakes 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](http://www.swedishmatch.com/sustainability).

awareness among the staff and increased knowledge of the EMS and the Company's routines. During 2012, a new online environmental training program was initialized within specific parts of the organization.

### Environmental KPIs and targets

Swedish Match is monitoring and reporting on the following six environmental KPIs: total energy consumption, electricity, greenhouse gas emissions (CO<sub>2</sub>), total waste, hazardous waste, and water use. During 2011, the Environmental Council set long term targets at the factory level (five year horizon to 2016) within each KPI, and 2012 has been the first year of tracking and follow-up. In 2012, the Environmental Council also initialized and implemented a new software for environmental data management with the goal to enable structured tracking of and reporting on the KPIs and targets over time.

The Company measures all KPIs on a factory level, both in absolute numbers as well as per unit of output produced. In the Company's Sustainability Report 2012, aggregated results are reported for each product area – per unit of output by weight for smokefree products (snus, moist snuff, and chewing tobacco) as well as per unit of output for cigars and lights products (matches and lighters). Where applicable, totals are presented in relation to total Company sales as well as per employee.

### Energy consumption

Swedish Match works persistently on energy saving programs as well as 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. Each Swedish Match factory has its own target and/or activities in order to limit its energy consumption per unit of output produced. As electricity constitutes the largest part of Swedish Match's total energy consumption, the Group tracks both total energy consumption in general as well as electricity consumption in specific. In Sweden, Swedish Match's suppliers of electricity undertake to produce and supply the amount of electricity that Swedish Match purchases and consumes without the use of fossil fuels.

### Greenhouse gas emissions (CO<sub>2</sub>)

Swedish Match works persistently on improvement activities and projects in order to limit its emissions of greenhouse gas, specifically with regards to CO<sub>2</sub> emissions, and each factory has its own target and/or activities in order to limit its CO<sub>2</sub> emissions per unit of output.

The Company is participating in the Carbon Disclosure Project (CDP), which maps companies' CO<sub>2</sub> emissions. On an aggregate factory level, the Company's target is to stay at or below baseline for CDP Scope 1 (direct emissions) and Scope 2 (indirect emissions). During 2012, the Company improved its disclosure score in the CDP covering the 2011 calendar year.

### Waste management

Swedish Match works systematically to reduce its production of waste, in total or per unit of output produced, as applicable. The majority of waste is non-hazardous and environmentally harmful substances (hazardous waste) are only handled to a limited extent during match production. Several waste reduction projects were initialized across the factories during 2012, one successful example was the Kungälv snus factory where improved waste management processes resulted in environmental savings, reduced costs, and increased knowledge about recycling and the environment among factory employees (see case to the right). Swedish Match also works to facilitate consumers' disposal of the Company's products after use.

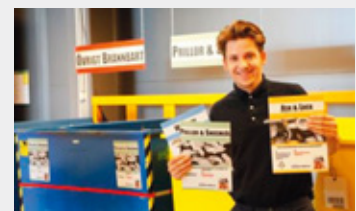
### Water use

Swedish Match neither withdraws water from any water source that is significantly affected by the water withdrawal, nor discharges water into sensitive water bodies. The Company's target for water use is therefore to maintain a level of zero in terms of the withdrawal or discharges of water affecting sensitive water bodies. Swedish Match's water footprint in absolute terms is fairly low as the Company's production processes require rather low water usage. The one area where Swedish Match needs a higher water supply is for its poplar farms in Brazil (trees are planted to be used in the Brazilian match production), where dryer climate in some years leads to a higher necessity of irrigation.

## ENVIRONMENTALLY SOUND WASTE MANAGEMENT IN KUNGÄLV, SWEDEN

During 2012, an environment/waste project was initialized and implemented in the Kungälv snus factory in Sweden, originally as a thesis in cooperation with students from the *Chalmers University of Technology* in Sweden. Swedish Match wanted to develop its waste management processes with a focus on increasing its sorting, to become more environmentally friendly, as well as to reduce costs. It was also imperative to increase the understanding of waste management and recycling among staff. Many changes were accomplished, such as:

- The production spillage from pouches and cans is now separated at the production lines instead of being incinerated. The plastic is recycled into raw material and the pouches are bio-degraded.
- A new destruction shredder has been installed, used to grind the plastics to be recycled. The density of materials increases, which in turn reduces the number of transports.
- Transports have been reduced significantly due to online features on the waste compactor, which increases the efficiency of emptying the compactor as well as enabling the filling to be optimized.
- The container for "unsorted waste" has been removed as it was easy to just toss miscellaneous materials in it which in fact should be assorted as other fractions.
- New signs, decals etc. have been developed and standardized for Swedish Match's own waste fractions in order to increase the level of clarity and understanding among staff in the factory. All employees have had basic training to increase awareness of recycling and why sorting of waste is necessary.



Employee at the Kungälv snus factory showing the new decals.



## Other environmental topics

### ***Environmentally adapted products and packaging***

Swedish Match strives to deliver the best possible product with a minimum of waste. The Company works to minimize packaging while introducing continuous improvements that not only deliver high consumer value, but also reduce the negative environmental footprint, and adhere to standards of quality. For snus, that means minimizing packaging and waste, while adhering to quality standards such as those set forth by **GOTHIA TEK®**, as well as the ISO 14001 and ISO 9001 standards.

Swedish Match also strives to use environmentally adapted materials in its packaging. For both Swedish snus and US moist snuff, the plastic cans and lids are made from polypropylene. Rolls of cans are mostly shrink-wrapped in polyethylene. At complete combustion, only carbon dioxide and water remain from these plastics. All coloring agents in the plastic are approved for food packaging.

For cigars, the usage of FoilFresh® packaging has drastically reduced the number of returns from customers, which in turn has reduced waste to the landfill. Also, the use of 100 percent recycled paperboard within certain packaging formats has increased significantly. All byproduct paper from the

production of packaging material used in the Company's factory in Dothan (Alabama, the US) is returned to the supplier, who converts it to an energy source.

For matches, post-consumer recycled fibers are being used for the vast majority of the production of inner and outer match boxes. Forest Stewardship Council™ (FSC™) certified materials are increasingly being used for match cardboard.

### ***Sustainable agriculture***

For its production of smokefree products and cigars, Swedish Match does not source tobacco directly from tobacco farms. Instead, the Company relies on large, reputable international leaf tobacco suppliers. Significant 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. These suppliers are also encouraged to grow tobacco according to Good Agricultural Practice (GAP) guidelines which aim at ensuring responsible and economically viable production of usable tobacco. This implies producing a quality tobacco crop while protecting, sustaining or enhancing the environment with regard to soil, water, and air as well as animal and plant life.

While the Company does not have its own tobacco farms, Swedish Match sources wood and maintains plantations for use in its match production and timber sourcing and forestry is thus an important environmental area for the Company. In Brazil, where more than 95 percent of Swedish Match's wood consumption comes from the Company's own plantations, the Company complies with Brazilian environmental monitoring and control measures and environmentally friendly growing methods are used.

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.

### ***Eco-efficiency***

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



Swedish Match's poplar plantation in Brazil. Poplar is used in the Company's match production.

# Regulatory engagement

**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.**

The awareness of the public health impact of smoking is growing at an increasing pace. 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 consumers, customers, employees, producers, 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**<sup>®</sup>. The **GOTHIA TEK**<sup>®</sup> standard provides for continuous work toward eliminating or reducing controversial compounds that are found naturally in tobacco. Today, **GOTHIA TEK**<sup>®</sup> 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 communicate and address all stakeholders with the established science surrounding the Company's products or new scientific knowledge as well as relevant product information.

## The US

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 and may allow a company to make appropriate harm reduction claims. In accordance with the Act, in April of 2012, CTP issued its guidance in consultation with the Institute of Medicine (IOM) setting forth the scientific studies and other elements necessary to submit a modified risk application. Among other things, the guidance contemplates that a party wishing to seek so-called modified risk product status for one or more of its products will have a series of meetings with CTP in order to agree upon specific elements of a modified risk product application to meet CTP's needs.

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 2013, which would then be followed by a period of public comment before final guidance is issued.

## The EU

Tobacco products for oral use, except those intended to be smoked or chewed, have 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. The Tobacco Products Directive 2001/37/EC is currently being revised by the European Commission. The European Commission presented its proposal revising the Tobacco Products Directive in late December, 2012. While the proposal does not include an alternative for snus to be made commercially available in EU markets outside of Sweden, it seeks, among other things, stricter regulation of the content of tobacco products, including limitations on the type of flavors one may add to them. Swedish snus is by tradition flavored and the availability of flavors has made the development of **GOTHIATEK®** possible. The proposal is now being reviewed by the European Parliament and the governments of each member state. This is a process which can last a long time and much of its contents can be changed before a finished directive is implemented. Hence, the final outcome and time of adoption is therefore difficult to predict.

The Commission's proposal comes amid a period of political upheaval which saw the resignation and replacement of the EU Health Commissioner in an influence-peddling scandal reported to the Commission by Swedish Match. This is now part of a judicial process in Malta in which Swedish Match is not involved besides the fact that Swedish Match is committed to cooperate with full transparency and disclosure with the Maltese police authorities.

### Scandinavia

Swedish Match and its customers are increasingly alarmed by fast-growing illicit trade of Swedish snus. One of the most significant measures to slow the flow of illicit trade during 2012 was a special label on cans sold on Baltic Sea ferries, which assists retailers and the authorities to easily spot irregularities. This was a voluntary measure which received acknowledgement by responsible authorities including the Swedish Custom Authority and the Ministry for Social Affairs.

The Company is also actively working to ensure that Swedish and Norwegian retailers properly understand and enforce

required age-verification upon purchase in order to prevent the availability of tobacco products to minors. There is a mutual understanding between Swedish Match, leading retailers and their trade organizations of the necessity for commercial stake-

holders to commit to reducing both the number of actual underage purchases as well as cooperate in order to reduce the growing volume of illicit products that distort the development of the market.



*Patrik Hildingsson, VP Group Public Affairs*

### 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 to have significantly lower negative health effect.
- All smokeless tobacco products should be subject to consistent and competition neutral product regulation based on product quality and consumer protection.

# Shareholder communication



Image of [www.swedishmatch.com](http://www.swedishmatch.com) revised look.

## WWW.SWEDISHMATCH.COM – a timely source

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

As of May, 2013, the Swedish Match company website will have an updated look.

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on Thursday, April 25, 2013, 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](http://www.swedishmatch.com)   
More information is available on the Company website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

## DIVIDEND

The Board of Directors proposes that a dividend of 7.30 SEK per share be paid to the shareholders. The proposed record date for entitlement to receive a cash dividend is April 30, 2013. If the AGM approves the Board's proposal, dividend will be paid through Euroclear Sweden AB on May 6, 2013.

### AGM CALENDAR

- 19 April, 2013**  
Record date for AGM 2013
- 25 April, 2013**  
AGM 2013
- 26 April, 2013**  
Ex-dividend date
- 30 April, 2013**  
Proposed record date for dividend
- 6 May, 2013**  
Proposed date for dividend payment



## FINANCIAL INFORMATION

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

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, 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](http://www.swedishmatch.com/subscribe), or by e-mailing: [investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com).

[www.swedishmatch.com](http://www.swedishmatch.com)   
 Visit Swedish Match subscription service:  
[www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe).

**PUBLICATION CALENDAR**

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

Interim report January–March .....	April 29, 2013
Half year report January–June .....	July 19, 2013
Interim report January–September .....	October 29, 2013
Full year report 2013 .....	February 19, 2014
Annual report for 2013 .....	April, 2014

## CONTACTS

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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.



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



## SHAREHOLDER INFORMATION

# The share

**The Swedish Match share is listed on NASDAQ OMX Stockholm. Total share capital at the end of the year amounted to 390 MSEK, distributed among 206 million shares with a quotient value of 1.8909 SEK each. Each share carries one vote.**

### Turnover<sup>1)</sup>

Total turnover in 2012 amounted to 191,701,963 Swedish Match shares on the NASDAQ OMX Stockholm, with a daily average turnover of 0.8 million shares. The turnover velocity of the share on the NASDAQ OMX Stockholm, was 89 percent during the year, compared with the average of 74 percent for the NASDAQ OMX Stockholm.

### Trading platforms<sup>2)</sup>

Approximately 35 percent of total trading volume of Swedish Match was handled through the NASDAQ OMX Stockholm trading platform. BATS Chi-X was the second most traded platform during 2012 with approximately 23 percent of total trades.

### Share price development and market capitalization<sup>1)</sup>

The Company's market capitalization at year-end 2012 amounted to 43.5 billion SEK, a decrease of 6.4 billion compared with December 31, 2011.<sup>3)</sup> The share price fell by 11 percent during the year, while the OMXS30 Index increased by 12 percent. The lowest price paid during the year was 214.60 SEK on November 16, and the highest price paid was 294.50 SEK on July 20.

### Ownership structure<sup>4)</sup>

At year-end, ownership outside of Sweden corresponded to 76.4 percent of total share capital, an increase of 0.2 percentage points compared with 2011.<sup>3)</sup> Swedish ownership interests, totaling 23.6 percent, were distributed among institutions, with 8.1 percent of the share capital, mutual funds, with 5.6 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 2012 of 7.30 SEK (6.50) per share, for a total of 1,456 MSEK (1,334), based on the 199.4 million of shares outstanding at the end of the year (excluding shares held in treasury by Swedish Match). The dividend corresponds to 51 percent (54) 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 buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buy-backs are efficient availability of credit, the share price, the Group's interest and tax expenses as well as 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 41.

<sup>1)</sup> Source: NASDAQ OMX Stockholm.

<sup>2)</sup> Source: Fidessa

<sup>3)</sup> Excluding shares held in treasury by Swedish Match AB, which corresponded to 3.20 percent of the total number of shares as per December 31, 2012.

<sup>4)</sup> Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB.

### Largest shareholders

Largest shareholders <sup>1)</sup>	Number of shares	Holding in percent	Votes in percent
Morgan Stanley Investment Management	13,144,520	6.4	6.6
AMF Insurance & Funds	5,802,900	2.8	2.9
Fidelity Funds	5,762,901	2.8	2.9
Swedbank Robur Funds	4,839,470	2.3	2.4
Standard Life Investment Funds	4,361,387	2.1	2.2
Capital Group Funds	3,179,000	1.5	1.6
SHB Funds	2,782,587	1.4	1.4
Fourth Swedish National Pension Fund	2,358,888	1.1	1.2
Second Swedish National Pension Fund	2,006,107	1.0	1.0
Parvus Asset Management	1,943,000	0.9	1.0
<b>Subtotal 10 largest shareholders</b>	<b>46,180,760</b>	<b>22.4</b>	<b>23.2</b>
Other	153,227,575	74.4	76.8
<b>Sub total</b>	<b>199,408,335</b>	<b>96.8</b>	<b>100.0</b>
Shares held by Swedish Match	6,591,665	3.2	0.0
<b>Total</b>	<b>206,000,000</b>	<b>100.0</b>	<b>100.0</b>

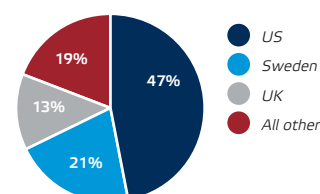
<sup>1)</sup> Registered direct ownership and ownership through trustees. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB, as of December 31, 2012. Totals may be affected by rounding.

[www.swedishmatch.com](http://www.swedishmatch.com)

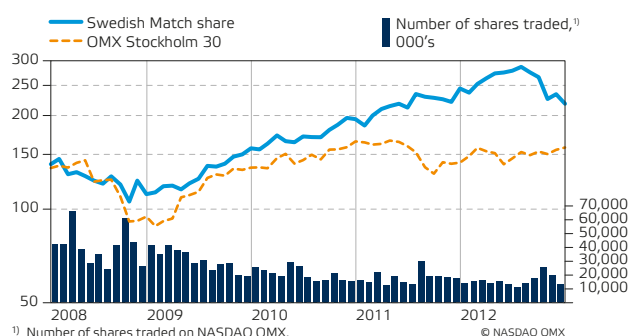
More information is available on the Company website [www.swedishmatch.com/investors](http://www.swedishmatch.com/investors).

### SHARE CAPITAL BY COUNTRY

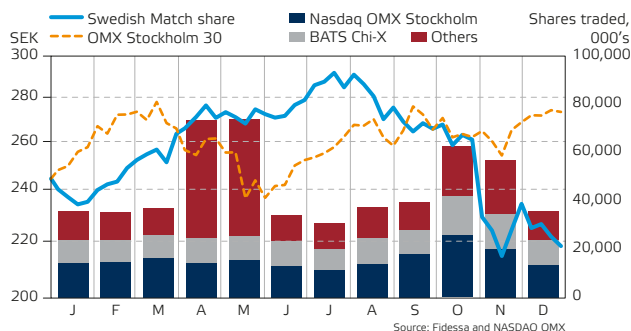


Source: SIS Ägarservice AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2012. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

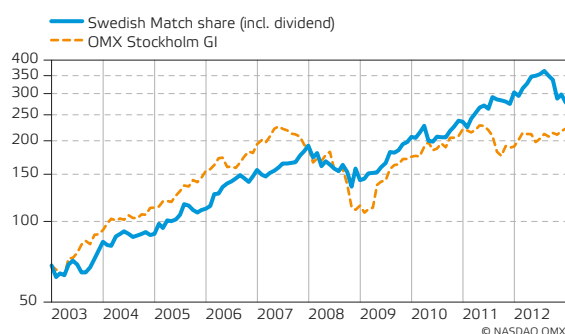
## Share price and turnover 2008–2012



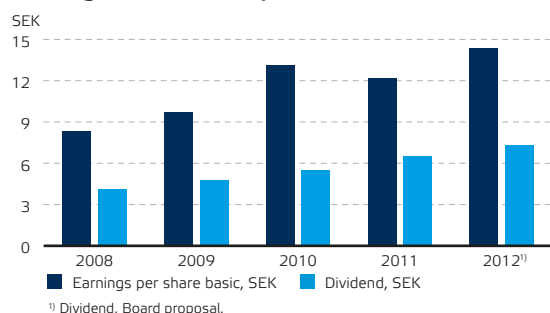
## Share price and turnover 2012



## Total return 2003–2012



## Earnings and dividend per share 2008–2012



## Transfer of capital to Swedish Match's shareholders

MSEK	2012	2011	2010	2009	2008	Total
Dividend	1,456 <sup>1)</sup>	1,334	1,152	1,089	1,024	6,055
Repurchase of own shares, net	1,532	2,304	2,961	2,547	934	10,278
<b>Total</b>	<b>2,988</b>	<b>3,638</b>	<b>4,113</b>	<b>3,636</b>	<b>1,958</b>	<b>16,333</b>

<sup>1)</sup> Dividend proposed for fiscal year 2012.

## Share distribution<sup>1)</sup>

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1–1,000	46,369	90.6	9,704,693	4.8	4.9
1,001–5,000	3,876	7.5	7,692,343	3.8	3.8
5,001–20,000	562	1.1	5,338,258	2.6	2.7
20,001–50,000	157	0.3	5,024,207	2.4	2.5
50,001–100,000	65	0.1	4,552,635	2.2	2.3
100,001–1,000,000	163	0.4	50,692,575	24.6	25.4
1,000,001–	52	0.1	122,995,289	59.7	58.4
<b>Total at December 31, 2012</b>	<b>51,244</b>	<b>100.0</b>	<b>206,000,000</b>	<b>100.0</b>	<b>100.0</b>

<sup>1)</sup> Including shares held by Swedish Match as well as custodial ownership.

Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB.

## Share data

	2012	2011	2010	2009	2008
Earnings per share, basic, SEK					
From continuing operations	14.33	12.14	13.12	9.67	8.30
From continuing operations, excluding larger one time items	14.18	12.14	9.92	9.67	8.01
Including discontinued operations	-	-	-	12.88	8.98
Earnings per share, diluted, SEK					
From continuing operations	14.25	12.07	13.09	9.66	8.29
Including discontinued operations	-	-	-	12.87	8.96
Dividend per share, SEK	7.30 <sup>1)</sup>	6.50	5.50	4.75	4.10
Dividend yield at year-end, %	3.35 <sup>1)</sup>	2.66	2.82	3.03	3.67
Dividend pay-out ratio, excluding larger one time items, %	51 <sup>1)</sup>	54	55	49	51
Market price at year-end, SEK	218.20	244.30	194.70	156.90	111.75
Market capitalization at year-end, SEK billion <sup>2)</sup>	43.5	49.9	41.8	36.3	27.8
P/E ratio <sup>3)</sup>	15.3	20.2	14.9	12.2	12.4
EBIT multiple <sup>3)</sup>	13.0	15.9	12.6	13.6	11.7
Total return, %	-8.5	28.8	27.7	45.1	-25.8
Average number of shares, basic	202,888,955	209,001,190	225,331,835	244,259,880	251,867,479
Average number of shares, diluted	203,995,039	210,296,918	225,969,047	244,440,057	252,211,733
Number of shareholders <sup>2)</sup>	51,244	51,646	53,238	55,127	53,215

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

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

<sup>3)</sup> Including discontinued operations up to and including 2009.

## SHAREHOLDER INFORMATION

# Five year summary 2008–2012

Condensed consolidated income statement, MSEK	2012	2011	2010	2009	2008
<b>Sales</b>	<b>12,486</b>	<b>11,666</b>	<b>13,606</b>	<b>14,204</b>	<b>12,611</b>
<b>Gross profit</b>	<b>6,349</b>	<b>5,892</b>	<b>6,944</b>	<b>7,089</b>	<b>6,174</b>
Larger one time items	30	-	644	-	73
<b>Operating profit</b>	<b>4,062</b>	<b>3,702</b>	<b>4,169</b>	<b>3,417</b>	<b>2,874</b>
Net finance cost	-551	-523	-562	-443	-441
<b>Profit before income tax</b>	<b>3,511</b>	<b>3,180</b>	<b>3,607</b>	<b>2,974</b>	<b>2,433</b>
<b>Profit for the year from continuing operations</b>	<b>2,907</b>	<b>2,538</b>	<b>2,958</b>	<b>2,361</b>	<b>2,091</b>
Profit from discontinued operations, net of tax	-	-	-	785	170
<b>Profit for the year</b>	<b>2,907</b>	<b>2,538</b>	<b>2,958</b>	<b>3,146</b>	<b>2,261</b>
EBITDA excluding profit from discontinued operations	4,328	3,992	3,813	3,885	3,222

Condensed consolidated balance sheet, MSEK	2012	2011	2010	2009	2008
<b>Assets</b>					
Intangible assets	962	992	1,027	3,792	4,702
Property, plant and equipment	2,010	2,076	2,097	2,525	2,458
Investments in associated companies and joint ventures	4,354	4,481	4,085	132	117
Other non-current financial receivables <sup>1)</sup>	1,140	1,395	1,368	2,061	2,167
Current operating assets	3,080	3,031	2,886	5,286	5,698
Other current investments and current financial assets	-	0	1	10	34
Cash and cash equivalents	2,824	2,533	3,275	2,530	3,178
<b>Total assets</b>	<b>14,371</b>	<b>14,507</b>	<b>14,739</b>	<b>16,337</b>	<b>18,355</b>
<b>Equity and liabilities</b>					
Equity attributable to equity holders of the Parent	-2,053	-1,602	-482	903	1,381
Non-controlling interest	2	2	2	4	4
Non-current provisions	1,009	1,070	1,050	1,301	1,281
Non-current loans	9,238	8,535	9,209	8,252	9,975
Other non-current financial liabilities <sup>1)</sup>	1,870	1,787	1,478	1,440	1,337
Current provisions	102	84	98	125	29
Current loans	1,119	1,283	525	1,002	743
Other current liabilities	3,084	3,347	2,861	3,313	3,609
<b>Total equity and liabilities</b>	<b>14,371</b>	<b>14,507</b>	<b>14,739</b>	<b>16,337</b>	<b>18,355</b>

<sup>1)</sup> Includes pension obligations and derivatives financial instruments.

Condensed consolidated cash flow, MSEK	2012	2011	2010	2009	2008
Net cash from operating activities	2,805	2,608	2,616	2,911	1,838
Net cash used in investing activities	-323	-151	959	1,043	-61
Net cash transferred to shareholders	-2,866	-3,456	-4,050	-3,571	-1,820
Net cash used in other financing activities	754	237	1,403	-1,135	-448
<b>Net increase/decrease in cash and cash equivalents</b>	<b>371</b>	<b>-763</b>	<b>928</b>	<b>-753</b>	<b>-491</b>
<i>Cash flow from discontinued operations</i>					
Net cash from operating activities	-	-	-	219	142
Net cash used in investing activities	-	-	-	-6	13
Net cash used in financing activities	-	-	-	-51	42
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>162</b>	<b>196</b>
Cash and cash equivalents at beginning of the year	2,533	3,275	2,530	3,178	3,439
Effects of exchanges rate fluctuations on cash and cash equivalents	-79	21	-183	-58	34
<b>Cash and cash equivalents at end of year</b>	<b>2,824</b>	<b>2,533</b>	<b>3,275</b>	<b>2,530</b>	<b>3,178</b>



Key data <sup>1)</sup>	2012	2011	2010	2009	2008
Operating capital at year-end, MSEK	7,253	7,224	7,099	8,494	8,841
Net debt, MSEK	9,289	8,886	7,650	7,188	7,640
Investments in property, plant and equipment, MSEK	251	245	311	471	319
Operating margin, % <sup>2)</sup>	32.3	31.7	25.2	24.1	22.2
Return on operating capital, % <sup>2)</sup>	55.7	51.7	44.0	39.4	34.0
EBITA interest cover <sup>2)</sup>	7.6	7.4	7.0	8.4	7.0
Net debt/EBITA <sup>2),3)</sup>	2.3	2.4	2.2	2.0	2.6
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Dividend per share, SEK	7.30 <sup>4)</sup>	6.50	5.50	4.75	4.10
Earnings per share basic, SEK					
From continuing operations	14.33	12.14	13.12	9.67	8.30
From continuing operations, excluding larger one time items	14.18	12.14	9.92	9.67	8.01
Including discontinued operations	-	-	-	12.88	8.98
Earnings per share diluted, SEK					
From continuing operations	14.25	12.07	13.09	9.66	8.29
Including discontinued operations	-	-	-	12.87	8.96

<sup>1)</sup> 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.

<sup>2)</sup> Including restructuring charges of 73 MSEK in 2009.

<sup>3)</sup> Data as of 2009 and earlier are calculated pro-forma excluding South African operations.

<sup>4)</sup> Board proposal.

Sales by product area, MSEK	2012	2011	2010	2009	2008
Snus and snuff	5,049	4,726	4,522	4,250	3,711
Other tobacco products	2,661	2,388	2,440	2,337	1,811
Lights	1,339	1,346	1,429	1,403	1,375
Other operations	3,437	3,206	2,831	2,689	2,663
<b>Sales from product areas</b>	<b>12,486</b>	<b>11,666</b>	<b>11,222</b>	<b>10,678</b>	<b>9,559</b>
Businesses transferred to STG	-	-	2,385	3,526	3,052
<b>Sales</b>	<b>12,486</b>	<b>11,666</b>	<b>13,606</b>	<b>14,204</b>	<b>12,611</b>

Operating profit/loss by product area, MSEK	2012	2011	2010	2009	2008
Snus and snuff	2,349	2,181	2,080	1,916	1,667
Other tobacco products	1,161	1,049	942	804	569
Lights	222	240	279	312	294
Other operations	-65	-105	-142	-132	-155
<b>Operating profit from product areas</b>	<b>3,666</b>	<b>3,365</b>	<b>3,158</b>	<b>2,900</b>	<b>2,375</b>
Share of net profit/loss in STG <sup>1)</sup>	366	337	-60	-	-
Businesses transferred to STG	-	-	334	518	426
<b>Subtotal</b>	<b>4,032</b>	<b>3,702</b>	<b>3,433</b>	<b>3,417</b>	<b>2,801</b>
Capital gain from transfer of businesses to STG	30	-	585	-	-
Net gain from pension settlements	-	-	59	-	-
Reversal of depreciation and amortization relating to assets held for sale	-	-	93	-	-
Gain on sale of subsidiary and related assets	-	-	-	-	73
<b>Operating profit</b>	<b>4,062</b>	<b>3,702</b>	<b>4,169</b>	<b>3,417</b>	<b>2,874</b>

<sup>1)</sup> Businesses were transferred to STG on October 1, 2010.

Operating margin by product area, % <sup>1)</sup>	2012	2011	2010	2009	2008
Snus and snuff	46.5	46.1	46.0	45.1	44.9
Other tobacco products <sup>2)</sup>	43.6	44.0	38.6	34.4	31.4
Lights	16.6	17.9	19.5	22.2	21.4
<b>Operating margin from product areas<sup>3)</sup></b>	<b>29.4</b>	<b>28.8</b>	<b>28.1</b>	<b>27.2</b>	<b>24.8</b>
<b>Operating margin<sup>4)</sup></b>	<b>32.3</b>	<b>31.7</b>	<b>25.2</b>	<b>24.1</b>	<b>22.2</b>

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

<sup>2)</sup> Including a restructuring charge of 45 MSEK for cigars in 2009.

<sup>3)</sup> Excluding share of net profit/loss in STG.

<sup>4)</sup> Including share of net profit/loss in STG.

## SHAREHOLDER INFORMATION

# Quarterly data 2011–2012

Condensed consolidated income statements, MSEK	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	<b>3,148</b>	<b>3,208</b>	<b>3,213</b>	<b>2,917</b>	<b>3,064</b>	<b>3,011</b>	<b>2,944</b>	<b>2,646</b>
<b>Gross profit</b>	<b>1,562</b>	<b>1,591</b>	<b>1,655</b>	<b>1,541</b>	<b>1,549</b>	<b>1,516</b>	<b>1,478</b>	<b>1,348</b>
<b>Operating profit</b>	<b>986</b>	<b>1,022</b>	<b>1,052</b>	<b>972</b>	<b>1,022</b>	<b>983</b>	<b>904</b>	<b>793</b>
Net financial cost	-137	-141	-140	-134	-134	-130	-131	-128
<b>Profit before income tax</b>	<b>850</b>	<b>881</b>	<b>942</b>	<b>838</b>	<b>888</b>	<b>853</b>	<b>773</b>	<b>665</b>
<b>Profit for the period</b>	<b>787</b>	<b>693</b>	<b>759</b>	<b>668</b>	<b>705</b>	<b>684</b>	<b>616</b>	<b>533</b>
<b>EBITDA excluding larger one time items</b>	<b>1,055</b>	<b>1,097</b>	<b>1,128</b>	<b>1,049</b>	<b>1,100</b>	<b>1,056</b>	<b>974</b>	<b>862</b>

Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, % <sup>1)</sup>	31.3	31.9	32.7	33.3	33.4	32.7	30.7	30.0
Investments in property, plant and equipment, MSEK	79	68	64	39	75	38	80	52
Earnings per share, basic, SEK	3.93	3.41	3.72	3.27	3.42	3.28	2.94	2.50

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

Sales by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	1,280	1,263	1,300	1,206	1,266	1,199	1,193	1,068
Other tobacco products	601	689	696	675	578	613	613	583
Lights	341	311	336	350	364	333	313	336
Other operations	926	944	880	687	856	866	826	659
<b>Sales</b>	<b>3,148</b>	<b>3,208</b>	<b>3,213</b>	<b>2,917</b>	<b>3,064</b>	<b>3,011</b>	<b>2,944</b>	<b>2,646</b>

Operating profit/loss by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	593	607	581	568	581	590	540	469
Other tobacco products	248	300	316	297	255	278	272	245
Lights	61	44	60	57	80	59	44	58
Other operations	-18	-8	-20	-19	-18	-18	-26	-43
<b>Operating profit from product area</b>	<b>883</b>	<b>942</b>	<b>938</b>	<b>903</b>	<b>898</b>	<b>909</b>	<b>829</b>	<b>729</b>
Share of net profit in STG	103	80	114	69	124	74	74	65
<b>Subtotal</b>	<b>986</b>	<b>1,022</b>	<b>1,052</b>	<b>972</b>	<b>1,022</b>	<b>983</b>	<b>904</b>	<b>793</b>
Capital gain from transfer of businesses to STG	-	-	30	-	-	-	-	-
<b>Total larger one time items</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating profit</b>	<b>986</b>	<b>1,022</b>	<b>1,082</b>	<b>972</b>	<b>1,022</b>	<b>983</b>	<b>904</b>	<b>793</b>

Operating margin by product area, % <sup>1)</sup>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	46.3	48.0	44.7	47.1	45.9	49.2	45.3	44.0
Other tobacco products	41.2	43.5	45.4	44.0	44.1	45.3	44.4	41.9
Lights	17.9	14.0	17.9	16.3	21.9	17.7	13.9	17.3
<b>Operating margin from product areas<sup>2)</sup></b>	<b>28.0</b>	<b>29.4</b>	<b>29.2</b>	<b>31.0</b>	<b>29.3</b>	<b>30.2</b>	<b>28.2</b>	<b>27.5</b>
<b>Operating margin<sup>3)</sup></b>	<b>31.3</b>	<b>31.9</b>	<b>32.7</b>	<b>33.3</b>	<b>33.4</b>	<b>32.7</b>	<b>30.7</b>	<b>30.0</b>

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

<sup>2)</sup> Excluding share of net profit in STG.

<sup>3)</sup> Including share of net profit in STG.

## SHAREHOLDER INFORMATION

# Definitions used in financial tables

### AVERAGE OPERATING CAPITAL

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

### EBITA

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

### OPERATING CAPITAL

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

### DIVIDEND PAY-OUT RATIO (%)

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

### EBITA INTEREST COVERAGE RATIO

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

### OPERATING MARGIN (%)

$$\frac{100x \text{ Operating profit}}{\text{Sales}}$$

### DIVIDEND YIELD (%)

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

### EBITA MARGIN (%)

$$\frac{100x \text{ EBITA}}{\text{Sales}}$$

### P/E RATIO

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

### EARNINGS PER SHARE

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

### 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 (%)

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

### EBIT MULTIPLE

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

### NET DEBT

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

### SHARE TURNOVER VELOCITY (%)

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

### TOTAL RETURN (%)

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

# Continued growth

**Sales for the full year amounted to 12,486 MSEK (11,666). Operating profit from product areas increased to 3,666 MSEK (3,365). In local currencies, sales increased by 6 percent and operating profit increased by 8 percent. Currency translation has affected the operating profit comparison positively by 39 MSEK. Operating margin from product areas for the full year increased to 29.4 percent (28.8).**

**Operating profit, including share of net profit from STG and larger one time items, reached 4,062 MSEK (3,702). The share of net profit from STG amounted to 366 MSEK (337) for the full year. Larger one time items, which occurred in the second quarter, consist of a positive adjustment of 30 MSEK to the capital gain from transfer of businesses to STG as a consequence of a reversal of a provision relating to transaction guarantees. Operating margin, including share of net profit in STG, was 32.3 percent (31.7). EPS (basic) for the full year increased by 18 percent to 14.33 SEK (12.14), and diluted EPS also increased by 18 percent to 14.25 SEK (12.07).**

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# Report of the Board of Directors

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

Swedish Match develops, manufactures and sells quality products with market-leading brands in the product areas Snus and snuff, Other tobacco products (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

Sales for the year were 12,486 MSEK (11,666). In local currencies, sales increased by 6 percent. Currency translation has affected the sales comparison positively by 99 MSEK.

For the year, sales of *Snus and snuff* increased to 5,049 MSEK (4,726). In Scandinavia sales increased by 8 percent, while shipment volumes declined by 2 percent compared to 2011. In the US, sales revenues for the year were down slightly versus prior year on 3 percent lower volumes.

For *Other tobacco products* (cigars and chewing tobacco), total sales for the year amounted to 2,661 MSEK (2,388). In local currencies sales increased by 7 percent compared to the previous year. Cigars sales grew by 12 percent in local currency and with 18 percent in volumes. The continued strong growth in 2012 for cigars was attributable to the continued success of recent product introductions. In 2012, the launch of *White Owl Black* and *Game by Garcia y Vega Black* cigars, remained an important contributor to the strong volume growth. Chewing tobacco is mainly sold in the southern states in the US. During 2012, sales for chewing tobacco were flat.

Product area *Lights* includes matches and lighters. For the full year sales in the Lights product area amounted to 1,339 MSEK (1,346). Compared to 2011, sales for lighters increased while sales for matches declined.

Sales in *Other operations* were 3,437 MSEK (3,206). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

## Operating profit

Full year operating profit from product areas increased by 9 percent to 3,666 MSEK compared to 3,365 MSEK in 2011. Currency translation has affected the operating profit comparison positively by 39 MSEK. In local currencies operating profit from product areas increased by 8 percent.

Operating profit, including share of net profit from STG but excluding larger one time items, for the year reached 4,032 MSEK. Operating profit for 2011 including share of net profit in STG, amounted to 3,702 MSEK. The share of net profit in STG amounted to 366 MSEK (337) in 2012. Last year's profit share from STG included restructuring charges of 66 MSEK before tax. In 2012, operating profit increased for all product areas except for *Lights* compared to previous year.

Operating profit for *Snuff and snus* increased by 8 percent to 2,349 MSEK (2,181) compared to prior year. In 2012, the operating profit for the snus business in Scandinavia was higher than prior year while the operating profit for the US moist snuff business (in local currency) was flat. In 2012, 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 approximately 100 MSEK in 2012 compared to 2011.

Operating profit for *Other tobacco products* amounted to 1,161 MSEK (1,049) representing an increase by 11 percent compared to prior year. Operating profit for 2012 was driven by the strong growth for cigars.

Operating profit for *Lights* for the year amounted to 222 MSEK (240). Operating loss for Other operations for the year was 65 MSEK (105). In 2011 the operating loss included redundancy costs following an organizational change and was also positively impacted by a one time pension curtailment gain. No similar items have impacted the 2012 figures.

## Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2012	2011	2012	2011
Snus and snuff	5,049	4,726	2,349	2,181
Other tobacco products	2,661	2,388	1,161	1,049
Lights	1,339	1,346	222	240
Other operations	3,437	3,206	-65	-105
<b>Sales and operating profit from product areas</b>	<b>12,486</b>	<b>11,666</b>	<b>3,666</b>	<b>3,365</b>
Share of net profit in STG			366	337
<b>Total</b>	<b>12,486</b>	<b>11,666</b>	<b>4,032</b>	<b>3,702</b>
<i>Larger one time items:</i>				
Adjustment to capital gain from transfer of businesses to STG			30	-
<b>Total larger one time items</b>			<b>30</b>	<b>-</b>
<b>Total</b>			<b>4,062</b>	<b>3,702</b>

## Summary of consolidated income statement

MSEK	2012	2011
Sales	12,486	11,666
Operating profit	4,062	3,702
Net finance cost	-551	-523
Taxes	-604	-642
<b>Profit for the year</b>	<b>2,907</b>	<b>2,538</b>
<i>Attributable to:</i>		
Equity holders of the Parent	2,906	2,538
Non-controlling interest	0	1
<b>Profit for the year</b>	<b>2,907</b>	<b>2,538</b>
Earnings per share, basic (SEK)	14.33	12.14

Operating margin from product areas for the year was 29.4 percent (28.8). Operating margin, including businesses transferred to STG, share of net profit in STG and larger one time items, was 32.3 percent (31.7).

### Scandinavian Tobacco Group

Swedish Match's 49 percent share of Scandinavian Tobacco Group's net profit after interest and tax amounted to 366 (337) MSEK for the full year. Total Scandinavian Tobacco Group net sales for the year amounted to 5,978 MDKK. Excluding restructuring and one time charges, EBITDA amounted to 1,307 MDKK (1,275) for the year. Including restructuring and one time charges, EBITDA for total Scandinavian Tobacco Group in the year amounted to 1,307 MDKK (1,178).

### Larger one time items

In 2012 a capital gain of 30 MSEK was recognized in the second quarter of 2012 relating to the transfer of business to STG as a consequence of a reversal of provisions for transaction guarantees. During 2011 there were no larger one time items recognized in the income statement.

### Net finance cost

Net finance cost for the year increased to 551 MSEK (523) mainly due to increased average debt position during the year.

### Taxes

For the full year, the reported tax expense amounted to 604 MSEK (642), corresponding to a tax rate of 17.2 percent (20.2). The reported tax rate excluding one time items as well as profit and loss impact from associated companies and joint ventures was 22 percent (22). One time tax items relate to the net deferred tax impact of the reduced corporate tax rate in Sweden from 26.3 percent to 22 percent and positive settlements of tax disputes in foreign jurisdictions.

### Earnings per share

For the full year basic earnings per share amounted to 14.33 SEK (12.14). Diluted earnings per share was 14.25 SEK (12.07).

### Liquid funds

Cash and cash equivalents amounted to 2,824 MSEK at the end of the year, compared with 2,533 MSEK at the beginning of 2012. As of December 31, 2012, Swedish Match had 1,373 MSEK in unutilized committed credit lines.

### Financing and cash flow

Cash flow from operating activities for 2012 amounted to 2,805 MSEK compared with 2,608 MSEK for the previous year. The cash flow from operations increased compared to the same period previous year as a result of improved EBITDA, lower taxes paid and dividends received from associated companies, partly offset by higher tobacco tax payments in the beginning of the year relating to hoarding in Sweden at the end of 2011.

The net debt as per December 31, 2012 amounted to 9,289 MSEK compared to 8,886 MSEK at December 31, 2011.

During 2012 new bond loans of 2,045 MSEK were issued. Repayment of loans for the same period amounted to 1,315 MSEK. As at December 31, 2012 Swedish Match had 10,796 MSEK of interest bearing debt excluding retirement benefit obligations compared to 10,038 MSEK at December 31, 2011. During 2013, 1,191 MSEK of this debt falls due for payment.

### Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 251 MSEK (245). Total investments in intangible assets during 2012 amounted to 48 MSEK. During the year 44 MSEK (22) have been capitalized in intangible assets as an investment in software development for an ERP system for the Group.

### Depreciations and amortizations

During the year, total depreciation and amortization amounted to 296 MSEK (290), of which depreciation on property, plant and equipment amounted to 246 MSEK (233) and amortization of intangible assets amounted to 50 MSEK (57).

### 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 3 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.

## Summary of consolidated balance sheet

MSEK	2012	2011
Fixed assets	8,466	8,943
Inventories	1,288	1,339
Other current assets	1,793	1,692
Cash and cash equivalents	2,824	2,533
<b>Total assets</b>	<b>14,371</b>	<b>14,507</b>
Equity	-2,051	-1,599
Non-current financial liabilities and provisions	2,879	2,857
Non-current loans	9,238	8,535
Current liabilities and provisions	3,186	3,431
Current loans	1,119	1,283
<b>Total equity and liabilities</b>	<b>14,371</b>	<b>14,507</b>

## Summary of consolidated cash flow statement

MSEK	2012	2011
Net cash from operating activities	2,805	2,608
Net cash used in investing activities	-323	-151
Net cash transferred to shareholders	-2,866	-3,456
Net cash from other financing activities	754	237
<b>Net increase/decrease in cash and cash equivalents</b>	<b>371</b>	<b>-763</b>
Cash and cash equivalents at beginning of the year	2,533	3,275
Effects of exchanges rate fluctuations on cash and cash equivalents	-79	21
<b>Cash and cash equivalents at end of year</b>	<b>2,824</b>	<b>2,533</b>

### Proposed dividend per share

The Board proposes an increased dividend of 7.30 SEK (6.50), equivalent to 51 percent of the earnings per share for the year. The proposed dividend amounts to 1,456 MSEK based on the 199.4 million shares outstanding at the end of the year.

### Share structure

The Annual General Meeting on May 2, 2012 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, 7 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 206.0 million shares with a quotient value of 1.8909 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy 7.4 million shares were repurchased during 2012 for 1,946 MSEK at an average price of 261.61 SEK, following authorization from the Annual General Meetings held in 2011 and 2012. 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 buy-back programs started have been repurchased at an average price of 105.37 SEK. During the year the Company sold 2.7 million treasury shares at an average price of 154.80 SEK, totaling 414 MSEK, as a result of option holders exercising options. As per December 31, 2012 Swedish Match held 6.6 million shares in treasury, corresponding to 3.2 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, 2012 amounted to 199.4 million. In addition, the Company has call options outstanding as of December 31, 2012 corresponding to 2.3 million shares exercisable from 2013 to 2015.

In January 2013, a further 303,500 shares have been repurchased for 69 MSEK at an average price of 228.35 SEK.

The Board will propose to the Annual General Meeting in April 2013 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 2014.

In addition a proposal will be made to cancel 4 million shares held in treasury with a contemporaneous bonus issue without issuing new shares of an amount equivalent to the reduction of share capital through the cancellation of shares.

### Average number of Group employees

The average number of employees in the Group during the year was 3,848 compared with 3,880 for the full year 2011.

### 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 91 and is also available on the Company's website [www.swedishmatch.com](http://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

Swedish Match works systematically with Corporate Sustainability across the organization. This work provides many benefits to the Company. It helps to make Swedish Match more competitive, to identify and reduce long term costs and risks, and to strengthen the corporate reputation and brand. It also enables the Company to be an attractive employer. Working with sustainability is thus an important element for Swedish Match's future growth and value creation. Swedish Match reports its sustainability information according to the guidelines set forth by Global Reporting Initiative (GRI) G3 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 the Company as well as its 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 preventing and reducing negative environmental impacts in its activities. The policy also ensures that the Group operates an Environmental Management System (EMS), applicable on a corporate, operating unit, and factory level, which will safeguard that this commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental objectives and targets. Furthermore, the policy ensures that Swedish Match develops and communicates priority Key Performance Indicators (KPIs) for environmental factors, which are deemed to be of high importance by both Swedish Match and its stakeholders. The policy moreover ensures that the Company commits to compliance with all relevant environmental legislation, regulations and other requirements to which it subscribes. Also, the policy ensures that the Group commits to continuous documentation and communication of any changes of environmental impact due to its activities, products, and services. Under the Group Environmental Policy, the Group will undertake appropriate remedial actions and improvements based on financial and environmental criteria.

The vast majority of Swedish Match's production facilities, with products accounting for more than 90 percent of Company sales of its own produced products, have been certified according to the environmental management standard ISO 14001 as well as the quality management systems standard of ISO 9001. Of twelve production facilities, ten had ISO 9001 certification and nine had ISO 14001 certification in 2012. In January 2013, the Manus lighter factory was certified for ISO 14001 bringing the total to ten manufacturing facilities with ISO 9001 certification and ten with ISO 14001 certification.

### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2012. 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 and firestarters. 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 operating 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 their development in a performance driven culture. The Company will continue to develop skills, talents, as well as 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 October 2012, a worldwide cross organizational employee survey was conducted on a global scale, enabling the Group to identify common improvement areas. The survey measured levels of employee engagement, satisfaction, and employer attractiveness. It also evaluated communication effectiveness and other areas critical to the performance of the Company, such as leadership and management capabilities. The results of the survey were shared with all employees at year end.

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 price and promote its brands competitively 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 1,500 MEUR Global Medium Term Note Program and 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 2013. 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 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. Note 5 Personnel sets out details of the remuneration and benefits of the GMT during 2012.

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 2013 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 2012.

#### **Application of principles on variable salary for 2013**

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 2013 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden shall be 70 percent of the 2013 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 GMT members 2013 are estimated to range between 0 MSEK and 14 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 2013 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 2013 but measured over the full performance period 2013–2015. 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 2013–2015. 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 2012.

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 2013–2015.

Accruals for the GMT long term incentive programs are estimated<sup>1)</sup> 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 2012, see *Note 5 Personnel*.

## Events following the close of the reporting period

Swedish Match sold a parcel of land adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. This approval has been received in January 2013, and Swedish Match will as a result receive an additional payment of approximately 150 MSEK in the first half of 2013.

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 6.68.

## Outlook

Swedish Match expect both the Scandinavian snus market and the US market for moist snuff to continue to grow in volume terms in 2013.

For the full year of 2013 we anticipate higher sales and operating profit for cigars, driven by strong volume growth.

During the year we will continue to invest for growth for snus internationally, particularly in the US, and also increase spending in order to drive share growth in the fast growing pouch segment of the US moist snuff market. In Scandinavia, we will increase investments behind new market initiatives, particularly in Sweden, which has been negatively impacted by portfolio mix shifts. In view of the competitive pricing environment in the Swedish market, we have decided to make necessary pricing adjustments to our low priced portfolio in order to compete more effectively.

As a consequence of the increased market investments in the US and the competitive situation in Sweden, it is likely that the operating profit from the Snus and snuff product area for the full year 2013 will be lower than in 2012.

The tax rate for 2013, excluding one time items as well as associated companies and joint ventures, is expected to be between 22 and 23 percent.

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 87 MSEK (51). Profit before income tax amounted to 4,681 MSEK (1,526) and net profit for the year amounted to 4,586 MSEK (1,419).

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 4,333 MSEK (2,492) and Group contributions net amounting to 2,071 MSEK (1,839).

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 in tangible fixed assets have been recognized during 2012. During 2012, 44 MSEK have been capitalized in intangible assets for the Group. In 2011, 22 MSEK was capitalized in intangible assets as an investment in software development on an ERP system for the Group. During the year, a shareholder contribution was provided to a Group company, in the amount of 2,025 MSEK. The total cash flow for both 2012 and 2011 was zero as the Parent Company does not hold any cash and bank balances.

During the year, new bond loans of 2,045 MSEK were issued and repayment of loans amounted to 1,315 MSEK. During the year the Parent Company made share repurchases of 7.4 million (11.1) shares for 1,946 MSEK (2,371) and sold 2.7 million (0.5) treasury shares for 414 MSEK (67). A dividend to the shareholders of 1,334 MSEK (1,152) has been paid during the year.

The Board's proposed distribution of earnings is presented on page 89.

## Consolidated income statement

MSEK	Note	2012	2011
Sales, including tobacco tax		25,449	23,662
Less tobacco tax		-12,963	-11,997
<b>Sales</b>	3	<b>12,486</b>	<b>11,666</b>
Cost of goods sold		-6,138	-5,774
<b>Gross profit</b>		<b>6,349</b>	<b>5,892</b>
Selling expenses		-1,892	-1,769
Administrative expenses		-760	-736
Other operating income and expenses	4	-1	-12
Share of profit in associated companies and joint ventures	14	337	327
Capital gain from transfer of businesses to STG		30	-
<b>Operating profit</b>	3, 5, 6, 7, 21, 26	<b>4,062</b>	<b>3,702</b>
Finance income		38	37
Finance costs		-589	-560
<b>Net finance cost</b>	8	<b>-551</b>	<b>-523</b>
<b>Profit before income tax</b>		<b>3,511</b>	<b>3,180</b>
Income tax expense	9	-604	-642
<b>Profit for the year</b>		<b>2,907</b>	<b>2,538</b>
<i>Attributable to:</i>			
Equity holders of the Parent		2,906	2,538
Non-controlling interests		0	1
<b>Profit for the year</b>		<b>2,907</b>	<b>2,538</b>
Earnings per share, basic, SEK	10	14.33	12.14
Earnings per share, diluted, SEK	10	14.25	12.07

## Consolidated statement of comprehensive income

MSEK	Note	2012	2011
<b>Profit for the year</b>		<b>2,907</b>	<b>2,538</b>
<i>Other comprehensive income</i>	19		
Translation differences related to foreign operations		-365	-57
Translation differences included in profit and loss		-3	0
Effective portion of changes in fair value of cash flow hedges		-16	-22
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		-	0
Actuarial gains and losses attributable to pensions, incl. payroll tax		-25	-353
Share of other comprehensive income in associated companies and joint ventures		-90	90
Income tax relating to components of other comprehensive income	9	8	143
<b>Other comprehensive income, net of tax for the year</b>		<b>-492</b>	<b>-199</b>
<b>Total comprehensive income for the year</b>		<b>2,415</b>	<b>2,340</b>
<i>Attributable to:</i>			
Equity holders of the Parent		2,415	2,339
Non-controlling interests		0	1
<b>Total comprehensive income for the year</b>		<b>2,415</b>	<b>2,340</b>

## Consolidated balance sheet

MSEK	Note	Dec. 31, 2012	Dec. 31, 2011
<b>Assets</b>			
Intangible assets	11	962	992
Property, plant and equipment	12	1,885	1,950
Forest plantations	13	125	125
Investments in associated companies and joint ventures	14	4,354	4,481
Other non-current receivables	15	429	617
Deferred income tax assets	9	710	778
<b>Total non-current assets</b>		<b>8,466</b>	<b>8,943</b>
Inventories	16	1,288	1,339
Trade receivables	17	1,554	1,398
Prepaid expenses and accrued income		70	76
Income tax receivables		67	132
Other current receivables	15	102	86
Cash and cash equivalents	18	2,824	2,533
<b>Total current assets</b>		<b>5,904</b>	<b>5,564</b>
<b>TOTAL ASSETS</b>		<b>14,371</b>	<b>14,507</b>
<b>Equity</b>			
	19		
Share capital		390	390
Reserves		-465	-81
Retained earnings		-1,978	-1,911
<b>Equity attributable to equity holders of the Parent</b>		<b>-2,053</b>	<b>-1,602</b>
Non-controlling interests		2	2
<b>TOTAL EQUITY</b>		<b>-2,051</b>	<b>-1,599</b>
<b>Liabilities</b>			
Loans and borrowings	20, 25	9,238	8,535
Other liabilities	23	488	338
Provision for pensions and similar obligations	21	1,382	1,449
Other provisions	22	504	572
Deferred income tax liabilities	9	505	498
<b>Total non-current liabilities</b>		<b>12,117</b>	<b>11,392</b>
Loans and borrowings	20, 25	1,119	1,283
Trade payables		635	651
Income tax liabilities		34	95
Other liabilities	23	1,619	1,786
Accrued expenses and deferred income	24	796	815
Provisions	22	102	84
<b>Total current liabilities</b>		<b>4,305</b>	<b>4,714</b>
<b>TOTAL LIABILITIES</b>		<b>16,422</b>	<b>16,107</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>14,371</b>	<b>14,507</b>

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

2011	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	19	<b>390</b>	<b>-7</b>	<b>-867</b>	<b>-484</b>	<b>2</b>	<b>-482</b>
Profit for the year		-	-	2,538	2,538	1	2,538
Other comprehensive income, net of tax <sup>1)</sup>		-	-73	-125	-199	0	-199
<b>Total comprehensive income</b>		<b>-</b>	<b>-73</b>	<b>2,412</b>	<b>2,339</b>	<b>0</b>	<b>2,340</b>
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
<b>Equity at end of year</b>		<b>390</b>	<b>-81</b>	<b>-1,911</b>	<b>-1,602</b>	<b>2</b>	<b>-1,599</b>

2012	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	19	<b>390</b>	<b>-81</b>	<b>-1,911</b>	<b>-1,602</b>	<b>2</b>	<b>-1,599</b>
Profit for the year		-	-	2,906	2,906	0	2,907
Other comprehensive income, net of tax <sup>1)</sup>		-	-384	-107	-492	0	-492
<b>Total comprehensive income</b>		<b>-</b>	<b>-384</b>	<b>2,799</b>	<b>2,415</b>	<b>0</b>	<b>2,415</b>
Dividend		-	-	-1,334	-1,334	0	-1,334
Repurchase of own shares		-	-	-1,946	-1,946	-	-1,946
Stock options exercised		-	-	414	414	-	414
Cancellation of shares		-13	-	13	0	-	0
Bonus issue		13	-	-13	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>-465</b>	<b>-1,978</b>	<b>-2,053</b>	<b>2</b>	<b>-2,051</b>

<sup>1)</sup> Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to defined pension plans in an amount of -18 MSEK (-215), net after payroll and income taxes.

## Consolidated cash flow statement

MSEK	Note	2012	2011
<b>Operating activities</b>	30		
Profit before income tax		3,511	3,180
Share of net profit/loss in associated companies and joint ventures		-337	-327
Dividends receive from associated companies		218	14
Adjustments for other non-cash items and other		264	240
Income tax paid		-563	-662
<b>Cash flow from operating activities before changes in working capital</b>		<b>3,093</b>	<b>2,445</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		0	-191
Increase (-)/ Decrease (+) in operating receivables		-188	-247
Increase (+)/ Decrease (-) in operating liabilities		-99	602
<b>Net cash generated from operating activities</b>		<b>2,805</b>	<b>2,608</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-251	-245
Proceeds from sale of property, plant and equipment		6	3
Purchase of intangible assets		-48	-22
Investments in associated companies and joint ventures		-40	-28
Investments in other companies		-	-4
Proceeds from sale of subsidiaries, net of cash disposed of		9	143
Changes in financial receivables, etc.		-	1
Change in other current investments		-	1
<b>Net cash from investing activities</b>		<b>-323</b>	<b>-151</b>
<b>Financing activities</b>			
Proceeds from non-current borrowing		2,055	1,002
Repayment of borrowings		-1,315	-853
Repurchase of own shares		-1,946	-2,371
Stock options exercised		414	67
Dividend paid to equity holders of the Parent		-1,334	-1,152
Other		14	88
<b>Net cash used in financing activities</b>		<b>-2,112</b>	<b>-3,219</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>371</b>	<b>-763</b>
Cash and cash equivalents at the beginning of the year		2,533	3,275
Effect of exchange rate fluctuations on cash and cash equivalents		-79	21
<b>Cash and cash equivalent at end of year</b>		<b>2,824</b>	<b>2,533</b>

# 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, 2011.

### 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 IFRS Interpretations Committee, 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 19, 2013.

### 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 through profit and loss 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

There are no new or changed accounting principles and basis for calculations applied in this annual report.

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

As of the financial year 2013 the revised *IAS 19 Employee benefits* will come into effect for application within the EU. As Swedish Match has not applied the "corridor" method the new standard has no significant impact on the Group. We expect to have higher operating costs of approximately 35 MSEK

that will be fully offset by a corresponding income to be reported in other comprehensive income.

The reason for this shift of income from the income statement to other comprehensive income is that the amended *IAS 19* requires that return on plan assets shall be recognized using the same interest rate as the discount rate used when measuring the pension obligation. As Swedish Match, for certain plans, currently expects a higher return than the discount rate such differences will be part of the actuarial gains/losses and reported in other comprehensive income.

A number of new standards, changes in standards and interpretations of standards apply from 2013 or later and have not been applied in these financial reports: Amendments to *IAS 1 Presentation of Financial Statements* 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.

*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 2013 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.

### Subsidiaries

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 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 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 (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. 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:

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2012	2011	2012	2011
USA	USD	6.78	6.50	6.50	6.89
Euro zone	EUR	8.71	9.03	8.58	8.91
Brazil	BRL	3.48	3.88	3.17	3.69
Norway	NOK	1.16	1.16	1.17	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, 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 instruments reported as 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**

Cash and cash equivalents are included in this category, along with loan receivables and trade receivables, which 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 include trade payables, loans and borrowings, and accrued interest. 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, including currency exchange differences, are reported at their fair value on the balance sheet. Changes in the fair value of the hedging instruments, when cash flow hedge accounting is applied, are recognized in other comprehensive income. 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.

#### **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 instru-

ment 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 a stream of interest payments in foreign currency into a stream of fixed 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 ceased 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**

##### **(j) Goodwill**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (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 equipment 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.

Eligible participants in the program have agreed to purchase Swedish Match shares for the full cash award, net of income tax, and shall retain such shares for a period of not less than two years.

#### 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.

#### 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

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, 2012 amounted to 962 MSEK and amortization amounted to 50 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 557 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, 2012 the Group's investments in associated companies and joint ventures amounted to 4,354 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 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, 2012 were estimated to exceed the fair value of plan assets by 1,317 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. 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 US 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 (mass market) cigars and chewing tobacco manufactured and sold on the US market. Mass market cigars are machine made cigars. Well known brands are *White Owl*, *Garcia y Vega*, and *Game by Garcia y Vega*. Chewing tobacco is a smokeless tobacco product. Well known brands include *Red Man* and *Southern Pride*.

**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. 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.

NOTE 3 Continued

Operating segments	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Swedish Match Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
External sales	5,049	4,726	2,661	2,388	1,339	1,346	3,437	3,206	12,486	11,666	-	-	12,486	11,666
Depreciations and amortizations	-169	-156	-77	-81	-36	-41	-13	-12	-296	-290	-	-	-296	-290
Income from associated companies and joint ventures	-40	-30	9	18	1	2	1	0	-30	-11	366	337	337	327
<b>Operating profit</b>	<b>2,349</b>	<b>2,181</b>	<b>1,161</b>	<b>1,049</b>	<b>222</b>	<b>240</b>	<b>-65</b>	<b>-105</b>	<b>3,666</b>	<b>3,365</b>	<b>366</b>	<b>337</b>	<b>4,032</b>	<b>3,702</b>
Capital gain from transfer of businesses to STG	-	-	-	-	-	-	30	-	30	-	-	-	30	-
<b>Operating profit, including larger one time items</b>	<b>2,349</b>	<b>2,181</b>	<b>1,161</b>	<b>1,049</b>	<b>222</b>	<b>240</b>	<b>-35</b>	<b>-105</b>	<b>3,696</b>	<b>3,365</b>	<b>366</b>	<b>337</b>	<b>4,062</b>	<b>3,702</b>
Finance income													38	37
Finance costs													-589	-560
<b>Profit before income tax</b>													<b>3,511</b>	<b>3,180</b>

	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Swedish Match Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>Restructuring costs and results from sale of fixed assets</b>														
Restructuring charges	-	-	-	-	-	-	-	-	-	-	-	-66	-	-66
Gains/losses from sale of fixed assets	-1	1	0	0	0	0	0	0	0	0	-	-	0	0
<b>Investments</b>														
Property, plant and equipment <sup>1)</sup>	110	123	54	61	61	56	26	5	251	245	-	-	251	245
Intangible assets	3	-	-	-	0	-	45	22	48	22	-	-	48	22

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

### 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:

Country	Sales to external customers				Fixed assets <sup>1)</sup>			
	2012		2011		2012		2011	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	6,723	54	6,313	54	6,180	81	6,348	79
USA	3,691	30	3,417	29	904	12	951	12
Rest of the world	2,072	17	1,935	17	576	8	737	9
<b>Total</b>	<b>12,486</b>	<b>100</b>	<b>11,666</b>	<b>100</b>	<b>7,660</b>	<b>100</b>	<b>8,036</b>	<b>100</b>

<sup>1)</sup> 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 from 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:

	2012	2011
Foreign exchanges gains	22	10
Foreign exchanges losses	-22	-19
Other	0	-3
<b>Total</b>	<b>-1</b>	<b>-12</b>

## 5. Personnel

The average number of employees in the Parent Company during 2012 was 46, and in the Group 3,848. The corresponding numbers in 2011 were 43 and 3,880, respectively.

Group employees by country are summarized in the table below:

	2012		2011	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	46	50	43	52
<b>Subsidiaries</b>				
Belgium	3	-	3	-
Brazil	718	66	712	66
Bulgaria	-	-	41	39
Dominican Republic	815	56	831	52
Netherlands	99	95	101	95
Norway	47	66	47	70
Philippines	139	73	150	69
Sweden	964	62	954	61
Turkey	15	73	15	73
United States	1,001	70	981	69
Other countries	1	100	2	100
<b>Total</b>	<b>3,848</b>	<b>65</b>	<b>3,880</b>	<b>63</b>

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

	2012		2011	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members	9	67	9	67
President and other management	5	100	6	83
<b>Group</b>				
Board members	73	88	66	86
President and other management	53	91	53	89

<sup>1)</sup> 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:

	2012			2011		
	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>
Parent Company	81	40	16	77	39	14
Subsidiaries	1,175	527	168	1,143	490	160
<b>Total</b>	<b>1,256</b>	<b>567</b>	<b>184</b>	<b>1,220</b>	<b>528</b>	<b>173</b>

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

The pension costs for the Parent Company include 6 MSEK (6) attributable to the President and other management consisting of six persons during 2012 and six persons in 2011.

The pension costs for the subsidiaries include 12 MSEK (13) attributable to Board members, Presidents and other management consisting of 32 persons in 2012 (34 persons in 2011). The defined benefit obligations related to Board members, Presidents and other management as of December 31, 2012 amounted to 65 MSEK (61).

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

	2012			2011		
	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees
<b>Parent Company</b>						
Sweden	45	18	36	42	18	35
<b>Subsidiaries</b>						
Total in subsidiaries	81	30	1,094	92	38	1,051
<b>Total</b>	<b>126</b>	<b>48</b>	<b>1,130</b>	<b>134</b>	<b>56</b>	<b>1,086</b>

<sup>1)</sup> The Board, President and other management employed by the Parent Company consisted in average of 12 persons (12) and in the subsidiaries of 32 persons (34), whereof of two 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 2012, 48 MSEK (49) 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, 2012 decided, for the period up to and including April 25, 2013 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 2012. In 2012 a study fee in the amount of 55,979 SEK was paid to each of the three employee representatives on the Board, and in the amount of 41,899 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective employer. The fees to Board members elected by the Annual General Meeting for Board work during 2012 and 2011 are shown in the tables below:

#### Fees to Board members

TSEK	2012				TSEK	2011			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work		Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson <i>Board chairman</i>	1,710	250	-	1,960	Conny Karlsson <i>Board chairman</i>	1,710	250	-	1,960
Andrew Cripps <i>Board member</i>	810	-	125	935	Andrew Cripps <i>Board member</i>	810	-	125	935
Karen Guerra <i>Board member</i>	685	125	-	810	Karen Guerra <i>Board member</i>	685	125	-	810
Robert F. Sharpe <i>Board member</i>	685	125	-	810	Robert F. Sharpe <i>Board member</i>	685	125	-	810
Meg Tivéus <i>Board member</i>	685	-	250	935	Meg Tivéus <i>Board member</i>	685	-	250	935
Joakim Westh <i>Board member</i>	685	-	125	810	Joakim Westh <i>Board member</i>	685	-	125	810
<b>Total</b>	<b>5,260</b>	<b>500</b>	<b>500</b>	<b>6,260</b>	<b>Total</b>	<b>5,260</b>	<b>500</b>	<b>500</b>	<b>6,260</b>

### Remuneration and other benefits to Group Management Team

The Annual General Meeting on May 2, 2012 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 long term variable remuneration, pension, other benefits and terms related to termination of employment.

- 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.
- 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.
- Profit Sharing System:** All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS").
- 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.
- 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.
- Other benefits:** Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in

relation to the total remuneration package and shall correspond to the market norm.

- The Board's right to deviate from the principles:** The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:** Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the 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 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 includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs is one year and three years respectively.

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

### Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance Costs
President	2012	6,009	6,960	169	2,197	15,335	-	-
	2011	5,723	6,729	167	2,089	14,708	-	-
Other members of Group Management Team employed by the Parent Company	2012	10,722	11,252	591	3,997	26,562	-	2,353
	2011	11,041	11,711	621	3,438	26,810	-	-
Other members of Group Management Team employed by subsidiaries	2012	5,186	6,912	758	1,585	14,440	11,182	-
	2011	7,014	6,948	851	2,237	17,050	8,050	4,434
Total	2012	21,917	25,124	1,518	7,779	56,337	11,182	2,353
	2011	23,778	25,388	1,638	7,764	58,568	8,050	4,434

#### Comments to the table

- At the end of 2012, the Group Management Team consisted of seven persons including the President. During 2012, eight persons, including the President, have been assigned to the Group Management Team. The President and four other members of the Group Management Team are employed by the Parent Company and two members are employed by subsidiaries.

At the end of 2011, the Group Management Team consisted of eight persons including the President. During 2011, nine 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 two 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 2012, 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 incentive program for 2012 was Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia). 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 objectives established by the board and the Compensation Committee. Those members of the 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 and excluding investments in Swedish snus outside Scandinavia) for 2012 was established to 3,893 MSEK by the Compensation Committee. The threshold and target for maximum payout were 3,511 MSEK and 3,970 MSEK respectively.

The performance criterion for the CEO and other members of GMT for the final year 2012 in the three year long term program that started in 2010 was Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia) less 12 percent charge of for the average operating capital (excluding shares in STG). The result of the performance criterion was established by the Compensation Committee to 3,527 MSEK in relation to 2012 and 9,228 MSEK for the total performance period 2010 to 2012. The threshold and target for maximum payout were 8,163 MSEK and 9,034 MSEK respectively for the total performance period.

In the three year long term program that started in 2012, the predominant performance criterion for the CEO and other members of the Group Management team is the accumulated Group operating profit (excluding share of

net profit in STG and excluding investments in Swedish snus outside Scandinavia) for the years 2012 to 2014. There will be no pay-out in relation to this criterion unless there is an improvement in relation to the comparable performance of the Group in 2011. The long term program also has an additional criterion constituting a maximum of 25 percent of the long term incentive, based on qualitative and quantitative objectives established by the board and the Compensation Committee. As the long term program extends over three years the final result will be established at the end of the three year performance period.

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 allotment was subject to the fulfillment of the result of two mutually independent criteria: the improvement of the rolling three year average in the Group's earning per share and the result of the return after tax on operating adjusted capital compared to the previous three years average. In addition, the participants needed to remain employed at the end of 2009. The options under the 2009 program were granted at the beginning of 2010 and vested immediately. In countries, such as Sweden, where the call options are taxed as income at allotment the participant received options to the value of the net allotment and the amount of the income tax was paid in cash to the participant. Other participants received options to the value of the gross allotment.

### Number and weighted average of exercise prices for shares under options

SEK	2012		2011	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	159.74	4,980,417	156.63	5,504,234
Granted during period	-	-	-	-
Exercised during period	154.80	2,676,496	127.10	523,817
Expired during period	144.60	1	-	-
<b>Outstanding at period-end</b>	<b>165.47</b>	<b>2,303,920</b>	<b>159.74</b>	<b>4,980,417</b>
Exercisable at period-end	151.11	1,590,250	161.64	2,549,799

The average share price for share options exercised in 2012 was 264.23 SEK (195.74).

The options outstanding at December 31, 2012 and which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2011-03-01-2013-02-28	171.60	517,109	1,080,863	511,988
2012-03-01-2014-02-28	141.24	1,073,141	643,807	1,073,141
2013-03-01-2015-02-28	197.45	713,670	-	713,670
<b>Total</b>		<b>2,303,920</b>	<b>1,724,670</b>	<b>2,298,799</b>

### Pensions

#### President

The President's retirement age is 62 and he is covered by the Swedish standard retirement plan for white-collar 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. 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. For this Group Management Team member, 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	2012	2011
KPMG		
Audit services	7	8
Audit related services	0	0
Tax services	1	1
Other services	1	3
<b>Total</b>	<b>9</b>	<b>11</b>

Other services include assisting with testing of IT-controls.

## 7. Operating expenses classified by nature

Operating expenses	2012	2011
Personnel expenses	1,823	1,749
Depreciation and amortization	296	290
Direct material	1,809	1,766
Finished products from third party manufacturers	3,279	3,008
Other operating expenses	1,583	1,477
<b>Total</b>	<b>8,790</b>	<b>8,290</b>

Expenses for research and development are recognized in the income statement as other operating expenses. During 2012 expenses for research and development amounted to 99 MSEK (80).

## 9. Income tax

The major components of income tax expense/income for the years ended 31 December 2012 and 2011 are:

Income tax expense reported in the Income statement	2012	2011
<i>Current tax:</i>		
Current tax on earnings for the year	-577	-612
Adjustments in respect of prior years	24	16
<b>Total current tax</b>	<b>-553</b>	<b>-596</b>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	-97	-46
Impact of change in tax rate	46	-
<b>Total deferred tax</b>	<b>-51</b>	<b>-46</b>
<b>Income tax expense</b>	<b>-604</b>	<b>-642</b>

## 8. Net finance cost

Financial income	2012	2011
Interest income relating to pension receivables	2	1
Interest income relating to financial instruments held for trading	19	17
Interest income relating to cash and bank	17	17
Net gain on financial liabilities revalued to fair value	0	2
<b>Total</b>	<b>38</b>	<b>37</b>

Financial expenses	2012	2011
Interest expense relating to pension liabilities	-63	-56
Interest expense relating to financial liabilities measured at amortized cost	-514	-476
Interest expense relating to cash flow hedges transferred from equity <sup>1)</sup>	-	0
Interest expense relating to financial liabilities pertaining to fair value	-1	-8
Net foreign exchange losses	-3	-1
Other financial expenses	-9	-19
<b>Total</b>	<b>-589</b>	<b>-560</b>
<b>Net finance cost</b>	<b>-551</b>	<b>-523</b>

<sup>1)</sup> The total realized value of interest for 2011 as a result from repurchase of 50 MSEK bonds.

Income tax reported outside of the Income statement	2012	2011
Deferred tax	8	143
<b>Total</b>	<b>8</b>	<b>143</b>
<i>This comprises:</i>		
<b>Tax reported in other comprehensive income</b>		
Actuarial net gains/losses attributable to pensions	8	138
Revaluation of cash flow hedges net gain/loss	4	6
Impact of change in tax rate	-4	-
<b>Total tax reported in other comprehensive income</b>	<b>8</b>	<b>143</b>
<b>Total tax reported outside of the Income statement</b>	<b>8</b>	<b>143</b>

The deductible and taxable temporary differences in the balance sheet for the years ended 31 December 2012 and 2011 are summarized below:

Deferred tax assets and deferred tax liabilities	2012			2011		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Tax loss carry forwards	16	-	16	-	-	-
Trade receivables	2	-	2	2	-	2
Pensions and other Post-employment benefits	547	18	529	588	23	565
Employment benefits	88	-	88	98	-	98
Intangible assets	-	202	-202	-	232	-232
Fixed assets	12	196	-184	14	192	-178
Tax allocation reserve	-	51	-51	-	30	-30
Inventory	3	72	-69	2	70	-68
Unremitted earnings in foreign subsidiaries	-	8	-8	-	8	-8
Financial assets	18	-	18	18	-	18
Other	66	-	66	114	-	114
<b>Total</b>	<b>752</b>	<b>547</b>	<b>205</b>	<b>835</b>	<b>555</b>	<b>280</b>
Netting of assets and liabilities	-42	-42	-	-57	-57	-
<b>Net deferred tax balances</b>	<b>710</b>	<b>505</b>	<b>205</b>	<b>778</b>	<b>498</b>	<b>280</b>

The net of deferred tax liabilities and assets for the years ended 31 December 2012 and 2011 are summarized below:

Movement in deferred tax liabilities, net	2012	2011
Opening balance, net	-280	-180
Deferred tax expense/income in the Income statement	51	46
Deferred tax in other comprehensive income	-8	-143
Acquisitions/disposals of subsidiaries	-	-
Translation differences	32	-3
<b>Closing balance, net</b>	<b>-205</b>	<b>-280</b>

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, 2012 the Group's non-recognized deductible temporary differences are in total 15 MSEK whereof non-recognized tax losses carried forward are 3 MSEK. The table below shows the amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2013	3
2014	-
Subsequent years or no time limitation	47
<b>Total tax losses carried forward recognized</b>	<b>47</b>
<b>Total tax losses carried forward not recognized</b>	<b>3</b>

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended 31 December 2012 and 2011 is as follows:

Reconciliation of effective tax rate	2012		2011	
	%	MSEK	%	MSEK
<b>Accounting profit before income tax</b>		<b>3,511</b>		<b>3,180</b>
<b>Swedish statutory tax rate</b>	<b>26.3</b>	<b>923</b>	<b>26.3</b>	<b>836</b>
Effect of tax rates in foreign jurisdictions	-3.4	-120	-2.5	-81
Results from associated companies reported net of tax	-2.5	-87	-2.7	-86
Current income tax in respect of prior years	-0.7	-24	0.2	6
Income not subject to tax	-1.4	-50	-1.5	-47
Expenses not deductible for tax purposes	0.3	11	0.5	15
Utilization of previously unrecognized tax losses	-0.1	-3	0.0	0
Effect of enacted change of tax rate	-1.3	-46	-	-
Other items	0.0	0	0.0	-1
<b>Reported effective tax</b>	<b>17.2</b>	<b>604</b>	<b>20.2</b>	<b>642</b>

Sweden has, effective from 1 January 2013, reduced the corporate tax rate from 26.3 percent to 22 percent. The relevant deferred tax balances at year end 2012 have been re-measured with a positive impact of 46 MSEK.

## 10. Earnings per share

Basic	2012	2011
Profit for the year attributable to equity holders of the Parent	2,906	2,538
<b>Weighted average number of shares outstanding, basic</b>	<b>202,888,955</b>	<b>209,001,190</b>
<b>Diluted</b>	<b>2012</b>	<b>2011</b>
Profit for the year attributable to equity holders of the Parent	2,906	2,538
Weighted average number of shares outstanding, basic	202,888,955	209,001,190
Effect of issued options	1,106,084	1,295,728
<b>Weighted average number of shares outstanding, diluted</b>	<b>203,995,039</b>	<b>210,296,918</b>
<b>Earnings per share</b>	<b>2012</b>	<b>2011</b>
Basic	14.33	12.14
Diluted	14.25	12.07

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 2012. As of December 31, 2012 the Company has call options corresponding to 2.3 million shares outstanding. These call options can be exercised in gradual stages between 2013 and 2015 at exercise prices varying between 141.24 SEK and 197.45 SEK. For a table detailing options outstanding at December 31, 2012, see Note 5 Personnel.

# 11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets <sup>1)</sup>		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Cost at beginning of year</b>	<b>619</b>	<b>620</b>	<b>992</b>	<b>988</b>	<b>108</b>	<b>86</b>	<b>1,719</b>	<b>1,694</b>
Purchases/investments	-	-	-	-	48	22	48	22
Acquisitions	-	-	-	-	-	-	-	-
Divestments	-	-	-	-	-	0	-	0
Sales/disposals	-	-	-	-	-1	-	-1	-
Translation differences, etc.	-23	-1	-17	4	0	0	-40	3
<b>Cost at end of year</b>	<b>596</b>	<b>619</b>	<b>976</b>	<b>992</b>	<b>154</b>	<b>108</b>	<b>1,726</b>	<b>1,719</b>
<b>Accumulated amortization and impairment losses at beginning of year</b>	<b>-39</b>	<b>-39</b>	<b>-650</b>	<b>-599</b>	<b>-38</b>	<b>-28</b>	<b>-727</b>	<b>-667</b>
Amortization for the year	-	-	-39	-47	-11	-10	-50	-57
Companies divested	-	-	-	-	-	0	-	0
Sales/disposals	-	-	-	-	1	-	1	-
Translation differences, etc.	-	-	12	-4	0	0	12	-4
<b>Accumulated amortization and impairment losses at end of year</b>	<b>-39</b>	<b>-39</b>	<b>-677</b>	<b>-650</b>	<b>-48</b>	<b>-38</b>	<b>-764</b>	<b>-727</b>
<b>Net carrying value at end of year</b>	<b>557</b>	<b>580</b>	<b>299</b>	<b>343</b>	<b>106</b>	<b>69</b>	<b>962</b>	<b>992</b>

<sup>1)</sup> Other intangible assets mainly consist of software and licenses.

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 charges has been charged to the income statement as stated below;

	Amortization	
	2012	2011
Cost of goods sold	-1	-1
Selling expenses	-41	-49
Administrative expenses	-7	-6
<b>Total</b>	<b>-50</b>	<b>-57</b>

## 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 product 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 2012 testing is based on the budget for 2013. Sales growth and cost structure, which are considered 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 calculated 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 calculation of discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill was tested for impairment in 2012, the value in use exceeded the carrying values for all cash generating units. For the cigars and chewing tobacco operations and the match and lighter operations, which represent a majority of the Group's goodwill, a conservative terminal growth rate of 1 percent (1) and 1 percent (1) respectively has been applied to calculate the cash flows after the explicit forecasting period. 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.

Cash generating unit	Operating segment	Goodwill in cash generating units			
		Pre-tax WACC 2012, %	2012	Pre-tax WACC 2011, %	2011
US cigars and chewing tobacco operations	Other tobacco products	6.2	326	7.5	351
Match and lighter operations	Lights	13.9	170	15.2	170
US snuff operations	Snus and snuff	6.1	62	9.3	59
<b>Total</b>			<b>557</b>		<b>580</b>

## 12. Property, plant and equipment

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

	Buildings and land <sup>1)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>2)</sup>	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>Cost at beginning of year</b>	<b>990</b>	<b>901</b>	<b>2,971</b>	<b>2,755</b>	<b>724</b>	<b>650</b>	<b>93</b>	<b>362</b>	<b>4,779</b>	<b>4,668</b>
Purchases/investments	2	92	54	190	51	88	119	-148	226	221
Acquisitions	-	-	-	-	-	-	-	-	-	-
Divestments	-	-2	-	-4	-	0	-	-1	-	-7
Sales/disposals	0	-2	-36	-74	-172	-10	0	-1	-208	-87
Reclassifications <sup>3)</sup>	7	7	68	113	1	1	-78	-120	-2	0
Translation differences, etc.	-25	-4	-102	-9	-3	-4	-2	0	-132	-17
<b>Cost at end of year</b>	<b>975</b>	<b>990</b>	<b>2,955</b>	<b>2,971</b>	<b>601</b>	<b>724</b>	<b>132</b>	<b>93</b>	<b>4,663</b>	<b>4,779</b>
<b>Accumulated depreciation and impairment losses at beginning of year</b>	<b>-358</b>	<b>-338</b>	<b>-1,973</b>	<b>-1,901</b>	<b>-497</b>	<b>-458</b>	<b>0</b>	<b>0</b>	<b>-2,828</b>	<b>-2,697</b>
Depreciation for the year	-26	-24	-164	-158	-54	-51	-2	-	-246	-233
Impairment losses during year	-	-	-	-	-	-	-	-	-	-
Divestments	-	0	-	3	-	0	-	0	-	4
Sales/disposals	0	2	33	73	169	9	-	-	203	85
Reclassifications <sup>3)</sup>	-	-	0	0	0	0	-	-	-	0
Translation differences, etc	14	1	78	9	3	4	0	0	94	13
<b>Accumulated depreciation and impairment losses at end of year</b>	<b>-371</b>	<b>-358</b>	<b>-2,026</b>	<b>-1,973</b>	<b>-378</b>	<b>-497</b>	<b>-2</b>	<b>0</b>	<b>-2,777</b>	<b>-2,828</b>
<b>Net carrying value at end of year</b>	<b>604</b>	<b>632</b>	<b>929</b>	<b>998</b>	<b>223</b>	<b>228</b>	<b>129</b>	<b>92</b>	<b>1,885</b>	<b>1,950</b>

<sup>1)</sup> Buildings and land include land and land improvements at a book value of 104 MSEK (111).

<sup>2)</sup> Total property, plant and equipment exclude forest plantation.

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

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 246 MSEK (233) was charged to cost of goods sold in the income statement in an amount of 195 MSEK (183), to administrative expenses of 12 MSEK (11), and to selling expenses of 39 MSEK (40).

## 13. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2012	2011
Carrying value at beginning of year	125	126
Purchases/investments/new planting	25	24
Sales/disposals during the year	-	-
Change in fair value	3	-3
Transfer to inventories	-9	-9
Translation differences, etc.	-19	-12
<b>Carrying value at end of year</b>	<b>125</b>	<b>125</b>

The Group's forest plantations comprise poplar and pine forests with a total area of 5,800 hectares at December 31, 2012. 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 2012 had an estimated value of 9 MSEK at the time of felling, and made up 85,000 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 2012 had a negative effect of 7 MSEK on fair value, while higher market prices for timber had a positive effect of 10 MSEK on fair value.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2012, 166 hectares (98) 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 Road Cargo Sweden Holding AB. Through its subsidiaries, the company provides road transportation services with Swedish Match Distribution AB as a major client.

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

Associates	2012	2011
Carrying value at beginning of year	4,478	4,079
Investments in associated companies	0	0
Share of net profit/loss in associated companies	377	357
Share of other comprehensive income in associated companies	-90	90
Dividends from associated companies	-218	-3
Translation differences	-196	-45
<b>Carrying value at end of year</b>	<b>4,351</b>	<b>4,478</b>

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

Country (share of ownership) (MSEK)	Road Cargo Sweden Holding AB		Arnold André GmbH & Co. KG		Malaysian Match Co. SDN. BHD.		Scandinavian Tobacco Group A/S		Total	
	Sweden (49%)		Germany (40%)		Malaysia (32%)		Denmark (49%)		2012	2011
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Sales	134	11	294	249	29	24	3,426	3,235	3,883	3,519
Profit/Loss (excluding other comprehensive income)	1	0	9	18	1	2	366	337	377	357
Assets	48	52	203	184	14	15	7,868	8,184	8,133	8,435
Liabilities	46	52	105	82	5	5	3,087	3,278	3,242	3,416
<b>Equity interest</b>	<b>1</b>	<b>1</b>	<b>98</b>	<b>102</b>	<b>10</b>	<b>10</b>	<b>4,781</b>	<b>4,906</b>	<b>4,890</b>	<b>5,018</b>
Goodwill	-	-	-	-	3	3	-	-	3	3
Deferred capital gain net of transaction costs	-	-	-	-	-	-	-543	-543	-543	-543
<b>Carrying value at end of year</b>	<b>1</b>	<b>1</b>	<b>98</b>	<b>102</b>	<b>13</b>	<b>13</b>	<b>4,238</b>	<b>4,362</b>	<b>4,351</b>	<b>4,478</b>

### 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 venture agreement is a 50 percent holding of SMPM International. Swedish Match share of the net loss for 2012 was 40 MSEK (30).

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

Joint ventures	2012	2011
Carrying value at beginning of year	3	6
Investment in joint ventures	40	28
Net loss of joint ventures	-40	-30
<b>Carrying value at end of year</b>	<b>3</b>	<b>3</b>

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

	2012	2011
Sales	3	1
Expenses	-43	-31
<b>Loss</b>	<b>-40</b>	<b>-30</b>
Total assets	18	14
Total liabilities	15	10
<b>Equity interest</b>	<b>3</b>	<b>3</b>

### 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 29 MSEK (35). Total sales to associated companies and joint ventures amounted to 181 MSEK (171). Payables to these companies totaled 8 MSEK (30). Total purchases from associated companies and joint ventures amounted to 78 MSEK (139).

## 15. Other non-current receivables and other receivables

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

Non-current receivables	2012	2011
Non-current financial receivables	282	340
Net assets in pension plans	65	67
Other non-current receivables	83	209
<b>Total</b>	<b>429</b>	<b>617</b>

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 subsidiary.

Other current receivables at December 31 comprised the following items:

Other current receivables	2012	2011
Current financial receivables	11	9
VAT receivables	18	11
Other current receivables	73	66
<b>Total</b>	<b>102</b>	<b>86</b>

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:

Inventories	2012			2011		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	499	-	499	535	-	535
Work in progress	40	-	40	42	-	42
Leaf tobacco	313	234	548	314	254	568
Other input materials and consumables	201	-	201	195	-	195
<b>Total</b>	<b>1,054</b>	<b>234</b>	<b>1,288</b>	<b>1,085</b>	<b>254</b>	<b>1,339</b>

During 2012, 25 MSEK of inventory write-downs have been expensed.

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

## 17. Trade receivables

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

Trade receivables	2012	2011
Trade receivables	1,578	1,416
Less provision for impairment of trade receivables	-25	-18
<b>Net total</b>	<b>1,554</b>	<b>1,398</b>

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

Trade receivable provision	2012	2011
<b>Carrying value at beginning of year</b>	<b>-18</b>	<b>-21</b>
Provision	-15	-9
Recovery	6	9
Write-off	0	2
Companies divested	0	0
Translation differences, other deductions or additions, etc.	2	1
<b>Carrying value at end of year</b>	<b>-25</b>	<b>-18</b>

As of December 2012, trade receivables of 32 MSEK (37) were past due but not impaired. The aging of these trade receivables is as follows:

Aging of trade receivables	2012	2011
Current	1,522	1,360
Overdue < 31 days	24	28
Overdue 31-60 days	5	6
Overdue > 60 days	3	3
<b>Total</b>	<b>1,554</b>	<b>1,398</b>

Swedish Match does not generally hold collateral against trade receivable. The Group has a diverse customer base and the customer concentration level is insignificant. The ten largest customers represent 41 percent (39) 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

Cash and cash equivalents	2012	2011
Cash and bank	2,824	2,533
<b>Total</b>	<b>2,824</b>	<b>2,533</b>

# 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 propose a dividend of 7.30 SEK, equivalent to 51 percent of the earnings per share for the year, excluding larger one time items. Based on the number of shares outstanding at the end of the year, the total proposed dividend amounts to 1,456 MSEK. Dividend for 2011, paid in 2012, amounted to 1,334 MSEK corresponding to 6.50 per share, which is equivalent to 54 percent of the earnings per share for the year.

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)	
	2012	2011	2012	2011
<b>Balance at beginning of year</b>	<b>8,828</b>	<b>16,203</b>	<b>-20,702</b>	<b>-18,398</b>
Repurchase of own shares during the year	7,440	11,149	-1,946	-2,371
Stock options exercised during the year	-2,676	-524	414	67
Allocated to retained earnings by cancellation of shares	-7,000	-18,000	13	30
Bonus issue	-	-	-13	-30
<b>Balance at end of year</b>	<b>6,592</b>	<b>8,828</b>	<b>-22,234</b>	<b>-20,702</b>

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 216.9 million shares and the total number of cancellation of shares amounts to 197.9 million shares. Total number of shares sold as a result of option holders exercising options amounts to 12.3 million shares.

The Annual General Meeting on May 2, 2012 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 7 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 12.8 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 206.0 million shares with a quotient value of 1.8909 SEK.

During the year 7.4 million shares were repurchased for 1,946 MSEK at an average price of 261.61 SEK. As at December 31, 2012 Swedish Match held 6.6 million shares in its treasury, corresponding to 3.20 percent of the total number of shares. During the year the Company has sold 2.7 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 199.4 million. In addition, the Company has call options outstanding at year end corresponding to 2.3 million shares exercisable in gradual stages from 2013–2015.

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

2011	Hedge reserve	Translation reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-34</b>	<b>26</b>	<b>2</b>
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 <sup>1)</sup>	6	-	-
<b>Balance at end of year</b>	<b>-49</b>	<b>-31</b>	<b>2</b>

2012	Hedge reserve	Translation reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-49</b>	<b>-31</b>	<b>2</b>
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	-365	0
Translation differences included in profit and loss	-	-3	-
Effective portion of changes in fair value cash flow hedges	-16	-	-
Income tax relating to components of other comprehensive income <sup>1)</sup>	1	-	-
<b>Balance at end of year</b>	<b>-65</b>	<b>-400</b>	<b>2</b>

<sup>1)</sup> For further details on tax components relating to the various other comprehensive income items, 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 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	2012	2011
2012	-	1
2013	6	1,160
2014	1,220	1,266
2015	1,998	1,997
2016	651	453
2017	2,998	3,111
2018 and later	2,365	547
<b>Total</b>	<b>9,238</b>	<b>8,535</b>

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

Current interest-bearing liabilities	2012	2011
Current portion of non-current loans	1,107	1,281
Bank overdraft facilities utilized	12	2
<b>Total</b>	<b>1,119</b>	<b>1,283</b>

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	2012	2011
Defined benefit plans, net liabilities	639	598
Post-employment medical benefits, net liabilities	736	844
Other long-term employee benefits, net liabilities	7	7
<b>Provision for pensions and similar obligations</b>	<b>1,382</b>	<b>1,449</b>
Defined benefit plans, net assets	-65	-67
<b>Included in non-current receivables</b>	<b>-65</b>	<b>-67</b>
<b>Net post-employment liability</b>	<b>1,317</b>	<b>1,382</b>

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

Post-employment defined benefits	Defined benefit pension plans		Post-employment medical benefits	
	2012	2011	2012	2011
Present value of funded obligations	2,373	2,242	-	-
Fair value of plan assets	-1,896	-1,808	-	-
<b>Deficit (+)/Surplus (-), net</b>	<b>477</b>	<b>434</b>	<b>-</b>	<b>-</b>
Present value of unfunded obligations	82	81	736	843
Unrecognized past service costs	-	-	0	1
Unrecognized assets due to recoverability limit	15	15	-	-
<b>Net asset (-)/liability (+) in the balance sheet</b>	<b>574</b>	<b>530</b>	<b>736</b>	<b>844</b>
<b>Amounts in the balance sheet</b>				
Liabilities	639	598	736	844
Assets	-65	-67	-	-
<b>Net asset (-)/liability (+) in the balance sheet</b>	<b>574</b>	<b>530</b>	<b>736</b>	<b>844</b>

### 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 2012 as well as 2011, was characterized by an overall decrease in discount rates. Consequently, 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):

Actuarial assumptions	Defined benefit pension plans		Post-employment medical benefits	
	2012	2011	2012	2011
Discount rate, %	3.9	4.5	3.9	4.5
Expected return on plan assets, %	6.7	7.0	-	-
Future salary increases, %	3.3	3.2	3.3	3.1
Future pension increases, %	2.4	2.7	-	-
Medical cost trend rate, %	-	-	8.0	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 12 MSEK (11) and the defined benefit obligation by 108 MSEK (75). A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 9 MSEK (9) and the defined benefit obligation by 88 MSEK (95).

**Change in the defined benefit obligations and plan assets**

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

Defined benefit obligations	Defined benefit pension plans		Post-employment medical benefits	
	2012	2011	2012	2011
<b>Balance at beginning of year</b>	<b>2,323</b>	<b>2,124</b>	<b>843</b>	<b>704</b>
Current service cost	46	40	34	30
Interest cost	105	103	36	34
Contributions by plan participants	-	-	2	2
Actuarial losses (+)/gains (-)	210	124	-111	108
Benefits paid	-121	-114	-25	-29
Settlements (liability)	-	6	-	-24
Translation differences	-108	40	-44	18
<b>Balance at end of year</b>	<b>2,455</b>	<b>2,323</b>	<b>736</b>	<b>843</b>

During 2012 the actuarial losses on the defined benefit obligation amounts to 98 MSEK in total. Main reason behind the actuarial losses are the lower discount rates used to value the obligations. For the post-employment medical plan in the US an actuarial gain of 25 MUSD has been recognized following the move to a fully insured plan for members of 65 years of age or more. This gain is partly offset by the effect from lower discount rates.

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

Plan assets	Defined benefit pension plans		Post-employment medical benefits	
	2012	2011	2012	2011
<b>Fair value at beginning of year</b>	<b>1,808</b>	<b>1,845</b>	<b>0</b>	<b>0</b>
Expected return on plan assets	119	117	-	-
Actuarial losses (-)/gains (+)	74	-154	-	-
Employer contributions	86	94	23	27
Employee contributions	-	-	2	2
Benefits paid	-120	-114	-25	-29
Assets distributed on settlements	-	-6	-	-
Translation differences	-71	25	-	-
<b>Fair value at end of year</b>	<b>1,896</b>	<b>1,808</b>	<b>0</b>	<b>0</b>

The actual return on plan assets in 2012 amounted to 180 MSEK compared to a negative return in 2011 of 36 MSEK.

Plan assets at December 31 are comprised as follows:

Plan assets	2012	2011
Equity securities	799	771
Debt instruments	484	468
Real estate	57	54
Other	556	515
<b>Total</b>	<b>1,896</b>	<b>1,808</b>

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

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2012	2011	2012	2011
Current service costs	46	40	34	30
Interest on obligation	105	103	36	34
Expected return on plan assets	-119	-117	-	-
Recognized past service costs	-	6	0	0
Gain on curtailments	-	-	-	-24
Cost for settlement	-	6	-	-
<b>Net income (-)/expense (+) reported in the income statement</b>	<b>32</b>	<b>37</b>	<b>70</b>	<b>40</b>

During 2011 a curtailment gain has been recognized in the profit and loss in an amount of 24 MSEK relating to post employment medical plan in US.

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2012	2011	2012	2011
Cost of goods sold	14	12	15	13
Administrative expenses	-26	-12	4	-20
Selling expenses	20	18	15	13
Interest income	-2	-1	-	-
Interest expense	26	19	37	35
<b>Net income(-)/expense(+) reported in the income statement</b>	<b>32</b>	<b>37</b>	<b>70</b>	<b>40</b>

**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 <sup>1)</sup>	2012	2011
<b>Cumulative actuarial losses (+)/gains (-), beginning of year</b>	<b>1,004</b>	<b>588</b>
Actuarial losses (+)/gains (-) during year	23	386
Translation differences	-51	30
<b>Cumulative losses (+)/gains (-), end of year</b>	<b>976</b>	<b>1,004</b>

<sup>1)</sup> 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, 2013 amounts to 112 MSEK (126).

**Five year summary**

Historical information	2012	2011	2010	2009	2008
Present value of funded defined benefit obligations	2,373	2,242	2,025	4,405	4,180
Fair value of plan assets	-1,896	-1,808	-1,845	-4,197	-3,908
<b>Deficit (+)/surplus (-)</b>	<b>477</b>	<b>434</b>	<b>180</b>	<b>208</b>	<b>272</b>
Present value of unfunded obligations	818	924	803	804	730
<b>Total net post-employment asset (-)/liability (+)</b>	<b>1,295</b>	<b>1,358</b>	<b>983</b>	<b>1012</b>	<b>1002</b>
Experience adjustments on plan liabilities losses (-)/gains (+)	7	-56	-185	-54	-35
Experience adjustments on plan assets losses (-)/gains (+)	74	-154	139	252	-768

**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 102 MSEK (101).

**Multi-employer insurance plan**

In Sweden there is a multi-employer insurance plan which arised 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.

## 22. Provisions

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

Non-current provisions	2012	2011	Current provisions	2012	2011
Income tax	74	93	Restructurings	1	0
Restructurings	-	0	Other operating provisions	102	83
Other operating provisions	34	169	<b>Total current provisions</b>	<b>102</b>	<b>84</b>
Deferred compensation	281	250	<b>Total provisions</b>	<b>606</b>	<b>656</b>
Other provisions	115	60			
<b>Total non-current provisions</b>	<b>504</b>	<b>572</b>			

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other provisions	Total
<b>Carrying value at beginning of year</b>	<b>93</b>	<b>1</b>	<b>252</b>	<b>250</b>	<b>60</b>	<b>656</b>
Provisions made during the year	9	0	32	87	14	142
Provisions used during the year	-	0	-141	-29	-1	-172
Provisions reversed during the year and changes in estimates	-21	-	-5	0	-45	-71
Reclassifications	-	0	15	-16	87	86
Translation differences, etc.	-8	0	-17	-10	-	-35
<b>Carrying value at end of year</b>	<b>74</b>	<b>1</b>	<b>136</b>	<b>281</b>	<b>115</b>	<b>606</b>

### 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 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 employees 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	2012	2011
Non-interest bearing non-current liabilities	15	17
Non-current financial liabilities, derivatives	473	321
<b>Total</b>	<b>488</b>	<b>338</b>

Other current liabilities at December 31 comprised the following:

Other current liabilities	2012	2011
Tobacco taxes	1,129	1,235
VAT liabilities	364	382
Current financial liabilities, derivatives	85	33
Other	42	135
<b>Total</b>	<b>1,619</b>	<b>1,786</b>

## 24. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2012	2011
Accrued wage/salary-related expenses	152	199
Accrued vacation pay	59	56
Accrued social security charges	58	57
Accrued interest	215	198
Other	312	305
<b>Total</b>	<b>796</b>	<b>815</b>

## 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

	2012			2011		
	Nominal	Assets	Liability	Nominal	Assets	Liability
Currency derivatives	5	-	0	207	-	0
Interest-rate derivatives*	8,863	38	507	8,687	62	313
<b>Total</b>	<b>8,868</b>	<b>38</b>	<b>507</b>	<b>8,894</b>	<b>62</b>	<b>313</b>
<b>*Of which hedge accounting</b>						
<i>Cash flow risk in financing</i>						
Cash flow hedges <sup>1)</sup>	6,104	-	476	6,846	-	279

<sup>1)</sup> The instruments are cross currency and interest rate swaps. There are no conditions in these transactions that can cause any significant differences in the hedging relation between these derivatives and their underlying liabilities.

### 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 (translation 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 2 MSEK (11) in operating income and losses of 3 MSEK (1) in net finance cost.

### Transaction exposure

For the Group as a whole, there is a balance between inflows and outflows in the major currencies EUR and USD, which effectively limits the Group's transaction exposure. Limited transaction exposure arises when certain of the Group's production units in 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 1,250 MSEK on an annual basis. It is divided as following; 890 MSEK in NOK (71 percent), 120 MSEK in USD (10 percent), 70 MSEK in PHP (6 percent), 70 MSEK in GBP (6 percent), 30 MSEK in EUR (2 percent), 30 MSEK in JPY (2 percent) and in other currencies 40 MSEK (3 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, 2012, no transaction exposure for 2013 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 125 MSEK (90), which of 89 in NOK, 12 in USD, 7 in PHP, 7 in GBP, and 9 in other currencies for the year ending December 31, 2012.

### 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 1,445 MSEK in USD (68 percent), 378 MSEK in BRL (18 percent), 208 MSEK in EUR (10 percent) and in other currencies 94 MSEK (4 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 210 MSEK, which of 140 in USD, 40 in BRL, 20 in EUR, and 10 in other currencies based on the exposure at December 31, 2012.

### 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, 2012, the average interest maturity period for Group loans was 3,5 years (3,6 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2012 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2013	1,113		1,113	
2014	577	644	1,006	215
2015	1,998		1,998	
2016	651		651	
2017	2,998		2,998	
2018–	2,017	347	2,017	347
<b>Total</b>	<b>9,354</b>	<b>991</b>	<b>9,783</b>	<b>562</b>

At December 31, 2012, a general rise of 1 percent (100bp) in interest rates was estimated to increase consolidated earnings before tax by approximately 23 MSEK (20) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 9,289 MSEK (8,886). 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 224 MSEK (206).

### 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, however, take place, 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 being dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of 160 MEUR, which matures in January 2016. This was unutilized at year-end and contained no financial covenants. At year-end 2012, available cash funds and committed credit facilities amounted to 4,197 MSEK. Of this amount, confirmed credit lines amounted to 1,373 MSEK and cash and cash equivalents making up the remaining 2,824 MSEK.

Most of Swedish Match's financing consists of a global medium-term note program (MTN) with a limit amount of 1,500 MEUR. The program is an uncommitted borrowing program and the availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2012, a total of 10,324 MSEK of the global program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2012 was 3,7 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
2013	1,529	195	648	2,372	1,966
2014	1,562	156		1,718	1,319
2015	2,333	67		2,400	2,063
2016	881	66		947	717
2017	3,189	375		3,564	3,057
2018-	2,503	90		2,593	2,378
<b>Total</b>	<b>11,997</b>	<b>949</b>	<b>648</b>	<b>13,594</b>	<b>11,500</b>

Under the global MTN program, Swedish Match has issued bonds in EUR and SEK. Borrowing in EUR is hedged by currency swaps and currency interest rate swaps. The average interest cost for outstanding borrowings (including derivative instruments) on December 31, 2012 was 4.8 percent (4.9).

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 units. 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 2012.

	2012			
	Jan 1	Change of Market Value	Allocated to Earnings	Dec 31
Hedging instruments, derivatives	-67	-16	-	-83
<b>Total</b>	<b>-67</b>	<b>-16</b>	<b>-</b>	<b>-83</b>

	2011			
	Jan 1	Change of Market Value	Allocated to Earnings	Dec 31
Hedging instruments, derivatives	-46	-21	0	-67
<b>Total</b>	<b>-46</b>	<b>-21</b>	<b>0</b>	<b>-67</b>

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.

	2013	2014	2015	2016	2017	2018-
Interest payment for loans	302	244	219	218	218	146
Market-value derivatives	-22	-24	-11	-11	-10	-5

#### Fair value hedges

At yearend there were no fair value hedges outstanding.

#### 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, 2012, the average interest maturity for the Group's current investments was approximately 0,1 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, 2012, credit exposure in derivative instruments amounted to 28 MSEK, and credit exposure in cash and deposits at banks amounted to 2,824 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 1,554 MSEK (1,398). For more information see *Note 17 Trade receivables*.

#### Credit ratings

At December 31, 2012, 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, 2012. Items carried at fair value via the income statement consists of derivatives, for which hedge accounting is not applied. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loan and borrowings differ from their fair value as a consequence of changes in the market interest rates.

Swedish Match applies to IFRS 7 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3 – Inputs that are not based on observable market data.

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. To determine the fair value of those financial assets and liabilities, current official market quotations for similar instruments have been used for discounting future cash flows. The values presented are indicative and may not necessarily be realized.

2012	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	1,554	-	-	-	1,554	1,554
Non-current receivables	28	-	-	4	397 <sup>2)</sup>	429	429
Other receivables	0	-	-	5	97	102	102
Prepaid expenses and accrued income	10	-	-	-	60	70	70
Cash and cash equivalents	-	2,824	-	-	-	2,824	2,824
<b>Total assets</b>	<b>38</b>	<b>4,378</b>	<b>-</b>	<b>9</b>	<b>554</b>	<b>4,979</b>	<b>4,979</b>
Loans and borrowings	-	-	10,357	-	-	10,357	11,445 <sup>1)</sup>
Other liabilities	23	-	7	534	1,543	2,107	2,107
Accrued expenses and deferred income	-	-	194	21	581	796	796
Trade payables	-	-	635	-	-	635	635
<b>Total liabilities</b>	<b>23</b>	<b>-</b>	<b>11,193</b>	<b>555</b>	<b>2,124</b>	<b>13,895</b>	<b>14,983</b>

2011	Items carried at fair value via the income statement	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	541 <sup>2)</sup>	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
<b>Total assets</b>	<b>876</b>	<b>3,124</b>	<b>-</b>	<b>18</b>	<b>692</b>	<b>4,710</b>	<b>4,710</b>
Loans and borrowings	-	-	9,818	-	-	9,818	10,252 <sup>1)</sup>
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
<b>Total liabilities</b>	<b>27</b>	<b>-</b>	<b>10,642</b>	<b>360</b>	<b>2,379</b>	<b>13,408</b>	<b>13,842</b>

<sup>1)</sup> The estimated fair value is the revaluation of the loans and borrowings to the fair values based on the market rates for December 31, 2012 and 2011.

<sup>2)</sup> Includes shares in other companies amounting to 13 MSEK (16) that are classified as available for sale, measured at cost.

## 26. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2012 amounted to 47 MSEK (45).

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	2012	2011
Within one year	44	45
Between 1–5 years	80	97
Later than 5 years	24	29
<b>Total</b>	<b>148</b>	<b>172</b>

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

## 27. Pledged assets

### Pledged assets

As per December 31, 2012 the Group had 42 MSEK (35) 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	2012	2011
Guarantees on behalf of subsidiaries	51	52
Guarantees to associated companies	52	61
Other guarantees and contingent liabilities	139	170
<b>Total</b>	<b>242</b>	<b>282</b>

### 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

Swedish Match sold two parcels of land adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. For one of these parcels of land the approval was received in January 2013, and Swedish Match will as a result receive an additional payment of approximately 150 MSEK in the first half of 2013. There is a contingent additional purchase price also for the second parcel of land. At this time it is not possible to provide a meaningful estimate of what this amount could be.

## 29. Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2012	2011
SM Treasury SEK SA	Belgium	100	100
SM Treasury EUR SA <sup>2)</sup>	Belgium	-	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 Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	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
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 AB	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA <sup>3)</sup>	Switzerland	-	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

<sup>1)</sup> The designation includes both directly and indirectly owned companies. Dormant companies are not included.

<sup>2)</sup> Company merged into SM Treasury SEK SA.

<sup>3)</sup> 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	2012	2011
Interest received	36	35
Interest paid	-497	-479
<b>Total</b>	<b>-461</b>	<b>-444</b>

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

Adjustments for non cash items and other	2012	2011
Depreciation and amortization	296	290
Share of profits/loss in associated companies and joint ventures	-337	-327
Dividend received from associated companies and joint ventures	218	14
Capital gain/loss from sale of non-current assets	0	0
Capital gain on divested company	-30	-1
Change in defined benefit plans	-8	-43
Change in accrued interest	20	8
Change in market value revaluations and unrealized exchange rate differences	-8	88
Realized exchange rate differences moved to financing	8	-94
Other	-15	-8
<b>Total</b>	<b>145</b>	<b>-73</b>

### Investments in associated companies, joint ventures and other companies

Investments in joint ventures during 2012 pertain to investment of 40 MSEK in SMPM International. During 2011, investments in joint ventures pertain to investments of 28 MSEK in SMPM International, 1 MSEK of investment in VMSM Holding AB and to an investment of 4 MSEK in Secure Vending AB. For further information see *Note 14 Investments in associated companies and joint ventures*.

No acquisitions of subsidiaries have been made during 2012 or 2011.

### Divestment of subsidiaries

The cash flow from sale of subsidiaries during 2012 includes an additional payment of purchase price of 5 MSEK relating to divestment of Swedish Match UK during 2008 and 3 MSEK relating to the divestment of Swedish Match Bulgaria DA during 2011. 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.

Divestments of subsidiaries	2012	2011
<b>Divested assets and liabilities</b>		
Intangible fixed assets	-	0
Tangible fixed assets	-	3
Inventories	-	8
Trade receivables	-	4
Other receivables	-	1
Cash and cash equivalents	-	3
<b>Total assets</b>	<b>-</b>	<b>18</b>
Accounts payable	-	-1
Non-current financial liabilities	-	-1
Other liabilities	-	-6
<b>Total liabilities</b>	<b>-</b>	<b>-7</b>
<b>Divested assets, net</b>	<b>-</b>	<b>12</b>
<b>Net purchase price consideration received</b>	<b>-</b>	<b>6</b>
Less transaction costs relating to divested operations	-	0
Less cash and cash equivalents in divested operations	-	-3
<b>Effect on cash and cash equivalents</b>	<b>-</b>	<b>3</b>

## 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. Subsequent events

Swedish Match sold a parcel of land adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. This approval has been received in January 2013, and Swedish Match will as a result receive an additional payment of approximately 150 MSEK in the first half of 2013.

## 33. 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 2012 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	2012	2011
Sales	1	87	51
Administrative expenses	2, 7, 8, 24	-249	-165
Other operating income and expenses	3	0	-1
<b>Operating loss</b>		<b>-162</b>	<b>-115</b>
Result from participation in Group companies	4	6,405	2,974
Result from participation in joint venture	4	-	-12
Interest income from receivables carried as non-current assets	4	-	133
Interest income and similar items	4	2	0
Interest expenses and similar items	4	-1,428	-1,330
<b>Profit after financial items</b>		<b>4,817</b>	<b>1,650</b>
Appropriations	5	-136	-124
<b>Profit before income tax</b>		<b>4,681</b>	<b>1,526</b>
Income tax expense	6	-95	-107
<b>Profit for the year</b>		<b>4,586</b>	<b>1,419</b>

## Parent Company statement of comprehensive income

MSEK	Note	2012	2011
<b>Profit for the year</b>		<b>4,586</b>	<b>1,419</b>
<i>Other comprehensive income</i>			
Effective portion of changes in fair value of cash flow hedges		-16	-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	6	1	6
<b>Other comprehensive income, net of tax for the year</b>		<b>-16</b>	<b>-16</b>
<b>Total comprehensive income for the year</b>		<b>4,571</b>	<b>1,403</b>

## Parent Company balance sheet

MSEK	Note	December 31, 2012	December 31, 2011
<b>Assets</b>			
Intangible assets	7	95	58
Tangible assets	8	1	2
<b>Non-current financial assets</b>			
Participations in Group companies	9	51,258	49,234
Other non-current receivables	10	69	109
Deferred income tax assets	6	30	30
<b>Total non-current financial assets</b>		<b>51,357</b>	<b>49,373</b>
<b>Total non-current assets</b>		<b>51,452</b>	<b>49,433</b>
<b>Current assets</b>			
Receivables on Group companies		2,297	2,051
Receivables on associated companies		1	2
Receivables on joint venture		0	1
Current income tax receivables	6	-	88
Other receivables	11	10	3
Prepaid expenses and accrued income	12	24	27
<b>Total current assets</b>		<b>2,332</b>	<b>2,172</b>
<b>TOTAL ASSETS</b>		<b>53,784</b>	<b>51,605</b>
<b>Equity</b>			
Restricted equity	13		
Share capital, 206,000,000 shares at 1.8909 and 213 000 000 at 1.8287 respectively		390	390
Unrestricted equity			
Hedge reserve		-65	-49
Retained earnings		16,319	17,766
Profit for the year		4,586	1,419
<b>Total equity</b>		<b>21,230</b>	<b>19,525</b>
<b>Untaxed reserves</b>	14	<b>260</b>	<b>124</b>
Other provisions	15	92	71
<b>Total provisions</b>		<b>92</b>	<b>71</b>
<b>Non-current liabilities</b>			
Bond loans	16	9,238	8,535
Liabilities to Group companies	17	18,101	18,101
Other liabilities	18	475	324
<b>Total non-current liabilities</b>		<b>27,814</b>	<b>26,960</b>
<b>Current liabilities</b>			
Bond loans		1,107	1,281
Trade payables		16	17
Liabilities to Group companies		2,914	3,348
Liabilities to associated companies		-	3
Current income tax liabilities	6	5	-
Other liabilities		100	49
Accrued expenses and deferred income	19	248	225
<b>Total current liabilities</b>		<b>4,388</b>	<b>4,924</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>53,784</b>	<b>51,605</b>
Pledged assets	20	39	33
Contingent liabilities	20	103	112

## Statement of changes in Parent Company equity

2011	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Hedge reserve	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	13	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
<b>Total comprehensive income for the year</b>		-	-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	-	-
<b>Equity at end of year</b>		390	-49	17,766	1,419	19,525

2012	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Hedge reserve	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	13	390	-49	17,766	1,419	19,525
Profit for the year		-	-	-	4,586	4,586
Other comprehensive income, net of tax for the year		-	-16	-	-	-16
<b>Total comprehensive income for the year</b>		-	-16	-	4,586	4,571
Allocation of profit		-	-	1,419	-1,419	-
Dividend		-	-	-1,334	-	-1,334
Repurchase of own shares		-	-	-1,946	-	-1,946
Stock options exercised		-	-	414	-	414
Cancellation of shares		-13	-	13	-	-
Bonus issue		13	-	-13	-	-
<b>Equity at end of year</b>		390	-65	16,319	4,586	21,230

## Cash flow statement for the Parent Company

MSEK	Note	2012	2011
<b>Operating activities</b>	21		
Profit after financial items		4,817	1,650
Adjustments for non-cash items and other		-4,071	-475
Income tax paid		-1	-221
<b>Cash flow from operating activities before changes in working capital</b>		<b>745</b>	<b>954</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-9	48
Increase (+)/Decrease (-) in operating liabilities		22	-13
<b>Net cash generated from operating activities</b>		<b>757</b>	<b>989</b>
<b>Investing activities</b>			
Purchase of intangible assets		-44	-22
Proceeds from sale of subsidiaries, net of cash disposed of		1	140
Shareholders contribution paid to joint venture		-	-15
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
<b>Net cash from investing activities</b>		<b>-42</b>	<b>111</b>
<b>Financing activities</b>			
Repurchase of own shares		-1,946	-2,371
Stock options exercised		414	67
Proceeds from non-current borrowings		2,045	1,000
Repayment of borrowings		-1,315	-853
Dividend		-1,334	-1,152
Changes in financial receivables/liabilities Group companies		1,399	2,205
Other		23	3
<b>Net cash used in financing activities</b>		<b>-715</b>	<b>-1,100</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at end of year</b>		<b>-</b>	<b>-</b>

# 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, 2011.

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	2012	2011
<b>KPMG</b>		
Audit services	3	4
Audit related services	0	-
Tax services	0	0
Other services	1	3
<b>Total</b>	<b>4</b>	<b>7</b>

Other services include assisting with testing of IT-controls.

## 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 venture	
	2012	2011	2012	2011
Dividends received	4,333	2,492	-	-
Group contribution received	2,270	2,038	-	-
Group contribution granted	-199	-199	-	-
Impairment losses	-	-1,241	-	-12
Gain on liquidation of Group companies	3	-	-	-
Loss on sale of Group companies	-1	-116	-	-
<b>Total</b>	<b>6,405</b>	<b>2,974</b>	<b>-</b>	<b>-12</b>

The impairment loss of 1,241 MSEK in 2011 was recognized following dividends paid from subsidiaries. Loss on sale of shares in Group companies amounting to -1 MSEK (-116) relates to subsidiaries sold to STG in 2010.

The result of -12 MSEK in 2011 relates to SMPM International AB, a joint venture together with Philip Morris International. During 2011 the participation has been transferred to another Group company.

	Interest income from receivables carried as non-current assets		Interest income and similar items	
	2012	2011	2012	2011
Interest income relating to Group companies	-	133	0	0
Interest income relating to financial instruments held for trading	-	-	1	0
Interest income relating to other financial instruments held for trading	-	-	0	-
Net foreign exchange gains	-	-	1	0
<b>Total</b>	<b>-</b>	<b>133</b>	<b>2</b>	<b>0</b>

Interest expenses and similar items	2012	2011
Interest expense relating to Group companies	-907	-847
Interest expense relating to financial liabilities measured at amortized cost	-514	-475
Interest expense relating to cash flow hedges transferred from equity <sup>1)</sup>	-	0
Interest expense relating to financial liabilities pertaining to fair value hedge	-	0
Net gains on financial liabilities held for trading	0	2
Other financial expenses	-7	-11
<b>Total</b>	<b>-1,428</b>	<b>-1,330</b>

<sup>1)</sup> The total realized value of interest for 2011 as a result from repurchase of 50 MSEK bonds.

## 5. Appropriations

Appropriations	2012	2011
<b>Difference between reported amortization/ depreciation and according to plan</b>		
Software and licenses	-21	-9
Equipment, tools and fixtures	0	0
<b>Subtotal</b>	<b>-21</b>	<b>-9</b>
<b>Appropriation to tax allocation reserve</b>		
Tax allocation reserve, appropriation current year	-115	-115
<b>Subtotal</b>	<b>-115</b>	<b>-115</b>
<b>Total</b>	<b>-136</b>	<b>-124</b>

## 6. Income tax

Income tax reported in income statement	2012	2011
Current tax expense for the period	-94	-92
Deferred tax due to temporary differences	1	-15
Deferred tax due to change in tax rate	-2	-
<b>Total</b>	<b>-95</b>	<b>-107</b>

Income tax reported in other comprehensive income	2012	2011
Effective portion of changes in fair value of cash flow hedges	4	6
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	-	0
Effect of enacted change in tax rate	-4	-
<b>Total</b>	<b>1</b>	<b>6</b>

Reconciliation of effective tax rate	2012		2011	
	(%)		(%)	
Income before tax	4,681		1,526	
<b>Swedish statutory tax rate</b>	<b>26.3</b>	<b>-1,231</b>	<b>26.3</b>	<b>-402</b>
Non-taxable dividends	-24.3	1,140	-42.9	655
Tax exempt items	-0.0	1	-0.1	1
Non-deductible impairment losses	-	-	21.6	-330
Other non-deductible items	0.0	-2	2.1	-31
Taxes related to prior years	0.0	0	0.0	0
Effect of enacted change of tax rate	0.1	-2	-	-
Deemed interest income, tax allocation reserve	0.0	-1	-	-
<b>Reported effective tax</b>	<b>2.0</b>	<b>-95</b>	<b>7.0</b>	<b>-107</b>

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

	Current income tax assets		Current income tax liabilities	
	2012	2011	2012	2011
Opening balance at beginning of year	88	-	-	41
Current tax expense	-	-98	94	-5
Received/paid tax	-88	186	-89	-35
<b>Closing balance at end of year</b>	<b>-</b>	<b>88</b>	<b>5</b>	<b>-</b>

Tax liability amounts to 5 MSEK (tax asset 88) and consists of taxes to be paid/received 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	
	2012	2011	2012	2011
Hedge reserve	18	18	-	-
Provision	11	11	-	-
Other	1	1	-	-
<b>Total</b>	<b>30</b>	<b>30</b>	<b>-</b>	<b>-</b>

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.

2012	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	18	-	1	18
Provision	11	0	-	11
Other	1	0	-	1
<b>Total</b>	<b>30</b>	<b>0</b>	<b>1</b>	<b>30</b>

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
<b>Total</b>	<b>39</b>	<b>-15</b>	<b>6</b>	<b>30</b>

## 7. Intangible assets

Other intangible assets	2012	2011
Cost at beginning of year	68	45
Purchase	43	22
<b>Cost at end of year</b>	<b>111</b>	<b>68</b>
Accumulated amortization at beginning of year	-9	-3
Amortization for the year	-7	-6
<b>Accumulated amortization at end of year</b>	<b>-17</b>	<b>-9</b>
<b>Net carrying value at end of year</b>	<b>95</b>	<b>58</b>

Amortization is included in administrative expenses in the income statement in the amount of 7 MSEK (6).

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 have been capitalized.

No borrowing costs have been capitalized during 2012 nor during 2011.

## 8. Tangible assets

Equipment, tools and fixtures	2012	2011
Cost at beginning of year	3	3
Purchase	-	-
<b>Cost at end of year</b>	<b>3</b>	<b>3</b>
Accumulated depreciation at beginning of year	-1	-1
Depreciation for the year	0	0
<b>Accumulated depreciation at end of year</b>	<b>-2</b>	<b>-1</b>
<b>Net carrying value at end of year</b>	<b>1</b>	<b>2</b>

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 2012 nor during 2011.

## 9. Group companies

2012	Balance 1 Jan.	Shareholder's contribution	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	54,717	2,025	-	-	-62	56,680
Impairments	-5,483	-	-	-	61	-5,422
<b>Carrying value</b>	<b>49,234</b>	<b>2,025</b>	<b>-</b>	<b>-</b>	<b>-1</b>	<b>51,258</b>

2011	Balance 1 Jan.	Shareholder's contribution	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	51,025	8,850	-5,158	-	-	54,717
Impairments	-9,399	-	5,158	-1,241	-	-5,483
<b>Carrying value</b>	<b>41,626</b>	<b>8,850</b>	<b>-</b>	<b>-1,241</b>	<b>-</b>	<b>49,234</b>

Impairments are reported in the result from participation in Group companies in the income statement. The impairment loss of 1,241 MSEK during previous year was recognized following dividends paid from subsidiaries.

### Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2012	Ownership, %	2011
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	236
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	7
Svenskt Snus AB <sup>1)</sup>	556367-1261	Stockholm	-	-	-	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 <sup>2)</sup>	0890.171.968	Belgium	9,999,999	99.99	23,117	99.99	22,688
Swedish Match Treasury USD SA <sup>2)</sup>	0894.153.126	Belgium	1,001,268	99.99	7,090	99.99	5,065
Swedish Match Treasury EUR SA <sup>3)</sup>	0440.934.581	Belgium	-	-	-	99.99	429
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	1,083	100	1,083
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	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille <sup>4)</sup>		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd <sup>5)</sup>		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd <sup>6)</sup>		Burma	4,000	100	0	100	0
<b>Carrying value at end of year</b>					<b>51,258</b>		<b>49,234</b>

- <sup>1)</sup> Transferred to a Group company.  
<sup>2)</sup> Remaining shares owned by subsidiary.  
<sup>3)</sup> Merged with Swedish Match Treasury SEK SA.  
<sup>4)</sup> Nationalized in 1963.  
<sup>5)</sup> Nationalized in 1968.  
<sup>6)</sup> Nationalized in 1969.

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

## 10. Other non-current receivables

Other non-current receivables	2012	2011
Derivatives	32	76
Endowment insurances	38	33
<b>Carrying value at end of year</b>	<b>69</b>	<b>109</b>

A large part of the non-current derivatives pertains to the change in fair value of interest rate swaps.

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

## 11. Other receivables

Other receivables	2012	2011
Derivatives	5	-
VAT receivables	4	2
Endowment insurances	1	-
Other current receivables	1	1
<b>Carrying value at end of year</b>	<b>10</b>	<b>3</b>

## 12. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2012	2011
Accrued interest income	10	11
Prepaid bank charge	6	8
Accrued income	3	-
Prepaid rent	2	1
Prepaid insurance premiums	-	0
Other prepaid expenses	3	7
<b>Carrying value at end of year</b>	<b>24</b>	<b>27</b>

## 13. Equity

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

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

Number of registered shares	2012	2011
Issued at beginning of year	213,000,000	231,000,000
Cancellation	-7,000,000	-18,000,000
<b>Total shares outstanding at end of year</b>	<b>206,000,000</b>	<b>213,000,000</b>
Of which held by Swedish Match AB	-6,591,665	-8,827,859
<b>Total shares outstanding, net of shares held by Swedish Match AB</b>	<b>199,408,335</b>	<b>204,172,141</b>

### Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2012, the Parent Company's holding of treasury shares amounted to 6,591,665 shares (8,827,859).

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

Effect on equity	2012	2011
<b>Cumulative effect on equity at beginning of year</b>	<b>-20,702</b>	<b>-18,398</b>
Repurchase of own shares during the year	-1,946	-2,371
Stock options exercised during the year	414	67
Cancellation of shares	13	30
Bonus issue	-13	-30
<b>Cumulative effect on equity at end of year</b>	<b>-22,234</b>	<b>-20,702</b>

The Annual General Meeting on May 2, 2012 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 7 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 12.8 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 206 million shares with a quotient value of 1.8909 SEK.

During the year 7.4 million shares were repurchased for 1,946 MSEK at an average price of 261.61 SEK. As at December 31, 2012 Swedish Match held 6.6 million shares in its treasury, corresponding to 3.20 percent of the total number of shares. During the year the Company has also sold 2.7 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 199.4 million. In addition, the Company has call options outstanding at year end corresponding to 2.3 million shares exercisable in gradual stages from 2013–2015.

### Dividend

After the balance sheet date, the Board proposed a dividend for 2012 of 7.30 SEK (6.50) per share. The dividend then amounts to 1,456 MSEK based on the number of shares outstanding at the end of 2012. Prior year total dividend amounted to 1,334 MSEK and corresponded to 205,261,243 number of shares.

### Hedge reserve

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

Hedge reserve	2012	2011
<b>Carrying value at beginning of year</b>	<b>-49</b>	<b>-34</b>
Effective portion of changes in fair value of cash flow hedges	-16	-22
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	-	0
Income tax	4	6
Effect of change in tax rate	-4	-
<b>Carrying value at end of year</b>	<b>-65</b>	<b>-49</b>



## 14. Untaxed reserves

Untaxed reserves	2012	2011
<b>Excess amortization/depreciation:</b>		
<b>Intangible assets</b>		
Carrying value at beginning of year	9	0
Excess amortization for the year	21	9
<b>Total</b>	<b>30</b>	<b>9</b>
<b>Tangible assets</b>		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>Tax allocation reserve</b>		
Carrying value at beginning of year	115	-
Appropriation current year	115	115
<b>Total</b>	<b>230</b>	<b>115</b>
<b>Carrying value at end of year</b>	<b>260</b>	<b>124</b>

## 15. Other provisions

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

Other provisions	2012	2011
Endowment insurances	48	41
Long term incentive	44	29
Other provisions	-	1
<b>Carrying value at end of year</b>	<b>92</b>	<b>71</b>
Where of total non-current	77	70
Where of total current	15	1

Movements in provisions during the year were as follows:

2012	Endowment insurance	Long term incentive	Other provisions	Total
<b>Carrying value at beginning of year</b>	<b>41</b>	<b>29</b>	<b>1</b>	<b>71</b>
Provisions made during the year	6	16	-	22
Provisions used during the year	-1	-	-1	-2
Provisions reversed during the year and changes in estimates	2	0	-	2
<b>Carrying value at end of year</b>	<b>48</b>	<b>44</b>	<b>-</b>	<b>92</b>

2011	Endowment insurance	Long term incentive	Other provisions	Total
<b>Carrying value at beginning of year</b>	<b>36</b>	<b>15</b>	<b>26</b>	<b>77</b>
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
<b>Carrying value at end of year</b>	<b>41</b>	<b>29</b>	<b>1</b>	<b>71</b>

### Endowment insurance

Provisions recognized for endowment insurances. A corresponding amount is recognized as a pledged asset in the balance sheet, excluding payroll tax. Payments amounting to 29 MSEK are expected to be realized after five years.

### Long term incentive

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.

## 16. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 2,377 MSEK (3,658).

## 17. Liabilities to Group companies

Liabilities due for payment later than five years after the balance sheet date amount to 0 MSEK (18,100).

## 18. Other liabilities

Other liabilities mainly consists 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 63 MSEK (215).

## 19. Accrued expenses and deferred income

Accrued expenses and deferred income	2012	2011
Accrued interest expenses	215	197
Accrued incentives incl. social security charges	20	19
Accrued social security charges	3	2
Accrued vacation pay	2	2
Personnel expenses	0	1
Other accrued expenses	8	4
<b>Carrying value at end of year</b>	<b>248</b>	<b>225</b>

## 20. Pledged assets and contingent liabilities/assets

### Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 39 MSEK (33). The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

Contingent liabilities	2012	2011
Guarantees on behalf of subsidiaries	51	52
Guarantees on behalf of associated companies	52	61
<b>Total</b>	<b>103</b>	<b>112</b>

### Contingent assets

As per December 31, 2012, the Parent Company had no contingent assets.

## 22. Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies		Joint venture	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Dividends	4,333	2,492	-	-	-	-
Group contribution	2,270	2,038	-	-	-	-
Interest income	0	133	-	-	-	-
Sale of goods/services	81	44	1	1	4	5
<b>Expenses</b>						
Group contribution	-199	-199	-	-	-	-
Interest expenses	-907	-847	-	-	-	-
Purchase of goods/services	-46	-13	-	-	-	-
<b>Receivables</b>	<b>2,297</b>	<b>2,051</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>1</b>
<b>Liabilities</b>	<b>21,015</b>	<b>21,450</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>
<b>Guarantees</b>	<b>51</b>	<b>52</b>	<b>52</b>	<b>61</b>	<b>-</b>	<b>-</b>

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*.

## 21. Supplementary information to cash flow statement

Interest paid and received and dividend received	2012	2011
Dividend received <sup>1)</sup>	2,308	2,492
Interest received, non-Group companies	1	1
Interest paid, non-Group companies	-494	-468
Interest received, Group companies	0	181
Interest paid, Group companies	-907	-847
<b>Total</b>	<b>908</b>	<b>1,359</b>

<sup>1)</sup> Amount for 2012 excludes 2,025 MSEK which refers to a dividend granted as a shareholder contribution.

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

Adjustments for non cash items and other	2012	2011
Depreciation and amortization	8	7
Impairment losses	-	1,253
Loss on sale of subsidiaries	-	96
Change in accrued interest	20	54
Change in market value revaluations	0	-2
Dividend	-2,025	-
Group contributions	-2,071	-1,839
Change in pension provision	-	-46
Gain on liquidation of Group companies	-3	-
Exchange rate differences	-1	0
Other	-	2
<b>Total</b>	<b>-4,071</b>	<b>-475</b>

## 23. Carrying value and fair value of financial instruments

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2012. Items carried at fair value via the income statement consists of derivatives, for which hedge accounting is not applied. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loan and borrowings differ from their fair value as a consequence of changes in the market interest rates. Swedish Match applies to IFRS 7 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3 – Inputs that are not based on observable market data.

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. The values presented are indicative and may not necessarily be realized.

For further information regarding outstanding derivatives see Notes for the Group, *Note 25 Financial instruments and financial risks*.

	Items carried at fair value via the income statement	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
<b>2012</b>						
Non-current receivables	28	–	4	37	69	69
Other receivables	–	–	5	5	10	10
Prepaid expenses and accrued income	10	–	–	14	24	24
<b>Total assets</b>	<b>38</b>	<b>–</b>	<b>9</b>	<b>56</b>	<b>103</b>	<b>103</b>
Loans and borrowings	–	10,345	–	–	10,345	11,445 <sup>1)</sup>
Other liabilities	23	7	535	10	575	575
Accrued expenses and deferred income	–	194	21	33	248	248
Trade payables	–	16	–	–	16	16
<b>Total liabilities</b>	<b>23</b>	<b>10,562</b>	<b>556</b>	<b>43</b>	<b>11,184</b>	<b>12,284</b>
<b>2011</b>						
Non-current receivables	58	–	18	33	109	109
Other receivables	0	–	–	3	3	3
Prepaid expenses and accrued income	11	–	–	16	27	27
<b>Total assets</b>	<b>69</b>	<b>–</b>	<b>18</b>	<b>52</b>	<b>139</b>	<b>139</b>
Loans and borrowings	–	9,816	–	–	9,816	10,250 <sup>1)</sup>
Other liabilities	26	–	336	11	373	373
Accrued expenses and deferred income	–	173	24	28	225	225
Trade payables	–	20	–	–	20	20
<b>Total liabilities</b>	<b>26</b>	<b>10,009</b>	<b>360</b>	<b>39</b>	<b>10,434</b>	<b>10,868</b>

<sup>1)</sup> The estimated fair value is the revaluation of the loans and borrowings to the fair values based on the market rates for december 31, 2012 and 2011.

## 24. 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 has been transferred to the Swedish pension trust.

As of December 2008 Swedish Match AB assumed the role as Sponsor and Principal Employer for the pension trust for ex employees in the divested Swedish Match UK Ltd.

As per December 31, 2012 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 pension plans	2012	2011
Present value of funded obligations	710	675
Fair value of separately held assets	- 785	- 752
<b>Surplus, net</b>	<b>- 75</b>	<b>- 77</b>
Net surplus in pension trust not recognized in balance sheet	75	77
<b>Net pension liability recognized in the balance sheet</b>	<b>-</b>	<b>-</b>

Specification of movements in the net liability recognized in the balance sheet attributable to pension:

Net pension liability	2012	2011
<b>Balance at beginning of year</b>	<b>-</b>	<b>37</b>
Reversal of assumed pension liabilities	-	- 37
Benefits paid	8	5
Contribution received from pension trust	- 8	- 5
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>

-60 MSEK (-62) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Income and expenses attributable to pension	2012	2011
Current service costs	-	-
Difference between contribution received from pension trust and benefits paid	-1	0
Interest cost on obligation	-32	-33
Actual return on separately held assets	80	-43
<b>Net income/expense for pension</b>	<b>47</b>	<b>-76</b>
<b>Pensions covered by insurance premiums:</b>		
Settlements	-	37
Costs for pension insurance premiums recognized in income statement	-15	-14
Decrease/increase in surplus in pension trust	-48	76
<b>Net pension costs/income recognized in income statement attributable to pension</b>	<b>-16</b>	<b>23</b>

The expenses attributable to pension are recognized in the income statement under administration costs.

The actual return on separately held assets expressed in percentage is 10 percent (6).

Separately held assets of the pension trusts are comprised as follows:

Separately held assets	2012	2011
Debt instruments	192	153
Equity securities	172	192
Other	421	407
<b>Total</b>	<b>785</b>	<b>752</b>

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 3.9 percent (4.7).

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	16,254,060,231
Profit for the year	SEK	4,586,324,299
	<b>SEK</b>	<b>20,840,384,530</b>

The Board of Directors propose that these earnings be appropriated as follows:

To the shareholders, a dividend of 7.30 SEK per share based on 199,408,335 shares outstanding at the end of 2012	SEK	1,455,680,846
Retained earnings to be carried forward	SEK	19,384,703,684
	<b>SEK</b>	<b>20,840,384,530</b>

The income statements and balance sheets will be presented to the Annual General Meeting on April 25, 2013 for adoption. The Board of Directors also proposes April 30, 2013 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 19, 2013

Conny Karlsson  
Chairman of the Board

Andrew Cripps  
Deputy Chairman

Kenneth Ek  
Board member

Karen Guerra  
Board member

Håkan Johansson  
Board member

Eva Larsson  
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, 2013

KPMG AB

Cronie Wallquist  
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 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 40–90.

### *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 2012 and of its financial performance and its cash flows for the year then ended in accordance with Annual Accounts Act.

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 2012 and of their financial performance and cash flows for the year then ended 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 also audited 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 2012.

### *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, 2013

KPMG AB

Cronie Wallquist  
Authorized Public Accountant

# Governance report

**Swedish Match AB (publ) is a public Swedish limited liability company listed on 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 NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations that affect Swedish Match's corporate governance include the Company's Articles of association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of association.

Swedish Match applies the Swedish Code of Corporate Governance (the "Code").<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2012, 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.

## Shareholding

The share capital of Swedish Match at the end of 2012 was 389,515,417.20 SEK distributed on 206,000,000 shares. Each share carries one vote. The Swedish Match share is listed on NASDAQ OMX Stockholm. No shareholder has a shareholding in the Company representing one tenth or more of the votes of all shares of the Company. Further information concerning such factors as Swedish Match's ownership structure and share performance is presented on pages 34–35.

## General Meeting 2013

Swedish Match's 2013 Annual General Meeting will be held on April 25 in Stockholm. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to participate personally or by proxy at Swedish Match's General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in *Post- och Inrikes Tidningar* and on the Company's website. Information that notice to a General Meeting has been issued, is published in *Svenska Dagbladet*.

Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the meeting.<sup>3)</sup>

Shareholders may submit proposals to the Company's Nominating Committee at any time, however, no later than two months prior to the Annual General Meeting, so that the committee can consider proposals received with due care.

## Nominating Committee for the Annual General Meeting 2013

The Nominating Committee for the Annual General Meeting in 2013 was announced on the Company's website on October 30, 2012, 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.

## Proposals to the Nominating Committee 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

<sup>1)</sup> Available on the Swedish Match's website [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

<sup>2)</sup> Available on the Swedish Corporate Governance Board's website [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> More information is available on Swedish Match's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

# Governance of the Swedish Match Group

### External auditors

The auditors are elected by the Annual General Meeting (AGM) for a term of one year. 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 duties of the external auditors include auditing the management of the Board and the 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.

### 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 [www.swedishmatch.com/agn](http://www.swedishmatch.com/agn). There are no special provisions on how the General Meeting works in the Articles of Association or, 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.

### Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit 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 Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The committee is also to review and monitor the impartiality and independence of the auditors 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 committee also discuss accounting issues relating to the Company's financial reporting. The 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.

In consultation with committee members, the Chairman of the Audit Committee is to decide where and how frequently the committee is to meet.\*

### The Board of Directors

The Board of Directors is the Company's highest administrative body under the General Meeting. 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. The Board is primarily responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance of the operations on an ongoing basis, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

### Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases, whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's procedures prevailing routines.

### President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of directors, 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

SMOKEFREE  
PRODUCTS  
DIVISION

SCANDINAVIA  
DIVISION

US DIVISION



The AGM must be held within six months of the close of the fiscal year. At the AGM, resolutions are adopted concerning such matters as dividend, 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, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

### Nominating Committee

The Nominating Committee is established according to the principles resolved by the AGM. The AGM also resolves on instructions for the Nominating Committee and according to the instructions the Nominating Committee shall submit to the AGM proposals regarding any changes to these instructions. The Nominating Committee's duties are to prepare and submit proposals to the AGM concerning the election of the Chairman of the AGM, the election of the Chairman and other members of the Board, the amount of Board fees and their apportionment between the Chairman of the Board and other Board members and any fees for committee work, as well as 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 evaluate the performance 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, but at least once per year.

The Board of Directors appoints and issues instructions for the President and monitors the President's work.

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 Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors and is a body within the Board. The committee's duties are to prepare and submit to the Board proposals for resolutions relating to remuneration and other terms of employment for the Company's President, principles regarding remuneration to senior executives, which the Board will present to the AGM for a resolution and other remuneration and employment term matters which by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.

The Board of Directors has delegated decision-making authority to the Compensation Committee in certain issues such as calculation and payment of variable salary to the Company's President, salary and other compensation that, within the framework of the guidelines resolved by the AGM, is to be paid to members of the Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan and approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President.

The committee is to meet as often as necessary but at least twice annually.\*

reach well-founded decisions. The President also submits 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 Group, while also providing the Chairman with ongoing information regarding the operations of the Group.

\* Further information regarding for example the committee's respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

LIGHTS  
LATIN AMERICA

LIGHTS  
INTERNATIONAL

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DISTRIBUTION AB

# Governance of the Swedish Match Group 2012

### Annual General Meeting 2012

In 2012 the Annual General Meeting was held on May 2. The minutes of the meeting are available on the Company's website: [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

The Annual General Meeting 2012 passed the following resolution, amongst others:

- Payment of cash dividend of 6.50 SEK per share for the 2011 fiscal year.
- Re-election of Andrew Cripps, Karen Guerra, Conny Karlsson, Robert F. Sharpe, Meg Tivéus, and Joakim Westh as Board members. Re-election of Conny Karlsson and Andrew Cripps as Chairman of the Board and deputy Chairman of the Board, respectively.
- Unchanged fees to the Board of Directors compared to 2011.
- Withdrawal of 7,000,000 shares in the Company.
- Authorization of the Board of Directors to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company.
- Principles for determining the salary and other remuneration of the President and other members of the Company's management.
- Adoption of income statement statements and balance sheets for 2011 and discharge from personal liability granted of the Board of Directors and President.

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 41.

### Nominating Committee

Pursuant to instructions established by the Annual General Meeting 2012, 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 Nominating 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.

### *Nominating Committee for the Annual General Meeting 2012*

The Nominating Committee for the Annual General Meeting in 2012 comprised the following five members: Andy Brown (Cedar Rock Capital), William Lock (Morgan Stanley Investment Management), Björn Lind (AMF & AMF Funds), William von Muefling (Cantillon Capital Management) as well as the Chairman of the Board of Swedish Match Conny Karlsson. Andy Brown served as Chairman of the Nominating Committee. The Nominating Committee held three meetings during the period between the 2011 and 2012 Annual General Meetings combined with informal contacts and discussions among the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2012.

### Board of Directors

#### *Composition*

According to the Articles of Association, the Company's Board of Directors shall 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 2012, 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 fol-

lowing directors elected by the General Meeting: Conny Karlsson, Andrew Cripps, Karen Guerra, Robert F. Sharpe, Meg Tivéus, and Joakim Westh. During 2012, Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were Kenneth Ek, Håkan Johansson, Eva Larsson, and Joakim Lindström (until March 2012), with Patrik Engelbrektsson (as from March 2012), Eva Norlén-Moritz, and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on pages 98–99.

### *Independence of Board members*

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting 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.

### *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 is 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.

### *Evaluation of the work of the Board of Directors*

During autumn 2012, 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.

### Compensation to the Board of Directors

Pursuant to a resolution adopted by the 2012 Annual General Meeting, compensation to the Board for the period from the 2012 Annual General Meeting up to and including the 2013 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. No compensation for directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2012, see *Note 5 Personnel*, page 58.

### Activities of the Board of Directors during 2012

The number of Board meetings during 2012 was seven, of which six were scheduled meetings and one was the statutory meeting.

The Board of Directors elected at the 2012 Annual General Meeting held its 2012 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 financial reporting, the Board in its work devoted considerable time to the Company's organization 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 2012 to present the audit report and observations from the audit. In conjunction with the Board's meetings in June, the Board visited New York, US, in order to have a better understanding of the market in the US.

### Audit Committee

In 2012, the members were Meg Tivéus, (Chairman), Andrew Cripps, and Joakim Westh. Throughout the year, the Chairman of the Audit Committee kept the Board of Directors regularly informed of the committee's work and decisions. The number of meetings in 2012 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 2012 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

### Compensation Committee

Members in 2012 were Conny Karlsson, (Chairman), Karen Guerra, and Robert F. Sharpe. 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.

During the year, the Compensation 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. Three meetings were held in 2012.

Composition of the Board and attendance 2012	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, SEK
<b>Total number of meetings</b>	<b>7</b>	<b>5</b>	<b>3</b>			
<b>Members elected by the General Meeting</b>						
Conny Karlsson (Chairman)	7		3	Yes	2006	1,960,000
Andrew Cripps (Deputy Chairman)	7	5		Yes	2006	935,000
Karen Guerra	7		3	Yes	2008	810,000
Robert F. Sharpe	7		3	Yes	2011	810,000
Meg Tivéus	7	5		Yes	1999	935,000
Joakim Westh	6	5		Yes	2011	810,000
<b>Employee representatives</b>						
Kenneth Ek	7				1999	
Eva Larsson	7				1999	
Håkan Johansson (from March 2012)	7				2004	
Joakim Lindström (until March 2012)	1				1999	
<b>Employee representatives (deputies)</b>						
Patrik Engelbrektsson (from March 2012)	5				2012	
Eva Norlén-Moritz	7				2010	
Gert-Inge Rang	6				2007	

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.

During 2012, the committee devoted special attention to determination of variable compensation for 2011 to be paid in 2012, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2013 and determination of salaries and variable compensation for other members of the Group Management Team for 2013. 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.

### Group Management Team

In 2012, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and CEO; Rich Flaherty, President US Division; Emmett Harrison, Senior Vice President Corporate Communications and Sustainability; Elisabeth Hellberg, Senior Vice President Group Human Resources (until June 3, 2012); Lars Olof Löfman, President Smokefree Products Division; Jonas Nordquist, President

Scandinavia Division; Fredrik Peyron, Senior Vice President Legal Affairs; and Joakim Tilly, CFO and Senior Vice President Group Finance and IT, and Group Human Resources. Detailed information about the President and CEO Lars Dahlgren is provided on page 100. Lars Dahlgren has no major shareholdings, nor is he a part-owner in companies having significant business relations with Swedish Match.

### Compensation to Group Management

The 2012 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 accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2012 up to and including the Annual General Meeting in 2013. During 2012, 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.

Cronie Wallquist, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2012, see *Note 6 Audit fees*, page 62.

### Disclosure Committee

Members of the Disclosure Committee during 2012 were the heads of Business Control, Corporate Communications and Sustainability, Group Reporting and Tax, and Legal Affairs.



Annual General Meeting 2012 in Stockholm, Sweden.

### **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. These include 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 19, 2013

The Board of Directors of  
Swedish Match AB

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### **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 2012 on pages 91–97 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, 2013

KPMG AB  
Cronie Wallquist  
Authorized Public Accountant

## CORPORATE GOVERNANCE

# Board of Directors



Conny Karlsson

### CONNYS 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.

*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



Andrew Cripps

### 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 Electrocomponents plc.

*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:* 11,677



Karen Guerra

### 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:* 19,200



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:* 11,200

### Independence of Board members

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting 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.



Meg Tivéus

**MEG TIVÉUS**

Born 1943. M.Sc. in Economics and Business. Board member since 1999. Chairman of the Audit Committee.

*Other board assignments:* Chairman of Folk tandvården Stockholm AB, Arkitektkopia AB and Björn Axén AB. Board member of Cloetta AB, Endomines 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, Modò AB; Project Manager, McCann Gunther & Bäck.

*Own and related parties' shares:* 4,000



Joakim Westh

**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 Rönvik 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:* 2,500



Cronie Wallquist

**AUDITORS KPMG AB** Senior Auditor: Cronie Wallquist. Born 1958. Authorized Public Accountant. Swedish Match auditor since 2012. Cronie Wallquist's other auditing assignments include Preem, AstraZeneca, Stena och Svenska Petroleum Exploration.

**Changes in the Board of Directors until March 2013**

Håkan Johansson replaced Joakim Lindström as an employee representative from March 2012. Patrik Englebretsson is a new Deputy member from March 2012.

**Secretary to the Board of Directors**

Since 2007 Fredrik Peyron, Senior Vice President Legal Affairs and General Counsel is Secretary to the Board.

**EMPLOYEE REPRESENTATIVES**



Håkan Johansson

Eva Larsson

Kenneth Ek

**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 factories in Gothenburg and Kungälv, Sweden. Works with strategic technical projects at Swedish Match's snus factories 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

**HÅKAN JOHANSSON**

Born 1963. Board 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, Sweden; Line Operator, Svenska Tobaks AB in Malmö.

*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 factory in Tidaholm, Sweden. Insurance Manager for insurance policies of persons employed under collective agreements at the Swedish Match's match factory in Tidaholm.

*Previous positions:* Line Operator at Swedish Match's match plant in Tidaholm.

*Own and related parties' shares:* 0

**EMPLOYEE REPRESENTATIVES (DEPUTIES)**



Gert-Inge Rang

Eva Norlén-Moritz

Patrik Englebretsson

**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 in Stockholm, Sweden.

*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 Industries. Production Supervisor at Swedish Match Industries in Vetlanda.

*Previous positions:* Supervisor, Swedish Match Industries in Vetlanda.

*Own and related parties' shares:* 1,000

**PATRIK ENGELBREKTSSON**

Born 1965. Deputy member since 2012. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union at the snus factory in Gothenburg, Sweden. Forklift driver at the Gothenburg factory.

*Previous positions:* Mill worker, Machine Operator, Forklift driver at the Gothenburg snus factory.

*Own and related parties' shares:* 0

# Group Management



Lars Dahlgren

**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:* 22,300

*Call options:* 44,799



Richard Flaherty

**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 LL.M. 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:* 9,000

*Call options:* 47,520



Emmett Harrison

**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:* 2,031

*Call options:* 16,527

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## Changes in the Group Management Team during 2012

Joakim Tilly, Senior Vice President, Group Finance and IT, and Chief Financial Officer, assumed the responsibility for Group Human Resources replacing Elisabeth Hellberg, Senior Vice President Group Human Resources, who left the position on June 4, 2012.





Lars Olof Löfman

**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:* 4,665  
*Call options:* 21,853



Jonas Nordquist

**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:* 1,900  
*Call options:* 9,500



Fredrik Peyron

**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:* 4,254  
*Call options:* 14,278



Joakim Tilly


**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:* 2,940  
*Call options:* 15,172

Holdings of own and related parties shares and call options as of December 31, 2012. For a detailed report of remuneration and benefits for senior executives, refer to Note 5 Personnel.

[www.swedishmatch.com](http://www.swedishmatch.com)   
For updated information on members of the Group Management Team and their shareholdings and call options, refer to the Company's website.

Swedish Match's mission is to responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits to our shareholders.



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