

## MINUTES

kept at the Annual General Meeting of Shareholders of Swedish Match AB (publ), Swedish company reg. no. 556015-0756, on 28<sup>th</sup> April 2009 in Stockholm

### § 1

Claes Beyer was elected as Chairman of the Meeting.

It was noted that Fredrik Peyron was requested to keep the minutes at the Meeting.

### § 2

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

### § 3

Fredrik Ohlsson and Åsa Nisell were appointed to check the minutes together with the Chairman of the Meeting.

### § 4

The Meeting was declared to have been duly convened.

The Notice to attend the Meeting was appended to the minutes, Appendix 2.

### § 5

The Agenda was approved as set out in Appendix 3.

### § 6

The Annual Report and the Audit Report as well as the Consolidated Accounts and the Consolidated Audit Report for the period 1<sup>st</sup> January – 31<sup>st</sup> December 2008 were submitted. In addition, the Board of Directors' proposal regarding the allocation of profit and explanatory statement were submitted, Appendix 4 and 5, as well as the Auditor's report regarding compliance with the principles for the compensation of senior executives adopted by the Annual General Meeting 2008, Appendix 6.

The President gave a presentation of the Company's operations.

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

The Chairman of the Audit Committee, Meg Tivéus, reported on the work and function of the Audit Committee and presented the consulting costs and other costs paid to Swedish Match's auditors in 2008.

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

Questions from the shareholders were answered by the president.

**§ 7**

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

**§ 8**

Pursuant to the Board of Directors' proposal according to Appendix 4, it was resolved

that the funds at the disposal of the Annual General Meeting, i.e. SEK 21,758,310,461.78 shall be appropriated as follows: a dividend of SEK 4.10 per share to be paid to the shareholders for each share in Swedish Match AB and the remaining profits to be carried forward to a new account;

and that the record date for determining who is entitled to receive a cash dividend shall be 4<sup>th</sup> May 2009.

**§ 9**

It was resolved to discharge the members of the Board of Directors and the Presidents in office during the relevant period from liability for the period 1<sup>st</sup> January – 31<sup>st</sup> December 2008.

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

**§ 10**

a) Pursuant to the Board of Directors' proposal according to Appendix 8, it was resolved

that the Company's share capital shall be reduced by SEK 6,110,045.76 by means of the withdrawal of 4,000,000 shares in the Company without any refund to the shareholders; and

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

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

b) Pursuant to the Board of Directors' proposal, Appendix 8, it was resolved that the Company's share capital shall be increased by SEK 6,110,045.76 through a transfer from non-restricted shareholders' equity to the share capital (bonus issue), whereby the share capital shall be increased without issuing new shares.

**§ 11**

The Board of Directors' proposal according to Appendix 9 was submitted.

Sveriges Aktiesparares Riksförbund and Aktiespararna Topp Sverige, (below jointly referred to as "Aktiespararna") represented by Per Lundin, submitted as an alternative motion to reject the proposal submitted by the Board of Directors'.

Questions from the shareholders were answered by the Chairman of the Board, the President and the Auditor.

Pursuant to the Board of Directors' proposal according to Appendix 9, it was resolved

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

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

It was noted

that the resolution was supported by Sara Edlund representing 282 shareholders with 60,064,958 shares and votes,

that the resolution was supported with at least two thirds of the votes cast and the votes represented at the Meeting, and

that the resolution had been passed with the requisite majority.

In addition, it was noted that Aktiespararna registered a reservation against the decision.

## **§ 12**

The Board of Directors' proposal according to Appendix 10 was submitted.

Aktiespararna, represented by Per Lundin, submitted as an alternative motion regarding the principles for determination of salary and other remuneration payable to the President and other members of the Company management according to which the maximum annual variable salary shall be capped at 30 per cent of the fixed salary but otherwise unchanged in relation to the Board of Directors' proposal.

Questions from the shareholders were answered by the Chairman of the Board.

Pursuant to the Board of Directors' proposal according to Appendix 10, it was resolved to adopt the principles for determination of salary and other remuneration payable to the President and other members of the Company management.

It was noted that Aktiespararna, Mats Björling, Nea Sköld-Bergström, Gösta Spetz and Valentin Vikberg registered a reservation against the decision.

## **§ 13**

Pursuant to the Board of Directors' proposal according to Appendix 11, it was resolved to adopt the 2009 stock option program.

It was noted that Swedbank Robur Fonder AB, Aktiespararna, Mats Björling, Nea Sköld-Bergström, Gösta Spetz and Valentin Vikberg registered a reservation against the decision and that Swedbank Robur Fonder AB submitted a statement to be recorded in the minutes, Appendix 12.

**§ 14**

Pursuant to the Board of Directors' proposal according to Appendix 13, it was resolved

that the Company shall issue 1,720,000 call options to cover the Company's stock option programme for 2008;

and that the Company, in a deviation from the preferential rights of shareholders, shall be permitted to transfer a maximum of 1,720,000 shares in the Company at a selling price of SEK 141.24 per share in conjunction with a request for the redemption of the call options, whereby the number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure, in accordance with the "Terms and conditions for call options 2009/2014", Appendix 14.

It was noted that the resolution had been passed unanimously.

**§ 15**

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

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

**§ 16**

It was resolved that the Board of Directors in total, for the period up to and including the date when the next Annual General Meeting is held, shall receive the following fees:

- the Chairman shall receive a fee of SEK 1,575,000, the Deputy Chairman shall receive SEK 745,000 and other Members of the Board elected by the General Meeting of Shareholders shall each receive a fee of SEK 630,000;
- compensation for committee work shall amount to a maximum of SEK 920,000 in total, of which the Chairmen of the Compensation Committee and the Audit Committee shall receive SEK 230,000 respectively and the other members of these committees shall each receive SEK 115,000; and that
- Members of the Board employed by the Swedish Match Group shall not receive any Directors' fees.

**§ 17**

Pursuant to the Nominating Committee's proposal according to Appendix 15, it was resolved

that, for the period lasting until the end of the next Annual General Meeting, the following persons were elected as ordinary Board members: Andrew Cripps, Charles A.Blixt, Karen Guerra, Arne Jurbrant, Conny Karlsson, Kersti Strandqvist and Meg

Tivéus;

that Conny Karlsson was elected Chairman of the Board of Directors, and

that Andrew Cripps was elected Deputy Chairman of the Board of Directors.

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

### § 18

Pursuant to the Board of Directors' proposal according to Appendix 16, it was resolved to amend the Articles of Association.

It was noted that the resolution had been passed unanimously.

Furthermore, it was noted

that the resolution of the General Meeting to amend the Articles of Association in accordance with the above shall be conditional upon an amendment of the procedures for convening general meetings in the Swedish Companies Act (SFS 2005:551) having entered into force and the above proposed wording of the Articles of Association being consistent with the Swedish Companies Act, and

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

### § 19

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

that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2010 Annual General Meeting. The determination of the identity of the four largest shareholders shall be ascertained in due time before the date falling six months before the Annual General Meeting; and

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

**§ 20**

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

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

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Minutes checked by:

Minutes kept by:

Claes Beyer  
Chairman

Fredrik Peyron

Fredrik Ohlsson

Åsa Nisell

**Annual General Meeting of Swedish Match AB (publ)**

The shareholders of Swedish Match AB are hereby notified of the Annual General Meeting of Shareholders to be held on Tuesday April 28, 2009 at 16:30 (CET) at Hotel Rival, Mariatorget 3, Stockholm, Sweden.

**Agenda**

- 1.** Opening of the Meeting and election of the Chairman of the Meeting.
- 2.** Preparation and approval of the voting list.
- 3.** Election of one or two persons, to verify the Minutes.
- 4.** Determination of whether the Meeting has been duly convened.
- 5.** Approval of the Agenda.
- 6.** Presentation of the Annual Report and the Auditors' Report, the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2008, the Auditors' Statement regarding compliance with the principles for determination of remuneration to senior executives as well as the Board of Directors' motion regarding the allocation of profit and explanatory statements. In connection therewith, the President's address and the Board of Directors' report regarding its work and the work and function of the Compensation Committee and the Audit Committee.
- 7.** Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
- 8.** Resolution in respect of allocation of the Company's profit in accordance with the adopted Balance Sheet and resolution on record day for dividend.
- 9.** Resolution regarding discharge from liability for the Board members and the President.
- 10. a)** Resolution regarding the reduction of the share capital by way of a recall of repurchased shares, and the transfer of the reduced amount to a fund for use in repurchasing the Company's own shares; and  
**b)** Resolution regarding a bonus issue.
- 11.** Resolution regarding the authorization of the Board of Directors to decide on the acquisition of shares in the Company.
- 12.** Adoption of principles for determination of remuneration payable to senior executives.
- 13.** Resolution regarding adoption of the 2009 stock option program.
- 14.** Resolution regarding the issue by the Company of call options on treasury shares in the Company for the 2008 option program, as well as the right of the Company to transfer shares in the Company in conjunction with any exercise of the call options.
- 15.** Determination of the number of Board members to be elected by the Meeting.
- 16.** Determination of the remuneration to be paid to the Board of Directors.
- 17.** Election of members of the Board, the Chairman of the Board and the Deputy Chairman of the Board.
- 18.** Resolution regarding amendments to the Articles of Association.
- 19.** Resolution regarding the procedure for appointing members to the Nominating Committee and the matter of remuneration for the Nominating Committee, if any.
- 20.** Adoption of Instructions for Swedish Match AB's Nominating Committee.

**The proposals of the Nominating Committee appointed after the Annual General Meeting of Shareholders in 2008**

**Item 1:** Claes Beyer, attorney at law, is proposed as the Chairman of the Meeting.

**Item 15:** The Board of Directors shall comprise seven members elected by the Annual General Meeting and no Deputies.

**Item 16:** It is proposed that the fees to the Board of Directors be paid as follows for the period until the close of the next Annual General Meeting: the Chairman shall receive 1,575,000 SEK, the Deputy Chairman shall receive 745,000 SEK and the other Board members elected by the Meeting shall each receive 630,000 SEK. It is furthermore proposed that the Board, as remuneration for committee work carried out, be allotted 230,000 SEK to the Chairmen of the Compensation Committee and the Audit Committee respectively and 115,000 SEK respectively to the other members of these committees, although totaling no more than 920,000 SEK. It is proposed that members of the Board employed by the Swedish Match Group not receive any remuneration.

**Item 17:** The following Board members are proposed for re-election: Charles A. Blixt, Andrew Cripps, Karen Guerra, Arne Jurbrant, Conny Karlsson, Kersti Strandqvist and Meg Tivéus. Conny Karlsson is proposed to be reelected as Chairman of the Board and Andrew Cripps is proposed be reelected as Deputy Chairman of the Board.

**Item 19:** The Nominating Committee proposes that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to form the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives its right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2010 Annual General Meeting. The four largest shareholders are identified on the basis of the known numbers of votes in due time before the date falling six month before the Annual General Meeting. No remuneration shall be payable to the members of the Nominating Committee. Any expenses incurred in the course of the Nominating Committee's work shall be borne by the Company.

**Item 20:** The Nominating Committee proposes that the Meeting should adopt the Instructions for Swedish Match AB's Nominating Committee, which in all essentials are identical to those adopted by the 2008 Annual General Meeting.

**The motions of the Board of Directors**

**Item 8:** The Board of Directors proposes that a dividend be paid to the shareholders in the amount of 4.10 SEK per share. The Board of Directors proposes that the remaining profits be carried forward, minus the funds that may be utilized for a bonus issue,

provided that the 2009 Annual General Meeting passes a resolution in accordance with the Board of Directors' motion concerning a reduction of the share capital pursuant to item 10 a) below, as well as a resolution concerning a bonus issue in accordance with the Board of Directors' motion pursuant to item 10 b) below. The proposed record date for entitlement to receive a cash dividend is May 4, 2009. The dividend is expected to be paid through Euroclear Sweden AB (former VPC AB), on May 7, 2009.

**Item 10 a):** The Board of Directors proposes a reduction in the Company's share capital of 6,110,045.76 SEK by means of the withdrawal of 4,000,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorization granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

**Item 10 b):** Provided that the Meeting passes a resolution in accordance with the Board's motion under item 10 a) above, the Board of Directors proposes an increase in the Company's share capital of 6,110,045.76 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's motion under item 10 a) above, the resolution to reduce the share capital can be passed without obtaining the permission of the Swedish Companies Registration Office (Bolagsverket), or, in disputed cases, court permission.

The effect of the Board of Directors' motion under item 10 a) entails a reduction in the Company's share capital of 6,110,045.76 SEK. The effect of the Board of Directors' motion under item 10 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

The resolution of the General Meeting in accordance with the Board's motion under item 10 a) is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

**Item 11:** The Board of Directors proposes that it be authorized 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, for a maximum amount of 3,000 MSEK. The shares shall be acquired on NASDAQ OMX Stockholm at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and the lowest offer price. The purpose of the repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option program.

The resolution of the General Meeting with regard to the Board motions under item 11 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

**Item 12:** The Board of Directors propose that the 2009 Annual General Meeting adopt the following principles for determining remuneration and other terms of employment for the President and other members of the Group Management Team, i.e. currently the President, Divisional Presidents and Senior Vice Presidents in charge of Group functions reporting directly to the President.

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

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

*1. Fixed salary*

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

*2. Variable salary*

The members of the Group Management Team may be entitled to a variable salary in addition to the fixed salary. The variable salary shall primarily be based on specific, clear and measurable financial or operational objectives set by the Board of Directors from year to year. A maximum of 25 per cent of the variable salary may be based on individual objectives set by the President (and in relation to the President by the Board of Directors). Variable salary shall, for each member of the Group Management Team, be capped in relation to the fixed salary and shall reflect the market practice in the country of residence.

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

It is estimated that the Company's maximum cost for variable salary for 2009 will amount to 14,3 MSEK.

### *3. Profit Sharing System*

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

### *4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the Group Management Team is resident. Members of the Group Management Team residing in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined contribution pensions for portions of their salary in excess thereof. Pensions for members of the Group Management Team residing outside Sweden shall preferably be through defined contribution pensions based on the fixed salary.

### *5. Severance pay, etc*

A mutual period of notice of six months shall apply. Severance pay shall normally total a maximum of eighteen months fixed salary if notice of termination is given by the Company. The severance pay shall be reduced by income from other employment or assignments, but by no more than 50 per cent thereof and no more than half of the severance pay. In individual cases the Board of Directors may approve severance arrangements where notice of termination given by the employee due to significant structural changes, in certain circumstances, is equated with notice of termination served by the Company.

### *6. Other benefits*

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

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

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

### *8. Committee work and decisions*

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

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

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

**Item 13:** The Board of Directors proposes that the Meeting approve the call option program for 2009. The call option program proposed by the Board for 2009 comprises a maximum of 74 employees (the President and other members of the Group Management Team included). Allotment of options in accordance with the program is based on the result of two mutually independent criteria:

- *firstly*, the average annual improvement in the Group's earnings per share during the period from 2007 to 2009 (i.e. 2007 in comparison with 2006, 2008 in comparison with 2007 and 2009 in comparison with 2008). Maximum allotment in accordance with this criterion shall occur if the average improvement during the three-year period is 20 percent or more. No allotment will be made if the average improvement is less than 5 percent;
- *secondly*, the result of the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets during the years from 2007 to 2009 in comparison with the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2006 to 2008. Of the maximum allotment in accordance with this criterion, 75 percent shall accrue if the return has remained unchanged and maximum allotment in accordance with this criterion shall accrue if the latest three-year average has increased by two percentage points or more in relation to the preceding three-year average. No allotment will be made in accordance with this criterion if the latest three-year average for the return is two percentage points lower than for the preceding period.

Both of these criteria (improvement of earnings per share, and improvement in the return after tax on operating capital adjusted for amortization of intangible assets) are equally weighted when determining allotment in accordance with the option program. When only one of the criteria set forth above is met, allotment will thus comprise a maximum of 50 percent of the maximum allotment.

When calculating the earnings per share and the average return on adjusted operating capital after tax, the calculations may, at the discretion of the Board of Directors, be adjusted to take into account the distortive effect of larger one-time items.

The market value of the options shall be determined by an independent valuation institute in accordance with a generally accepted valuation model (Black-Scholes). Employees domiciled in countries where the allotment of options constitutes a taxable benefit at the time of grant shall receive a cash payment from the Company equal to the maximum value of allotment and shall at a minimum purchase allotted options from the Company for an amount equal to such payment net after tax. For other employees the options shall be received without payment from the employees. The combined maximum value of the options allotted in accordance with the proposed option program for 2009 shall not exceed 49 MSEK. The options are freely transferable and are not conditioned on

employment. The options can be exercised to acquire shares in the Company during the period March, 2013 up to and including February, 2015 and shall carry an exercise price corresponding to 120 percent of the average share price during a ten-day period after the published year-end report for 2009.

Commitments under the option program may be hedged by repurchasing shares in the Company and transferring such shares in conjunction with any demand for the redemption of the call options. Any resolution regarding the repurchase and transfer of shares in the Company and the issue of call options for the 2009 option program shall be taken by the 2010 Annual General Meeting. Ultimate allotment, based on the result for 2009, will be determined by the Compensation Committee at the time of the publication of the full-year report for 2009.

The Group Management Team may be allotted call options with a value that corresponds to a maximum of 65 percent of the respective Group Management Team member's fixed salary. This corresponds to a maximum allotment to the Group Management Team of call options with a value of approximately 16.5 MSEK, of which the President can be allotted options to a value corresponding to a maximum of approximately 3.5 MSEK. The other participants may collectively be allotted options with a maximum value of 32.5 MSEK.

It is estimated that maximum allotment of options, at a total value of 49 MSEK, will give rise to social security contributions of approximately 8.1 MSEK for the Swedish participants in the program. Taken as a whole, this may mean a charge of 57.1 MSEK against operating profit during the year the options are vested, provided that the options are issued by the Company.

The Board of Directors' motion regarding the 2009 employee stock option program has been prepared by the Compensation Committee.

**Item 14:** According to the call option program for 2008, which was adopted by the Annual General Meeting of April 2008, certain senior executives shall be allotted a minimum of 6,340 options and a maximum of 179,385 options per person. The options may be exercised for the purchase of shares during the period from March 2012 to February 2014 inclusive, at an exercise price of 141.24 SEK. The terms and conditions applying to the options were established on the basis of the average price of the Swedish Match share on the NASDAQ OMX Stockholm during the period from February 18 to March 3, 2009 inclusive, which was 117.70 SEK. The market value of the options, calculated on the basis of conditions prevailing at the time when the terms and conditions applying to the options were established, has been established by an independent valuation institute to be 16.56 SEK per option, corresponding to a total maximum value of 28,483,200 SEK. The Board of Directors proposes that the Meeting resolve that the Company issue 1,720,000 call options to execute the option program for 2008. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer of 1,720,000 shares in the Company at a selling price of 141.24 SEK per share in conjunction with a potential exercise of the call options. The number of shares and the selling price of the shares covered by the transfer

resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or another similar measure.

The resolution of the General Meeting in accordance with the Board's motions under item 14 is contingent upon it being supported by shareholders representing at least nine-tenths of both the votes cast and the shares represented at the Meeting.

**Item 18:** The Board of Directors proposes that the Articles of Association be amended as set out below:

§ 9 Notice of a general meeting shall be announced in the Swedish Official Gazette (Post- och Inrikes Tidningar) and on the Company's website. Information that notice to a general meeting has been issued shall be announced in Svenska Dagbladet.

The resolution of the General Meeting with regard to the Board's proposal under item 18 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Furthermore, the Board of Directors proposes that the resolution of the General Meeting to amend the Articles of Association in accordance with the above shall be conditional upon an amendment of the procedures for convening general meetings in the Swedish Companies Act (SFS 2005:551) having entered into force and the above proposed wording of the Articles of Association being consistent with the Swedish Companies Act.

### **Documents**

The Annual Report, the Auditors' Report, full details of the resolutions proposed under items 8, 10 a), 10 b), 11, 12, 13, 14 and 18 as well as statements by the Board of Directors, pursuant to Chapter 18 Section 4 and Chapter 19 Section 22 of the Swedish Companies Act, and the statement by the auditors pursuant to Chapter 8 Section 54 and Chapter 20 Section 14 of the Swedish Companies Act, will be made available at Swedish Match AB's headquarters (Legal Department) at Rosenlundsgatan 36 in Stockholm, Sweden, no later than April 14, 2009. They will also be available on the Company's website, [www.swedishmatch.com](http://www.swedishmatch.com), on the same date. They can also be ordered from the Company.

### **Number of shares and votes in the Company**

The total number of shares and votes in Swedish Match AB on the issue date of this notice amounted to 255 000 000. As per March 17, 2009 Swedish Match owns 5 397 600 repurchased shares and these shares can consequently not be represented at the Meeting.

### **Right to participate in the Meeting**

Participation in the Meeting is limited to shareholders who both are registered in the register of shareholders maintained by Euroclear AB (former VPC AB) on April 22,

2009, and notify Swedish Match of their intention to participate no later than April 22, 2009, at which time notifications to participate must have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also advise Swedish Match thereof within the appointed period of time.

**Proxy form**

Proxy forms are available upon request and on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

**Notice of participation**

Notice of participation may be submitted in writing to Swedish Match AB, Legal Department, SE-118 85 Stockholm, Sweden, by telephone at +46 (0) 8 658 02 00 (13:30 – 16:30 CET), by fax at +46 (0)8 720 76 56, or via the Internet at [www.swedishmatch.com/stamman](http://www.swedishmatch.com/stamman). When giving notice of participation, the shareholder shall state his or her name, address, telephone number (daytime), civic ID/corporate registration number and name of assistants, if any. Receipt of notification will be confirmed by Swedish Match, which will issue an attendance card prior to the Meeting to be presented at the entrance to the venue at which the Meeting is held.

**Proxy**

Shareholders who are represented by proxy shall issue a power of attorney for the proxy. If the power of attorney is issued by a legal entity, a copy of the corporate registration certificate for the legal entity shall be enclosed (or if no such document is available, an equivalent authorization document). These documents may not be older than one year. To facilitate entry at the Meeting, the power of attorney in the original as well as the corporate registration certificate and other authorization documents should be received by the Company at the address provided above no later than Thursday, April 23, 2009.

**Share registration**

Shareholders whose shares are nominee registered and who wish to participate in the Meeting must temporarily re-register the shares in their own name, known as voting right registration. Requests for re-registration should be submitted to the bank or broker who administers the shares in sufficient time to allow re-registration to take place no later than Wednesday, April 22, 2009.

The entrance to the venue for the Meeting will opened at 15:30 (CET). Coffee will be served before the Meeting.

Stockholm, March 2009  
*The Board of Directors*

**AGENDA**  
**OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF**  
**SWEDISH MATCH AB**  
**TUESDAY, 28 APRIL 2009, AT 4:30 PM**

1. Election of Chairman of the Meeting.
2. Preparation and approval of the list of shareholders entitled to vote at the Meeting.
3. Election of one or two persons who, in addition to the Chariman, shall verify the minutes.
4. Determination of whether the Meeting has been duly convened and issues relating to attendance of the Meeting.

Notice to attend the Meeting has been published in Post- och Inrikes Tidningar and Svenska Dagbladet on 24 March 2009 and on the Company's web site.

5. Approval of the Agenda.
6. Presentation of the Annual Report and the Auditors' Report and of the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2008, the Auditors' Statement regarding compliance with the principles for the compensation of senior executives as well as the Board of Directors' motion regarding the allocation of profit and explanatory statements.

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

7. Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
8. Allocation of the Company's profit as shown in the Balance Sheet adopted by the Meeting.
9. The question of discharging the Members of the Board and of the President from liability.
10. a) The Board of Directors' proposal that the Company's share capital shall be reduced by way of a recall of repurchased shares, and that the reduced amount shall be transferred to a fund for use in repurchasing the Company's own shares; and  
b) the Board of Directors' proposed decision on a bonus issue.
11. The Board of Directors' proposal to authorise the Board of Directors to decide on the acquisition of shares in the Company.

12. Adoption of principles for determination of remuneration payable to senior executives.
13. Resolution regarding adoption of the 2009 stock option program.
14. The Board of Director's proposal regarding the issue by the Company of call options on treasury shares in the Company for the 2008 stock option programme, and the right of the Company to transfer shares in the Company in conjunction with any exercise of the call options.
15. Determination of the number of Board Members to be elected by the Meeting.
16. Determination of the remuneration to be paid to the Board of Directors, specifying the distribution between the Chairman and other Board Members and compensation for committee work.
17. Election of Members of the Board, the Chairman of the Board and the deputy Chairman of the Board.
18. The Board of Directors' proposal regarding amendments to the Articles of Association.
19. The question of how members of the Nominating Committee shall be appointed and the question of remuneration to the Nominating Committee, if any.
20. Adoption of Instructions for Swedish Match AB's Nominating Committee.

**The Board of Directors' proposal under item 8 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

The Board of Directors proposes that a dividend be paid to the shareholders in the amount of 4:10 SEK per share. The Board of Directors proposes that the remaining profits be carried forward, minus the funds that may be utilised for a bonus issue, provided that the 2009 Annual General Meeting passes a resolution in accordance with the Board of Directors' proposal concerning a reduction of the share capital pursuant to item 10 a) below, as well as a resolution concerning a bonus issue in accordance with the Board of Directors' proposal pursuant to item 10 b) below.

The proposed record date for entitlement to receive a cash dividend is 4 May 2009. The dividend is expected to be paid through Euroclear Sweden AB (former VPC AB) on 7 May 2009.

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

**Statement by the Board of Directors pursuant to chapt. 18, §4 and chapt. 19, §22 of the Swedish Companies Act with regard to the dividend proposal submitted to the 2009 Annual General Meeting in respect of the 2008 financial year, and the Board's proposal regarding a mandate to buy back the Company's own shares.**

**Background**

The Board of Directors has analyzed and evaluated the proposed dividend payment in respect of the 2008 financial year, and the proposed mandate in respect of the buy-back of the Company's own shares. The analysis has been based, among other things, on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis. The proposed dividend and exercise of share repurchases under the proposed mandate to buy back the Company's own shares have been assessed in view of the financial policy, including dividend policy, adopted for the Group by the Board of Directors. Please see the Directors' Report for a description of the financial policy and the dividend policy.

**The nature, scope and inherent risks of the operations**

The nature of the operations is specified in the Articles of Association and published Annual Reports. The operations conducted by the Company do not entail any risks over and above those that arise, or may be assumed to arise, within the industry, or those generally associated with the conduct of commercial operations. The tobacco industry is relatively insensitive to fluctuations in the economic climate. Please see the Directors' Report for details of significant events and risk factors. No other material events have occurred that affect the Company's ability to make a dividend payment or buy back its own shares.

**The financial position of the Company and the Group**

The financial position of the Company and the Group on 31<sup>st</sup> December 2008 are shown in the most recently published Annual Report. The consolidated shareholders' equity has been calculated in accordance with International Financial Reporting Standards (IFRS) adopted by the EU, and by applying RFR 1.1 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board. On 31<sup>st</sup> December 2008, the consolidated shareholders' equity amounted to SEK 1,381 million, SEK -107 million of which are attributable to the market valuation of assets and liabilities on the closing date. The Parent Company's shareholders' equity has been calculated in accordance with the same principles as for the Group, with exemptions and supplements by applying the Swedish Financial Reporting Board's recommendation, RFR 2.1, Accounting for Legal Entities. On 31<sup>st</sup> December 2008, it amounted to SEK 22,148 million. The amount includes market valuation of certain subsidiaries of SEK 18,100 million.

The Group's actual financial position differs from the financial position reported in the most recently published Annual Report in that the companies that make up the corporate Group own a number of assets with market values which exceed the

reported values. Based on the closing price of the Swedish Match share on 31<sup>st</sup> December 2008, the market value of the Group's shareholders' equity was SEK 27,844 million.

As can be seen from the proposed allocation of profits, the Board proposes a dividend of SEK 4.10 per share. Given the number of outstanding shares on 31<sup>st</sup> December 2008, the total dividend payment is therefore SEK 1,022 million, corresponding to 4.6 per cent of the Parent Company's shareholders' equity and 74 per cent of the Group's reported shareholders' equity. The ratio of the dividend to the market value of shareholders' equity of the Group on 31<sup>st</sup> December 2008 is 4 per cent.

The Board also proposes that the Annual General Meeting renew the Board's mandate to buy back shares in the Company for a maximum amount of SEK 3 billion, such that the Company holds a maximum of 10 per cent of its own shares. This amount corresponds to 14.2 per cent of the Parent Company's reported shareholders' equity after dividend payments and exceeds the Group's reported shareholders' equity after dividend payments by SEK 2.6 billion. If exercised in full, the buy-back program would correspond to just below 11 per cent of the market value of the Group's shareholders' equity on 31<sup>st</sup> December 2008.

The proposed mandate to buy back shares is maximum 3 billion SEK. The Board considers the proposed mandate to be flexible. The Board will at future board meetings decide and evaluate actual utilization of the mandate.

The Group's interest coverage ratio, based on EBITA (earnings before financial items, adjusted for large non-recurring items, tax and amortization of intangible assets/net interest items) was 7.5 on 31<sup>st</sup> December 2008, and the net debt in relation to EBITA was 2.4.

The Board is of the opinion that the proposed dividend and the buy-back do not jeopardize fulfillment of the investments deemed necessary.

The proposed asset transfers do not affect the Company's ability to fulfill existing and predicted payment liabilities at the correct time. The Company's liquidity forecast includes a readiness to handle variations in ongoing payment obligations. For a more detailed description of the Group's liquidity, please see note the Group's accounts on Financial Instruments in the most recently published Annual Report.

The Company's financial position does not give rise to any assessment other than that the Company is able to continue its operations and can be expected to fulfill its obligations in both the short and the long term.

**Justification of the asset transfers**

With reference to the above, the Board believes that the assessment of the Parent Company's and the Group's financial positions justify the asset transfers with reference to the requirements imposed on the size of the Parent Company's and the Group's shareholders' equity by the nature, scope, and inherent risk of the operations, as well as to the consolidation requirements, liquidity and position in general of the Parent Company and the Group's operations.

Stockholm 17<sup>th</sup> February, 2009

**Conny Karlsson**  
Chairman of the Board

**Andrew Cripps**  
Deputy Chairman

**Charles A. Blixt**  
Board member

**Kenneth Ek**  
Board member

**Karen Guerra**  
Board member

**Arne Jurbrant**  
Board member

**Eva Larsson**  
Board member

**Joakim Lindström**  
Board member

**Kersti Strandqvist**  
Board member

**Meg Tiveus**  
Board member

Unauthorized translation of Swedish original

## Auditors' report in accordance with Chapter 8 paragraph 54 of the Swedish Companies Act (2005:551)

To the annual general meeting of the shareholders in Swedish Match AB (publ)

Corporate identity number 556015-0756

### *Introduction*

We have audited whether the Board of Directors and the President of Swedish Match AB (publ) have complied with the guidelines for remuneration to Group Management during 2008, which were approved by the annual general meeting of shareholders held on April 23, 2007 and April 22, 2008. The Board of Directors and the President are responsible for compliance with these guidelines. Based on our audit, our responsibility is to express an opinion to the annual general meeting of shareholders as to whether the guidelines adopted by the annual general meeting have been complied with.

### *The focus and scope of our audit*

We conducted our audit in accordance with proposed standard RevR 8 Audit of Remuneration to Officers in Listed Companies issued by FAR SRS, (the institute for the accountancy profession in Sweden). In following this standard, we have planned and performed the audit to obtain reasonable assurance whether the guidelines have been complied with. Our audit has included a review of the company's organization for and the documentation supporting the remuneration to Group Management as well as the decisions related to compliance with the guidelines. Our procedures have also included testing a sample of payments during the year to Group Management. We believe that our audit procedures provide a reasonable basis for our opinion as set out below.

### *Opinion*

In our opinion, the Board of Directors and the President of Swedish Match AB (publ) have, during 2008 complied with the guidelines for remuneration to Group Management which were approved by the annual meetings of shareholders held on April 23, 2007 and April 22, 2008.

Stockholm, March 11, 2009

KPMG Bohlins AB

Signature on Swedish original

Thomas Thiel

Authorized Public Accountant

# Report of the Board of Directors

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

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

## Sales

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

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

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

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

## Operating profit

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

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

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

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

### Summary of consolidated income statement

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

### Other operations

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

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

### Net finance cost

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

### Taxes

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

### Earnings per share

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

### Liquid funds

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

### Financing and cash flow

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

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

#### Summary of consolidated balance sheet

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

#### Summary of consolidated cash flow statement

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

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

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

### **Capital expenditure and depreciation**

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

### **Dividend and financial policy**

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

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

### **Proposed dividend per share**

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

### **Share structure**

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

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

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

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

### **Average number of Group employees**

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

### **Environmental impact**

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

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

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

### **Permits and obligatory reporting**

All plants satisfied the requirements of their permits during 2008. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

The plant in Vetlanda, Sweden produces matchsticks and boxes with striking surface that are used in match production. These

operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

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

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

### Risk factors

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

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

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

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

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

The Group is involved in legal and regulatory proceedings including pending lawsuits related to intellectual property rights and alleged injuries caused by tobacco products. There can be no

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

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

### Change of control clauses

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

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

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

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

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

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

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

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

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

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

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

#### *1. Fixed salary*

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

#### *2. Variable salary*

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

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

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

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

#### *3. Profit Sharing System*

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

#### *4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the Group Management Team is resident. Members of the Group Management Team residing in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined contribution pensions for portions of their salary in excess thereof. Pensions for members of the Group Management Team residing outside Sweden shall preferably be through defined contribution pensions based on the fixed salary.

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

A mutual period of notice of six months shall apply. Severance pay shall normally total a maximum of eighteen months fixed salary if notice of termination is given by the Company. The severance pay shall be reduced by income from other employment or assignments, but by no more than 50 percent thereof and no more than half of the severance pay. In individual cases the Board of Directors may approve severance arrangements where notice of termination given by the employee due to significant structural changes in certain circumstances is equated with notice of termination served by the Company.

#### *6. Other benefits*

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

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

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

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

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

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

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

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

#### **Outlook**

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

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

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

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

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

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

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

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

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

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

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

# Consolidated income statement

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

# Consolidated balance sheet

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

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

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

# Statement of recognized income and expense

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

# Consolidated cash flow statement

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

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

# Notes for the Group

## 1. Accounting principles

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

### Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission for application within the EU. In addition, RFR 1.1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Accounting principles for the Parent Company".

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

The financial reports are presented in Swedish kronas (SEK), which is the functional currency of the Parent Company. Unless otherwise indicated, all amounts are rounded off to the nearest million. Figures in the reports are based on a consolidation system in SEK thousands. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers.

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

### Evaluations and estimates in the financial reports

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

Evaluations made by management on the implementation of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in greater detail in Note 32 *Critical estimates and judgements*.

### New Interpretations

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

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

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

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

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

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

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

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

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

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

### Reporting by segment

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

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

### Classification etc.

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

### Consolidation principles

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

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

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

## Foreign currencies

### (i) Transactions in foreign currencies

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

### (ii) Financial reports of foreign operations

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated into SEK at the exchange rate on the reporting date. Revenues and expenses from foreign operations are translated to SEK at an average exchange rate for the year. Translation differences arising from currency translation of foreign operations are reported directly in equity as a translation reserve. The translation difference relating to a specific subsidiary is recycled through the income statement when the subsidiary is divested.

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

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

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

## Revenues

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

## Financial income and expenses

Financial income and expenses consist of interest income on bank balances, receivables, interest-bearing securities and dividend income, interest expense on loans, exchange rate differences, unrealized and realized gains on financial investments and derivative instruments used in financial activities.

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

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

## Financial instruments

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

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

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

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

The fair value of unlisted financial assets is based on a calculation of the net present value of future cash flows.

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

### Investments held to maturity

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

### Financial assets at fair value through profit and loss

Financial assets in this category which include financial investments reported as other investments or cash equivalents and certain non-current receivables, other receivables, prepaid expenses and accrued income are valued at fair value with changes in value reported in the income statement.

### Financial assets available for sale

The financial assets in this category include financial assets that are not classified in any other category or financial assets that the Company initially chose to classify in this category. Assets in this category are valued continuously at their fair value with changes in value reported in equity. At the time when the investments are removed from the balance sheet, previously reported accumulated gains or losses in equity are transferred to the income statement. Swedish Match presently has no assets classified as available for sale.

### Other financial liabilities

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

## NOTE 1 CONTINUED

### *Derivatives used for hedge accounting*

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

### *Loans and receivables*

Non-current receivables and other current receivables are receivables that arise when the Company provides money without the intention to conduct trade in the receivable.

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

### **Derivatives and hedge accounting**

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

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

### *Receivables and liabilities in foreign currency*

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

### *Cash flow hedges*

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

### *Fair value hedges*

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

### **Leased assets**

In the case of leased assets, IAS 17 applies. Leasing of fixed assets, whereby the Group is essentially subject to the same risks and benefits as with direct ownership, is classified as financial lease. However, the Group has entered into certain financial leasing agreements related to

company cars, photocopiers, etc. that, based on materiality criteria, are reported as operating leases. Leasing of assets where the lessor essentially retains ownership of the assets are classified as operating leases. Lease charges are expensed straight-line over the lease period.

### **Intangible assets**

#### *(i) Goodwill*

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

For goodwill in acquisitions made before January 1, 2004, the Group has, with the transition to IFRS, not applied IFRS retroactively, but rather the value reported on this date continues to be the Group's acquisition value, following impairment testing, see Note 11 *Intangible assets*.

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

#### *(ii) Trade marks and other intangible assets*

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

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

#### *(iii) Amortization*

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

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

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

### **Tangible assets**

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

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

#### *Depreciation*

Depreciation is applied straight-line over the asset's estimated useful life. Land and construction in progress are not depreciated. The estimated useful life periods are normally:

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

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

## NOTE 1 CONTINUED

**Forest plantations**

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

**Inventory**

Inventory is valued at the lesser of acquisition cost and net realizable value. Net realisable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

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

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

**Impairments**

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

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

**Provisions**

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

**Share capital**

Buybacks of own shares are reported directly in equity.

**Employee benefits**

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

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

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

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

**Share-based payments**

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

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

**Taxes**

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

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

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

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

**Contingent liabilities**

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

**Earnings per share**

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

## NOTE 1 CONTINUED

### Parent Company accounting principles

The Annual Report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the Securities Markets Act which is in accordance with the rules of RFR 2.1 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2.1 states that in the Annual Report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS. The differences in the accounting principles between the Parent Company and the Group are described below.

#### *Employee benefits*

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

#### *Taxes*

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

### Group and shareholder contributions for legal entities

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

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

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

## 2. Sales

The Group's sales relate mainly to sale of goods.

## 3. Segment information

### Primary segments – product areas

The Group is organized in five product areas and Other Operations. Other Operations include distribution of tobacco products on the Swedish market and corporate overheads.

Product area assets consist primarily of property, plant and equipment, intangible assets, inventories and operating receivables. Product area liabilities consist of operating liabilities. Non-allocated assets and liabilities are mainly assigned to financial items and taxes.

Investments consist of purchases of property, plant and equipment and intangible assets. No sales are transacted between the different product areas.

External sales	2008	2007
Snuff	3,829	3,289
Cigars	3,657	3,411
Chewing tobacco	934	956
Pipe tobacco and accessories	817	851
Lights	1,534	1,473
Other operations	2,390	2,571
<b>Total</b>	<b>13,162</b>	<b>12,551</b>

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

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

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

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

NOTE 3 CONTINUED

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

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

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

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

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

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

### Secondary segments – geographical areas

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

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

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

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

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

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

## 4. Business combinations

No business acquisitions have been made during 2008.

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

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

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

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

### Effects of acquisitions 2007

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

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

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

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

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

Acquisition balances are reported in accordance with IFRS.

## 5. Other operating income and other operating expenses

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

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

## 6. Personnel

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

Group employees by country are summarized in the table below:

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

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

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

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

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

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

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

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

## NOTE 6 CONTINUED

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

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

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

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

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

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

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

#### Fees to Board members

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

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

### Remuneration and other benefits to Group Management Team

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

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

The objective of these principles is to ensure that the Company is able to recruit and retain employees with optimum skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the home country of each member of the Group Management Team.

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

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

NOTE 6 CONTINUED

- The principles for fixed salary:* The fixed salary for the Group Management Team shall correspond to market rates and shall be based on each member's competence, responsibility and performance.
- The relative importance of fixed and variable components of the remuneration and the linkage between performance and remuneration:* The members of the Group Management Team may be entitled to a variable salary in addition to the fixed salary. The variable salary for the President and the Senior Vice Presidents in charge of Group functions shall be based on the result of two mutual independent criteria, with one target based on the Group's earnings per share and one target based on the return on operating capital. Part of the total variable salary for the Divisional Managers shall be based on the same criteria and targets as for the rest of the Group Management Team, with the other part based on the outcome in relation to targets approved by the Compensation Committee for the Division in question. The maximum annual variable salary shall be capped at 50 percent of the fixed salary for the President and 40 percent of the fixed salary for members of the Group Management Team other than the President. Members of the Group Management Team residing outside Sweden may be offered additional variable salary to ensure the compensation's competitiveness in each country. Such additional variable salary shall also be capped in relation to the Group Management Team member's fixed salary.  
The Group Management Team may, subject to decision by the Annual General Meeting, be covered by a long term share related incentive program.
- Profit Sharing System:* All employees in Sweden are also participating in Swedish Match's profit sharing system ("PSS"). For 2007 the individual result amounted to 29,355 SEK. Results under the PSS are primarily placed in Swedish Match shares and can be disposed of on the individual level after three years at the earliest.
- Pension:* Members of Group Management Team residing in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined-contribution pensions for portions of their salary in excess thereof. Pensions for members of the Group Management Team residing outside Sweden shall preferably be through defined-contribution pensions with a premium based on the fixed salary.
- Severance pay, etc:* A mutual period of notice of six months shall apply. Severance pay shall total a maximum of eighteen months' fixed salary if notice of termination is given by the Company. The severance pay shall be reduced by income from other employment or commissions, but by no more than 50 percent thereof and no more than half of the severance pay.
- Other benefits:* Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to the market norm.
- The Board's right to deviate from the principles:* The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:* Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the Group Management Team, except those regarding the President. The Committee shall also prepare and present proposals for the Board's decision on issues relating to share related incentive schemes and for salary and other remuneration and employment terms for the President. In addition hereto, the Committee is authorized to decide (and in relation to the President to propose to the Board of Directors) the further details of how to set the criteria and targets on which the variable salary is based for the Group Management Team.

Remuneration and other benefits to Group Management Team

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

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

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

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

Comments to the table

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

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

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

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

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

## NOTE 6 CONTINUED

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

*Variable salary*

In 2008, Group Management Team participated in an incentive program (variable salary) described under the presentation of the principles for salary and other remuneration above.

In addition to the program noted above, the President of Swedish Match North America Division also participated in a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome of this plan corresponds to a fixed annual salary every second year. During 2008, the current and the former President of Swedish Match North America, both members of the Group Management Team, participated in the local program.

*Options*

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

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

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

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

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

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

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

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

NOTE 6 CONTINUED

**Pensions**

*President*

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

*Other members of Group Management Team*

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

**Funding of pension commitments**

For members of Group Management Team resident in Sweden, pensions on salary portions of up to 30 income base amounts are funded in PSF, the Swedish Match Superannuation Fund. For members of Group Management Team resident abroad, defined benefit pension commitments are funded in local pension foundations.

All pension benefits are vested benefits.

**Other employment conditions**

*Severance pay etc.*

For the Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract. With the exemption of one member of the Group Management Team severance pay will be reduced by a maximum of 50 percent of any income received from another employer or assignment, but not to less than half of the contracted severance pay amount.

The President is entitled to terminate his employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts his position. Two members of the Group Management Team, who reside abroad, are entitled to terminate their employments in a change of control situation, provided their employment conditions are significantly changed, with 6 months notice and up to 24 months severance pay.

## 7. Audit fees

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

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

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

## 8. Operating expenses classified by nature

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

## 9. Net finance cost

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

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

## 10. Income tax

Income taxes in 2008 and 2007 were distributed as follows:

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

## NOTE 10 CONTINUED

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

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

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

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

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

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

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

In 2008 and 2007, the Group's effective tax rates were 14.5 percent and 22.8 percent, respectively. The difference between the Group's tax expense and tax expense based on the statutory tax rate in Sweden of 28.0 percent is attributable to the items shown in the following table:

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

# 11. Intangible assets

Intangible assets at December 31 comprised the following:

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

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

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

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

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

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

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

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

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

## 12. Property, plant and equipment

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

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

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

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

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

Construction in progress primarily relates to investments in production facilities.

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

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

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

## 13. Forest plantations

Forest plantations at December 31 comprised the following:

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

The Group's forest plantations comprise poplar and pine forests with a total area of 6,100 hectares at December 31, 2008. The age of the trees varies from newly planted seedlings up to 35 years. The forests are held to ensure the supply of wood for parts of the Lights operations.

Timber felled during the year had an estimated value of 14 MSEK at the time of felling, and made up 116,700 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2008, 447 hectares (220) pine forest were replanted. At present, there is no corresponding requirement for poplar.

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

## 14. Investments in associates and joint ventures

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

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

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

2008	Country	Sales	Profit	Assets	Liabilities	Equity interest	Ownership, %	Book value
Arnold André GmbH & Co. KG	Germany	191	11	177	75	101	40	105
Malaysian Match Co. SDN. BHD.	Malaysia	17	1	14	6	8	32	12
<b>Total shares in associated companies</b>		<b>209</b>	<b>11</b>	<b>190</b>	<b>82</b>	<b>109</b>	<b>-</b>	<b>117</b>

  

2007	Country	Sales	Profit	Assets	Liabilities	Equity interest	Ownership, %	Book value
Arnold André GmbH & Co. KG	Germany	180	3	165	84	81	40	79
Malaysian Match Co. SDN. BHD.	Malaysia	16	0	11	5	6	32	9
<b>Total shares in associated companies</b>		<b>196</b>	<b>3</b>	<b>176</b>	<b>89</b>	<b>87</b>	<b>-</b>	<b>89</b>

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

### Investment in joint ventures

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

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

## 15. Non-current receivables and other receivables

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

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

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

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

Other current receivables at December 31 comprised the following items:

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

## 16. Inventories

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

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

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

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

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

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

Trade receivables split in accordance with ageing comprised the following:

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

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

## 18. Cash and cash equivalents, and other current investments

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

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

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

# 19. Equity

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

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

## Details of equity reserves

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

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

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

<sup>1)</sup> Translation reserves include all exchange rate differences that arise in translation of the financial reports of foreign operations that have prepared their financial statements in a different currency from that which is used to present the consolidated financial reports. The Parent Company and the Group present their reports in Swedish krona (SEK).

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

## NOTE 19 CONTINUED

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

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

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

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

The Annual General Meeting on April 22, 2008 renewed the mandate to repurchase up to 10 percent of the shares of the Company up to an amount of 3,000 MSEK. In addition, a decision was made to cancel 12.0 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 18 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. The total number of registered shares of the Company, after the cancellations, is 255 million shares with a quotient value of 1.5275 SEK. During the year, the Company issued 1.6 million call options to senior management and key employees for the stock option program for 2007. These call options can be exercised from March 1, 2011 to February 28, 2013. The exercise price is 172.68 SEK.

During the year 7.5 million shares were repurchased at an average price of 132.63 SEK. As at December 31, 2008 Swedish Match held 5.8 million shares in its treasury, corresponding to 2.3 percent of the total number of shares. During the year the Company has also sold 0.8 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 249.2 million. In addition, the Company has call options outstanding at year end corresponding to 4.2 million shares exercisable in gradual stages from 2009–2013.

## 20. Earnings per share

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

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

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

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

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

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

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

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

## 21. Loans and borrowings

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

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

Current interest-bearing liabilities:

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

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

## 22. Employee benefits

**Post-employment employee benefits**

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

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

NOTE 22 CONTINUED

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

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

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

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

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

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

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

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

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

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

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

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

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

For the post-employment medical plans, a 1 percent increase in the medical cost trend rate would increase the aggregate of the current service and interest costs by 17 MSEK and the defined benefit obligation by 107 MSEK. A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 14 MSEK and the defined benefit obligation by 90 MSEK.

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

## NOTE 22 CONTINUED

Plan assets are comprised as follows:

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

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

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

Assumptions regarding future mortality expectations are set based on advice in accordance with published statistics and experience in each country. The mortality table used for the calculations of the Swedish plans was updated in 2007 to M90. Expected contributions to post-employment benefit plans for the year ending December 31, 2009 are 98 MSEK. The actual return on plan assets in 2008 was negative 506 MSEK (189). The assumptions for expected return on plan assets are based on the asset groups as defined in each investment policy. The assumptions for expected rate of return are estimated in each country respectively based on the portfolio as a whole considering historical performance and outlook given the long term perspective. Gains and losses resulting from changes in actuarial assumptions, as well as other than expected return on plan assets are recognized in equity as they occur in accordance with the yearend valuation. Obligations for retirement pension and family pension for

## NOTE 23 CONTINUED

Movements in provisions during the year were as follows:

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

**Restructuring provisions**

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are generally expected to be settled within one year, but a certain portion is expected to be settled within a period up to five years.

**Income tax provisions**

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

**Other operating provisions**

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as other operating provisions. A large part of the operating provisions is related to provisions for

salaried personnel and workers in Sweden are funded by insurance policies with two superannuation funds, PSF and PSA. These funds are also fund pensions of other employers outside the Group. The pension plan funded with PSA has been reclassified from a post-employment defined benefit plan. The reason for this is that PSA was previously a multi-employer plan that was entirely assumed by Swedish Match during 2008.

**Defined contribution plans**

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

	2008	2007
Costs for defined contribution plans	49	36

## 23. Provisions

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

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

outstanding redemptions of current coupons and future product returns. Whilst coupons and returns are expected to be realized within the year, these are replaced within the year, and as such the provisions are classified as non-current. Another large part of the operating provisions are provisions for disputed sales tax. The timing of settlement is hard to predict and may be beyond five years.

**Deferred compensation**

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

## 24. Other liabilities

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

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

Other current liabilities at December 31 comprised the following:

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

## 25. Accrued expenses and deferred income

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

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

## 26. Financial instruments and financial risks

### Operations

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

### Financial instruments

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

### Outstanding derivatives

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

### Of which hedge accounted interest rate derivatives

#### Interest rate risk in financing

	2008			2007		
Fair value hedges	950	146	-	775	53	11
Hedged item	950	-	156	775	0	51

#### Cash flow risk in financing

	2008			2007		
Cash flow hedges	7,336	734	146	7,336	36	3

### Currency risks

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

- Earnings – when sales revenues and production costs are denominated in different currencies (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Earnings – if loans and deposits are made in other currencies than the unit's functional currency (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement includes exchange rate losses of 5.5 MSEK (2.9 gain) in operating income and losses of 5.5 MSEK (7.0 loss) in net finance cost.

### Transaction exposure

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

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 410 MSEK on an annual basis. At December 31, 2008, no transaction exposure for 2009 had been hedged. A general rise of 1 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by approximately 4.3 MSEK (4.6) for the year ending December 31, 2008.

### Translation exposure

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries' earnings. Earnings in Group companies are translated at average exchange rates. Significant effects mainly pertain to USD, EUR, the Brazilian real (BRL) and the South African rand (ZAR). The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 1 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be positive in an amount of approximately 130 MSEK, based on the exposure at December 31, 2008.

Approximately 53 percent relates to EUR, 33 percent relates to USD and 14 percent relates to other currencies.

## NOTE 26 CONTINUED

**Interest-rate risk**

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match's policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate binding is to achieve an even and low cost of interest. At December 31, 2008, the average interest maturity period for Group loans was 2.3 years (2.8 years), taking into account interest rate swaps. At December 31, 2008, a general rise of 1 percent (100bp) in interest rates was estimated to reduce consolidated earnings before tax by approximately 5.3 MSEK (6.2) on an annual basis, and the net interest bearing debt (includes pension) at the same date amounted to 7,640 MSEK (7,127). The assumption is based on the present level of net debt and average interest maturity period.

If interest rates were to rise with 1 percent (100bp), the total effect on equity due to cash flow hedges would amount to 66.0 MSEK.

**Refinancing risk and liquidity**

Refinancing risk is defined as the risk that funds become scarce and thus more expensive than expected, and liquidity risk is defined as not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. Subsidiary borrowing can take place, however, in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and a certain length on its gross borrowing, and not to be dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of 250 MEUR, which matures in mid 2010. This was unutilized at year-end and contained no borrowing restrictions. In addition Swedish Match has one committed credit line, of the amount of 500 MSEK, maturing in 2009 with an extension possibility. At year-end 2008, available cash funds and committed credit facilities amounted to 6,417 MSEK. Of this amount, confirmed credit lines amounted to 3,238 MSEK and cash and cash equivalents making up the remaining 3,179 MSEK.

Most of Swedish Match's medium-term financing consists of a Swedish medium-term note program (MTN) with a limit of 4,000 MSEK, and a global medium-term note program with a limit amount of 1,250 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2008, a total of 2,270 MSEK of the Swedish program and 7,862 MSEK of the global program were outstanding. In addition, Swedish Match established a short term Commercial Paper program during 2007. The limit is 2,000 MSEK and the program has not yet been utilized for any borrowings. At December 31, 2008, there was no outstanding debt under this program.

The average maturity of the Group's borrowing at December 31, 2008 was 3.3 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

Year	Swedish MTN	Global MTN	Other loans	Total
2009	400	219	1,445 <sup>1)</sup>	2,064
2010	500	721	462	1,683
2011	820	491	–	1,311
2012	550	1,642	–	2,192
2013	–	3,323	–	3,323
2014–	–	1,466	–	1,466
<b>Total</b>	<b>2,270</b>	<b>7,862</b>	<b>1,907</b>	<b>12,039</b>

<sup>1)</sup> Includes trade payables and negative derivatives.

Under the Swedish bond program, Swedish Match has issued bonds in SEK, and under the global program, in EUR and SEK. Borrowing in EUR is hedged by currency swaps and currency interest rate swaps. The

average interest costs for outstanding borrowings (including derivative instruments) on December 31, 2008 were as follows:

	2008	2007
Swedish MTN, %	4.5	4.9
Global MTN, %	5.0	5.0
Other loans, % <sup>1)</sup>	3.5	5.9

<sup>1)</sup> Relates mainly to loans in the Group's US subsidiaries.

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

**Accounting principles, measurement and hedge accounting**

Financial assets, excluding trade receivables, and derivatives are always measured at fair value and recognized in the balance sheet. Fair values are established using official market quotations for assets and liabilities that are quoted publicly on the financial markets. If publicly quoted market prices are not available for a particular financial asset or liability, the fair value is established by discounting all future cashflows at the relevant market interest rate for a similar instrument.

Trade receivables are recognized at nominal value. Financial liabilities are mainly measured at the amortized cost. In cases where financial liabilities are included in a hedging relation, they are measured at fair value. In those cases derivatives are entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39. When derivatives are used in order to convert floating interest rate bindings into fixed interest rate bindings or to convert a stream of interest payments in foreign currency into a stream of interest payments in SEK, hedge accounting according to the cashflow hedge technique is applied. Fair value changes arising from the revaluation of derivatives that are part in a cashflow hedge relationship and are considered to be effective as described in IAS39 are recognized in equity, and any ineffective portion is recognized directly in earnings.

	2008			2007		
	Jan. 1	Equity	Dec. 31	Jan. 1	Equity	Dec. 31
Hedging instruments, derivatives	38	-184	-146	–	38	38
<b>Total</b>	<b>38</b>	<b>-184</b>	<b>-146</b>	<b>–</b>	<b>38</b>	<b>38</b>

The maturity profile of interest payments from loans taking part in a cash-flow hedge, and the market-value for the derivatives are shown in the table below.

	2009	2010	2011	2012	2013	2014–
Interest payment from loans	230	230	230	201	162	26
Market-value derivatives	-39	-39	-33	-19	-10	-6

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

NOTE 26 CONTINUED

	2008			2007		
	Jan. 1	P&L	Dec. 31	Jan. 1	P&L	Dec. 31
Hedged item	-51	-105	-156	-87	36	-51
Hedging instruments, derivatives	43	103	146	76	-34	43
<b>Total</b>	<b>-9</b>	<b>-2</b>	<b>-10</b>	<b>-11</b>	<b>2</b>	<b>-9</b>

**Liquidity risks and credit risks**

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in government bonds, treasury bills and bank and mortgage certificates, as well as in certain approved securities with approved counterparties. At December 31, 2008, the average interest maturity for the Group's current investments was approximately 0.8 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least BBB+ from Standard & Poor's or equivalent from Moody's. To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2008, credit exposure in derivative instruments amounted to 1,018

MSEK, and credit exposure due to current investments amounted to 1,344 MSEK. Swedish Match risk of its customers failing to fulfill their undertakings is low, since trade receivables are divided among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,828 MSEK.

**Credit ratings**

At December 31, 2008, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

	Standard & Poor's	Moody's
Long-term rating:	BBB	Baa2
Outlook:	Stable	Stable

**Carrying value and fair value**

The following table shows carrying value (including accrued interest) and fair value for each type of financial instruments at December 31, 2008. Trade receivables and trade liabilities have a short duration and are reported at nominal value without discounting. Estimated fair values are based on market prices at the balance sheet date. Loans have been measured by using the applicable benchmark interest rates at the balance sheet date, adding original credit spread and using these interest rates to estimate the present value of future cash flow. The values presented are indicative and may not necessarily be realized.

2008	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	1,828	-	-	-	-	1,828	1,828
Non-current receivables	150	-	-	733	147	545	1,575	1,575
Other receivables	76	-	-	-	-	272	348	348
Prepaid expenses and accrued income	7	-	-	9	19	158	193	193
Other investments	1	-	-	-	-	-	1	1
Cash and cash equivalents	3,178	-	-	-	-	-	3,178	3,178
<b>Total assets</b>	<b>3,412</b>	<b>1,828</b>	<b>-</b>	<b>742</b>	<b>166</b>	<b>975</b>	<b>7,123</b>	<b>7,123</b>
Loans and borrowings	-	-	10,718	-	-	-	10,718	10,728
Other liabilities	53	-	-	146	-	1,512	1,711	1,711
Accrued expenses and deferred income	50	-	-	115	29	805	999	999
Trade payables	-	754	-	-	-	-	754	754
<b>Total liabilities</b>	<b>103</b>	<b>754</b>	<b>10,718</b>	<b>261</b>	<b>29</b>	<b>2,317</b>	<b>14,182</b>	<b>14,192</b>

2007	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Trade receivables	-	2,022	-	-	-	-	2,022	2,022
Non-current receivables	-	-	-	-	-	558	558	558
Other receivables	30	-	-	33	65	258	386	386
Other investments	5	-	-	-	-	-	5	5
Cash and cash equivalents	3,439	-	-	-	-	-	3,439	3,439
<b>Total assets</b>	<b>3,474</b>	<b>2,022</b>	<b>-</b>	<b>33</b>	<b>65</b>	<b>816</b>	<b>6,410</b>	<b>6,410</b>
Loans and borrowings	-	-	10,039	-	-	-	10,039	10,044
Other liabilities	72	-	-	96	28	1,823	2,019	2,019
Trade payables	-	738	-	-	-	-	738	738
<b>Total liabilities</b>	<b>72</b>	<b>738</b>	<b>10,039</b>	<b>96</b>	<b>28</b>	<b>1,823</b>	<b>12,796</b>	<b>12,801</b>

## 27. Operating lease agreements

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

	2008	2007
Within one year	70	67
Between 1–5 years	155	153
Later than 5 years	15	72
<b>Total minimum lease payments</b>	<b>240</b>	<b>292</b>

The Group's leasing expenses for operating lease agreements amounted to 86 MSEK (87). The operating lease agreements are mainly attributable to the rental of real estate.

## 28. Pledged assets

Pledged assets	2008	2007
Cash, temporary investments, receivables etc. <sup>1)</sup>	15	2
<b>Total</b>	<b>15</b>	<b>2</b>

<sup>1)</sup> Of the amount 2008, 13 MSEK pertains to endowment insurance policies pledged as security for pension obligations. A corresponding amount is recognized as an operating liability in the balance sheet.

## 29. Contingent liabilities and assets

Contingent liabilities	2008	2007
Guarantees on behalf of subsidiaries	647	343
Guarantees to external companies	6	12
Other guarantees and contingent liabilities	201	164
<b>Total</b>	<b>854</b>	<b>519</b>

Guarantees on behalf of subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with

imports and payment of tobacco taxes, and to additional payments for the acquisition of Cigars International conditioned on certain targets being achieved.

### Legal disputes

The Company is involved in a number of legal proceedings of a routine character. Although the outcomes of these proceedings cannot be predicted with any certainty, and accordingly, no guarantees can be made, management is of the opinion that obligations attributable to these disputes, if any, should not have any significant impact on the results of operations or the financial position of Swedish Match.

Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US in a proceeding started in 1997 in Federal District Court in New York. The District Court ruled in favor of Cubatabaco but the US Court of Appeals of the Second Circuit concluded that General Cigar was the rightful owner of the Cohiba trademark in the US. The matter was appealed to the US Supreme Court, and in June 2006, the Supreme Court denied review of the case. In 2008 the District Court reopened the case on the basis that there had been a change in New York State law and again ruled in favor of Cubatabaco. Cubatabaco has sought an injunction against General Cigar selling Cohiba cigars and the disgorgement of General Cigar's profits from the sale of Cohiba cigars. Further, Cubatabaco has asked the Office of Foreign Asset Control for a license to register the Cohiba trademark in the US and thereby cancel General Cigar's registration of the trademark. General Cigar is opposing the granting of such a license and will appeal against the District Court's decision to re-open the case. There are in the opinion of management good defenses against Cubatabaco's claims and the case will be vigorously defended.

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

### Contingent assets

The Parent Company has a claim of 8 MSEK on tax authorities regarding a dispute for a group contribution given in 2005.

## 30. Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2008	2007
SM Australia Pty Ltd.	Australia	100	100
SM Belgium NV	Belgium	100	100
SM Cigars NV	Belgium	100	100
Humphrey Investments NV	Belgium	100	100
Bogaert Cigars NV	Belgium	100	100
SM Treasury SEK NV	Belgium	100	100
SM Treasury EUR NV	Belgium	100	100
SM Treasury USD NV	Belgium	100	100
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99.4	99.4
SM Plam Bulgaria JSC	Bulgaria	99.9	99.9
SM d.o.o. Zagreb	Croatia	100	100
General Cigar Dominicana S.A.	Dominican Republic	100	100
SM France SARL	France	100	100
SM Deutschland GmbH	Germany	100	100
Honduras American Tabaco, S.A. de C.V	Honduras	100	100
SM Hungaria KFT	Hungary	100	100
PT SM Cigars Indonesia	Indonesia	100	100
PT Java Cigar Manufacturing	Indonesia	-	100
Maga T.E.A.M. S.r.L	Italy	100	100
Brasant Tobacco (PTY) Ltd.	Namibia	100	100
EMOC BV	Netherlands	100	100
P.G.C. Hajenius BV	Netherlands	100	100
SM Benelux Sales BV	Netherlands	100	100
SM Cigars BV	Netherlands	100	100
SM Dominicana BV	Netherlands	100	100
SM Group BV	Netherlands	100	100
SM Holdings Dominicana BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Sales.com BV	Netherlands	100	100
Tobacco Service Holland BV	Netherlands	100	100
SM New Zealand Pty Ltd.	New Zealand	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2008	2007
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
SM Polska Sp z o.o.	Poland	100	100
SM Fosforos Portugal S.A.	Portugal	97	97
CYAN import-export d.o.o.	Slovenia	100	100
Best Blend Tobacco (PTY) Ltd.	South Africa	100	100
Brasant Enterprises (PTY) Ltd.	South Africa	100	100
Leonard Dingler (PTY) Ltd.	South Africa	100	100
SM South Africa (PTY) Ltd.	South Africa	100	100
SM Iberia S.A.	Spain	-	100
SM Tabaco Espana S.L.	Spain	100	100
SM Fireproducts Espana S.L.	Spain	100	100
GC Sweden AB	Sweden	100	100
Intermatch Sweden Aktiebolag	Sweden	100	100
SM Distribution AB	Sweden	100	100
SM Industries Aktiebolag	Sweden	100	100
SM North Europe AB	Sweden	100	100
SM United Brands AB	Sweden	100	100
Svenska Tändsticks Aktiebolaget	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
Tobak Fastighetsaktiebolaget	Sweden	100	100
Swedish Match US AB	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri Anonim Sirketi A.S.	Turkey	100	100
SM UK Ltd.	United Kingdom	-	100
General Cigar Co. Inc.	USA	100	100
General Cigar Holdings Inc.	USA	100	100
SM Cigars Inc.	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100
DM Holding USA Inc.	USA	100	100
Cigars International Holding	USA	100	100
Cigars International	USA	100	100

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

## 31. Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is presented in Note 18 *Cash and cash equivalents and other current investments*.

Interest paid and interest received	2008	2007
Interest received	132	219
Interest paid	-525	-377
<b>Total</b>	<b>-393</b>	<b>-158</b>

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

Adjustments for non cash items and other	2008	2007
Depreciation and amortization	444	430
Impairment losses	5	5
Share of profit in associates	-12	-4
Capital gain/loss from sale of non-current assets	-176	-303
Dividend received from associates	21	-
Additional payment from divested subsidiaries	-	-5
Expense for share-based payments	49	47
Change in fair value of forest plantations	3	12
Change in provisions	-145	-169
Change in accrued interest	9	0
Change in market value revaluations and unrealized exchange rate differences	55	-8
Realized exchange rate differences	-35	111
Other	0	4
<b>Total</b>	<b>218</b>	<b>120</b>

## NOTE 31 CONTINUED

Acquisitions of subsidiaries and other business units	2007
<b>Acquired assets and liabilities</b>	
Property, plant and equipment	-60
Intangible assets	-1,247
Inventories	-160
Trade receivables	-31
Other receivables	-32
Accounts payable	53
Other liabilities	110
Loans in acquired operations	113
<b>Purchase consideration paid</b>	<b>-1,254</b>
Less cash and cash equivalents acquired	1
Purchase consideration not paid	44
<b>Effect on cash and cash equivalents</b>	<b>-1,209</b>

No subsidiaries were acquired during 2008. The acquisitions of subsidiaries during 2007 pertain to the acquisition of Bogaert Cigars, Cigars International and Havana Honeys. For further information about the acquisitions see Note 4 *Business Combinations*.

Divestments of subsidiaries and other business units	2008
<b>Divested assets and liabilities</b>	
Intangible fixed assets	6
Tangible fixed assets	22
Inventories	26
Trade receivables	53
Deferred income tax receivables	21
Other receivables	6
Cash and cash equivalents	13
<b>Total assets</b>	<b>147</b>
Accounts payable	-46
Other liabilities	-16
<b>Total liabilities</b>	<b>-62</b>
<b>Divested assets, net</b>	<b>85</b>
<b>Purchase price consideration received</b>	<b>168</b>
Less cash and cash equivalents in divested operations	-13
<b>Effect on cash and cash equivalents</b>	<b>155</b>

The cash flows from sale of subsidiaries during 2008 pertain to the disposal of Swedish Match UK Ltd and related assets of 163 MSEK and additional payment received of 5 MSEK attributable to the disposal of the Arenco Group in 2006. No subsidiaries were divested in 2007.

## 32. Critical estimates and judgments

According to IFRS, intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks have been deemed to have definite useful lives and are amortized over a period of 10–20 years. Trademarks and of the intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of the intangible asset is impaired. The impairment tests include significant judgements made by management. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Company's intangible assets at December 31, 2008 amounted to 4,702 MSEK and amortization amounted to 139 MSEK. Reported goodwill, which is included in intangible assets, amounts to 3,166 MSEK.

As explained in Note 29 *Contingent liabilities and assets*, Swedish Match is involved in a number of legal processes. Although the Company is convinced that it has a strong position in these disputes, an unfavourable outcome cannot be ruled out, and this could have a significant effect on the Company's earnings capacity.

Calculation of the pension liability relating to defined-benefit plans requires management to make assumptions on the discount rate, mortality rates, expected return on plan assets and rate of compensation increase etc. as explained in Note 22 *Employee benefits*. Actual result could differ from the assumptions made. The net benefit obligations of the Company's defined-benefit-pension plans and post employment medical benefit plans as of December 31, 2008 were estimated to exceed the fair value of plan assets by 1,165 MSEK.

## 33. Information about the Parent Company

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

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

The consolidated financial statements for 2008 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies.

# Parent Company income statement

MSEK	Note	2008	2007
<b>Net Sales</b>	1	<b>1</b>	<b>6</b>
Cost of sales		-	-3
<b>Gross profit</b>		<b>1</b>	<b>3</b>
Selling expenses		-11	-12
Administrative expenses	2, 3	-300	-376
Other operating income	4	27	37
Other operating expense	4	-1	-
<b>Operating loss</b>		<b>-284</b>	<b>-348</b>
Result from participation in group companies	5	3,651	17,714
Gain on sale of shares		-	340
Income from other investments and receivables carried as fixed assets	5	20	1
Other interest income and similar items	5	215	311
Other interest expense and similar items	5	-1,706	-1,020
<b>Profit after financial items</b>		<b>1,896</b>	<b>16,998</b>
Appropriations	6	11	11
<b>Profit before income tax</b>		<b>1,907</b>	<b>17,009</b>
Income tax	7	7	30
<b>Profit for the year</b>		<b>1,914</b>	<b>17,039</b>

# Parent Company balance sheet

MSEK	Note	December 31, 2008	December 31, 2007
<b>Assets</b>			
Intangible assets	8	4	17
Property, plant and equipment	9	2	2
Financial fixed assets			
Participations in group companies	21	50,351	52,001
Receivables from group companies	10	83	70
Other non-current receivables	11	1,043	8
Deferred tax assets	7	51	3
<b>Total financial fixed assets</b>		<b>51,528</b>	<b>52,082</b>
<b>Total fixed assets</b>		<b>51,534</b>	<b>52,101</b>
<b>Current receivables</b>			
Receivables from group companies		2,250	4,348
Income tax receivables	7	13	67
Other receivables	12	83	114
Prepaid expenses and accrued income	13	64	43
<b>Total current receivables</b>		<b>2,410</b>	<b>4,572</b>
Cash and cash equivalents <sup>1)</sup>		2,702	2,808
<b>Total current assets</b>		<b>5,112</b>	<b>7,381</b>
<b>TOTAL ASSETS</b>		<b>56,646</b>	<b>59,482</b>
<b>Equity</b>			
Restricted equity			
Share capital, 255,000,000 shares at 1:5275 and 267,000,000 at 1:4589 respectively		390	390
Unrestricted equity			
Hedge reserve		-107	28
Retained earnings		19,952	4,725
Profit for the year		1,914	17,039
<b>TOTAL EQUITY</b>		<b>22,148</b>	<b>22,182</b>
<b>Untaxed reserves</b>	15	<b>2</b>	<b>13</b>
<b>Income tax provision</b>		<b>-</b>	<b>11</b>
<b>Other provisions</b>		<b>16</b>	<b>9</b>
Non-current liabilities			
Bond loans	16	9,514	8,321
Liabilities to group companies	17	18,100	18,100
<b>Total non-current liabilities</b>		<b>27,614</b>	<b>26,421</b>
<b>Current liabilities</b>			
Liabilities to credit institutes	16	619	1,172
Trade payables		18	16
Liabilities to group companies		5,759	9,373
Current tax liabilities		8	8
Other liabilities		211	37
Accrued expenses and prepaid income	18	251	240
<b>Total current liabilities</b>		<b>6,866</b>	<b>10,846</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>56,646</b>	<b>59,482</b>
Contingent assets	19	8	-
Pledged assets	19	15	2
Contingent liabilities	19	1,197	900

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

# Statement of changes in Parent Company equity

MSEK	Note	Restricted equity	Unrestricted equity			Total equity
		Share Capital	Hedge reserve	Retained earnings	Profit for the year	
	14					
<b>Equity at January 1, 2007</b>		<b>390</b>	<b>–</b>	<b>1,244</b>	<b>6,619</b>	<b>8,253</b>
Allocation of profit		–	–	6,619	–6,619	–
Group contributions paid		–	–	–36	–	–36
Valuation of financial instruments to fair market value		–	38	–	–	38
Tax effect on items reported directly in equity		–	–10	10	–	–1
<b>Total income (expense) recognized directly in equity</b>		<b>–</b>	<b>28</b>	<b>6,593</b>	<b>–6,619</b>	<b>1</b>
Profit for the year		–	–	–	17,039	17,039
<b>Total recognized income and expense for the year</b>		<b>–</b>	<b>28</b>	<b>6,593</b>	<b>10,420</b>	<b>17,040</b>
Dividends		–	–	–664	–	–664
Cancellation of shares		–18	–	18	–	–
Bonus issue		18	–	–18	–	–
Repurchase of own shares		–	–	–2,575	–	–2,575
Stock options exercised		–	–	122	–	122
Share-based payments, IFRS 2		–	–	6	–	6
<b>Equity at December 31, 2007</b>		<b>390</b>	<b>28</b>	<b>4,725</b>	<b>17,039</b>	<b>22,182</b>
<b>Equity at January 1, 2008</b>		<b>390</b>	<b>28</b>	<b>4,725</b>	<b>17,039</b>	<b>22,182</b>
Allocation of profit		–	–	17,039	–17,039	–
Valuation of financial instruments to fair market value		–	–184	–	–	–184
Tax effect on items reported directly in equity		–	49	–	–	49
<b>Total income (expense) recognized directly in equity</b>		<b>–</b>	<b>–135</b>	<b>17,039</b>	<b>–17,039</b>	<b>–135</b>
Profit for the year		–	–	–	1,914	1,914
<b>Total recognized income and expense for the year</b>		<b>–</b>	<b>–135</b>	<b>17,039</b>	<b>–15,125</b>	<b>1,779</b>
Dividends		–	–	–886	–	–886
Cancellation of shares		–18	–	18	–	–
Bonus issue		18	–	–18	–	–
Repurchase of own shares		–	–	–996	–	–996
Stock options exercised		–	–	62	–	62
Share-based payments, IFRS 2		–	–	6	–	6
<b>Equity at December 31, 2008</b>		<b>390</b>	<b>–107</b>	<b>19,952</b>	<b>1,914</b>	<b>22,148</b>

# Cash flow statement for the Parent Company

MSEK	Note	2008	2007
	22		
<b>Operating activities</b>			
Profit after financial items		1,896	16,998
Adjustments for non-cash items and other		2,760	-16,712
Income tax received		51	25
<b>Cash flow from operating activities before changes in working capital</b>		<b>4,707</b>	<b>311</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		-2	-12
Increase (+)/Decrease (-) in operating liabilities		-25	-12
<b>Cash flow from operating activities</b>		<b>4,680</b>	<b>287</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-1	-2
Purchase of intangible assets		-	-1
Acquisition of subsidiaries		-	-413
Liquidation of subsidiaries		31	-
Proceeds from sale of subsidiaries		-	335
Shareholders contribution paid		-1,100	-1,325
Change in other investments		3	53
<b>Cash flow used in investing activities</b>		<b>-1,067</b>	<b>-1,353</b>
<b>Financing activities</b>			
Repurchase of own shares		-996	-2,575
Stock options exercised		62	122
Proceeds from non-current borrowings		786	2,248
Repayment of borrowings		-1,176	-298
Dividends paid		-886	-664
Group contributions paid		-	-36
Changes in financial receivables/liabilities group companies		-1,544	3,504
Other		35	-111
<b>Net cash from/used in financing activities</b>		<b>-3,719</b>	<b>2,190</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-106</b>	<b>1,124</b>
Cash and cash equivalents at the beginning of the year		2,808	1,684
<b>Cash and cash equivalents at end of year</b>		<b>2,702</b>	<b>2,808</b>

# Notes for the Parent Company financial statements

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

For remuneration and other benefits to Parent Company President and other members of Group management, see Note 6 *Personnel*, page 68.

## 1. Sales

As of 2008 the sale of nasal snuff was transferred to a Dutch subsidiary. From that date the Parent Company receives a royalty based on sales. The royalty based on sales for 2008 amounted to 1 MSEK. During 2007 the Parent Company's revenue consisted of sales of nasal snuff in Europe amounting to 6 MSEK.

## 2. Audit fees

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

	2008	2007
KPMG AB		
Audit assignments	6	6
Other assignments	2	5
<b>Total</b>	<b>8</b>	<b>11</b>

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

## 3. Sick leave within the Parent Company

Percent	2008	2007
Total sick leave	0.98	0.97
of which long-term sick leave	0.88	–
Sick leave for men	1.09	1.20
Sick leave for women	0.84	0.68
Sick leave for employees under 29	– <sup>1)</sup>	– <sup>1)</sup>
Sick leave for employees age 30–49	1.15	0.88
Sick leave for employees age 50+	0.88	1.23

<sup>1)</sup> No data provided if the group comprises less than 10 persons.

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

## 4. Other operating income and expense

Other income mainly pertains to the portion of administration costs charged to group companies 27 MSEK (37). Other expense consists of foreign exchange losses amounting to 1 MSEK (–).

## 5. Financial items

Result from participations in group companies	2008	2007
Dividends received	4,673	23,166
Liquidation group companies	–	–91
Impairment losses	–2,720	–6,552
Group contribution	1,698	1,191
<b>Total</b>	<b>3,651</b>	<b>17,714</b>

	Income from other investments and receivables carried as fixed assets		Other interest income and similar items	
	2008	2007	2008	2007
Interest income relating to group companies	6	6	109	211
Interest income relating to financial instruments held for trading	–	–	104	56
Interest income relating to cash and bank	–	–	13	35
Net foreign exchange gains/losses	14	–5	–11	9
<b>Total</b>	<b>20</b>	<b>1</b>	<b>215</b>	<b>311</b>

	Other interest expense and similar items	
	2008	2007
Interest expense relating to group companies	–1,193	–631
Interest expense relating to financial liabilities measured at amortized cost	–442	–351
Interest expense relating to financial liabilities revalued to fair value	–66	–36
Net loss on financial liabilities revalued to fair value	–2	–
Other financial expenses	–3	–2
<b>Total</b>	<b>–1,706</b>	<b>–1,020</b>

## 6. Appropriations

	2008	2007
Difference between reported amortization and amortization according to plan:		
Trademarks	11	11
<b>Total</b>	<b>11</b>	<b>11</b>

## 7. Income tax

Reported in Income Statement	2008	2007
Tax expense for the period	-	-18
Adjustment of taxes attributable to prior years	-3	48
Deferred tax due to temporary differences	10	1
<b>Total income tax</b>	<b>7</b>	<b>30</b>

Reconciliation of effective tax rate	2008		2007	
	(%)		(%)	
Income before tax		1,907		17,009
Swedish tax rate	28.0	-534	28.0	-4,763
Non-deductible expenses	0.1	-2	0.0	-6
Non-deductible impairment losses	40.0	-762	10.8	-1,834
Non-taxable revenue	-68.6	1,309	-38.7	6,583
Tax attributable to prior years	0.2	-3	-0.3	48
Other	0.0	-1	-0.0	2
<b>Reported effective tax</b>	<b>-0.4</b>	<b>7</b>	<b>-0.2</b>	<b>30</b>

Tax items reported directly against equity	2008	2007
Current tax in paid group contributions	-	10
Hedge reserve	38	-11
<b>Total</b>	<b>38</b>	<b>-1</b>

Tax receivable amounts to 13 MSEK (67). In 2008, 13 MSEK (67) represents amount to be recovered on income for the year.

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

Reported in Balance sheet	Deferred tax assets		Deferred tax liabilities	
	2008	2007	2008	2007
Hedge reserve	38	-	-	11
Tax-loss carryforwards	6	-	-	-
Provision	4	3	-	-
Other	3	-	-	-
<b>Total deferred income tax assets/liabilities</b>	<b>51</b>	<b>3</b>	<b>-</b>	<b>11</b>

## 8. Intangible assets

	Trademarks		Other intangibles		Total	
	2008	2007	2008	2007	2008	2007
<b>Cost at beginning of year</b>	<b>114</b>	<b>114</b>	<b>6</b>	<b>6</b>	<b>120</b>	<b>120</b>
Purchase	-	-	-	1	-	1
Sales/disposals	-	-	-2	-	-2	-
<b>Cost at end of year</b>	<b>114</b>	<b>114</b>	<b>4</b>	<b>6</b>	<b>118</b>	<b>120</b>
<b>Accumulated amortization at beginning of year</b>	<b>-100</b>	<b>-88</b>	<b>-4</b>	<b>-3</b>	<b>-104</b>	<b>-91</b>
Amortization for the year	-11	-11	-1	-1	-12	-12
Sales/disposals	-	-	2	-	2	-
<b>Accumulated amortization at end of year</b>	<b>-111</b>	<b>-100</b>	<b>-3</b>	<b>-4</b>	<b>-114</b>	<b>-104</b>
<b>Net book value at end of year</b>	<b>3</b>	<b>14</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>17</b>

Amortization is included in the following lines of the Income Statement:

	2008	2007
Administrative expenses	-1	-1
Selling expenses	-11	-11
<b>Total</b>	<b>-12</b>	<b>-12</b>

All intangible assets are acquired.

Trademarks are amortized according to plan over ten years. Other intangibles are amortized over three to five years. Other intangibles mainly consist of licenses and software. The acquisition value of assets does not include any interest expenses.

## 9. Property, plant and equipment

Equipment, tools and fixtures	2008	2007
<b>Cost at beginning of year</b>	<b>7</b>	<b>6</b>
Purchase	1	2
Sales/disposals	-1	-1
<b>Cost at end of year</b>	<b>6</b>	<b>7</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-5</b>	<b>-5</b>
Depreciation for the year	-1	-1
Sales/disposals	1	1
<b>Accumulated depreciation at end of year</b>	<b>-4</b>	<b>-5</b>
<b>Net book value at end of year</b>	<b>2</b>	<b>2</b>

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

## 10. Receivables from group companies

	2008	2007
<b>Opening balance, January 1</b>	<b>70</b>	<b>76</b>
Repayments	-1	-1
Foreign exchange loss	14	-5
<b>Closing balance, December 31</b>	<b>83</b>	<b>70</b>

## 11. Other non-current receivables

	2008	2007
Pledged assets	13	–
Other non-current receivables	1,030	8
<b>Closing balance, December 31</b>	<b>1,043</b>	<b>8</b>

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

## 12. Other receivables

	2008	2007
Derivatives related to current loans	33	90
Currency forwards	41	12
VAT receivables	3	4
Other current receivables	6	8
<b>Closing balance, December 31</b>	<b>83</b>	<b>114</b>

## 13. Prepaid expenses and accrued income

	2008	2007
Accrued interest income, non-group companies	36	21
Accrued compensation for pension costs	3	–
Prepaid rent	3	3
Prepaid insurance premiums	2	2
Other prepaid expenses	20	17
<b>Closing balance, December 31</b>	<b>64</b>	<b>43</b>

## 14. Equity

For information regarding the change in Parent Company equity see Changes in Parent Company equity on page 90.

### Number of registered shares in the Parent Company

	2008	2007
Issued, as of January 1	267,000,000	280,000,000
Cancellation	–12,000,000	–13,000,000
Issued, as of December 31	255,000,000	267,000,000

### Buy-back of shares

Buy-back of shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2008, the Parent Company's holding of treasury shares amounted to 5,840,000 shares (11,125,200).

### Dividend

After the Balance-sheet date, the Board proposed that the dividend for the year amount to 4.10 SEK (3.50) per share. The dividend then amounts to 1,022 MSEK based on the number of shares outstanding at the end of 2008. Prior year total dividend amounted to 886 MSEK.

## 15. Untaxed reserves

	2008	2007
<b>Excess amortization</b>		
Intangible assets		
Opening balance January 1	13	24
Excess amortization for the year	–11	–11
<b>Closing balance, December 31</b>	<b>2</b>	<b>13</b>

## 16. Liabilities to credit institutions/bond loans

Liabilities due for payment later than five years after the balance-sheet date amount to 1,467 MSEK (3,278). Liabilities to credit institutions consist of the current portion of bond loans 619 MSEK (1,172).

## 17. Liabilities to group companies

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

## 18. Accrued expenses and prepaid income

	2008	2007
Accrued interest expenses	194	169
Personnel expenses	30	50
Accrued bonus incl. social security charges	18	13
Other accrued expenses	9	8
<b>Closing balance, December 31</b>	<b>251</b>	<b>240</b>

## 19. Pledged assets and contingent liabilities/assets

	2008	2007
<b>Pledged assets</b>		
Cash, temporary investments, receivables etc. <sup>1)</sup>	15	2
<b>Total</b>	<b>15</b>	<b>2</b>

<sup>1)</sup> Of the amount 2008, 13 MSEK pertains to endowment insurance policies pledged as security for pension obligations. A corresponding amount is recognized as an operating liability in the balance sheet.

	2008	2007
<b>Contingent liabilities</b>		
Guarantees on behalf of subsidiaries	1,191	888
Guarantees to external companies	6	12
<b>Total</b>	<b>1,197</b>	<b>900</b>

The Parent Company has a contingent asset of 8 MSEK relating to a dispute with tax authorities regarding a group contribution given in 2005.

## 20. Related parties

### Summary of transactions with related parties

Nature of relations	Year	Sale of goods	Sale of services	Purchase of goods	Purchase of services	Net interest	Dividends and group contributions	Receivables	Liabilities	Contingent liabilities
Subsidiary	2008	–	44	1	9	–1,078	6,371	2,333	23,859	1,191
Subsidiary	2007	0	45	0	23	–414	24,322	4,418	27,473	888
Associated company	2008	–	–	–	–	–	–	–	–	–
Associated company	2007	4	–	–	–	–	–	–	–	–

Transactions with related parties are determined at an arms-length basis. For remunerations to leading executives, see Note 6 *Personnel*, for the Group.

## 21. Group companies

	2008	2007
<b>Cost at beginning of year</b>	<b>58,691</b>	<b>15,779</b>
Acquisitions	–	18,513
Acquisitions through distribution	–	23,166
Divestments	–	0
Shareholder's contribution	1,100	1,325
Liquidation	–31	–91
<b>Cost at end of year</b>	<b>59,761</b>	<b>58,691</b>

	2008	2007
<b>Revaluations at beginning of year</b>	<b>1,645</b>	<b>3,045</b>
Impairments	–	–1,400
<b>Revaluations at end of year</b>	<b>1,645</b>	<b>1,645</b>
<b>Impairments at beginning of year</b>	<b>–8,335</b>	<b>–3,183</b>
Impairments	–2,720	–5,152
<b>Impairments at end of year</b>	<b>–11,055</b>	<b>–8,335</b>
<b>Net book value at end of year</b>	<b>50,351</b>	<b>52,001</b>

Impairments for the year are reported in the result from participations in group companies in the income statement. The impairment of 2,720 MSEK is due to a dividend of 2,849 MSEK paid from a group company. The decrease in equity following this dividend is the reason to the impairment loss.

### Shares in subsidiaries, directly owned

Subsidiary/Corp. Reg.no./Reg. Office	Number of shares	Ownership, %	Dec. 31, 2008 Net book value	Dec. 31, 2007 Net book value
Swedish Match North Europe AB, 556571-6924, Stockholm	1,000	100	15,750	15,750
Svenska Tändsticksbolaget försäljningsaktiebolag, 556012-2730, Stockholm	34,403,000	100	286	3,006
Swedish Match Distribution AB, 556571-7039, Stockholm	1,000	100	2,350	2,350
Intermatch Sweden AB, 556018-0423, Stockholm	710,000	100	167	167
Swedish Match Industries AB, 556005-0253, Tidaholm	30,853	100	95	95
Swedish Match United Brands AB, 556345-7737, Stockholm	200,000	100	32	32
Svenskt Snus AB, 556367-1261, Stockholm	1,000	100	1	1
Svenska Tobaks AB, 556337-4833, Stockholm	8,000	100	1	1
Tobak Fastighets AB, 556367-1253, Stockholm	2,000	100	0	0
Svenska Tändsticks AB, 556105-2506, Stockholm	1,000	100	1,100	0
Swedish Match Treasury SEK NV	9,999,999	99.99	18,101	18,101
Swedish Match Treasury USD NV	999,999	99.99	5,065	5,065
Swedish Match Treasury EUR NV	20,169	99.99	429	429
Swedish Match Group BV	20,900,000	100	3,931	3,931
General Cigar Holdings, Inc. <sup>1)</sup>	11,204,918	63.52	1,573	1,573
Swedish Match North America Inc	100	100	849	849
General Cigar Dominicana, S.A.	8,972,394	99.99	387	387
DM Holding USA Inc.	1,000	100	207	207
Swedish Match Sales.com B.V. under liquidation	100	100	9	40
Honduras American Tabaco, S.A. de C.V.	226,972	99.77	18	18
Nitedals Taendstiker A/S	500	100	1	1
SA Allumettiére Causemille <sup>2)</sup>	10,000	100	0	0
The Burma Match Co Ltd <sup>3)</sup>	300,000	100	0	0
Vulcan Trading Co. Ltd <sup>4)</sup>	4,000	100	0	0
<b>Net book value at end of year</b>			<b>50,351</b>	<b>52,001</b>

<sup>1)</sup> Remaining shares owned by subsidiary.

<sup>2)</sup> Nationalized in 1963.

<sup>3)</sup> Nationalized in 1968.

<sup>4)</sup> Nationalized in 1969.

In addition, shares are owned in:

– Union Allumettiére Marocaine S.A.

Ownership is purely formal. Group companies hold all rights and obligations.

## 22. Supplementary information to cash flow statement

### Cash and cash equivalents

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

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

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

	2008	2007
Cash and bank	1,359	627
Deposits	-	2
Other investments equivalent to cash	1,343	2,179
<b>Total cash and cash equivalents</b>	<b>2,702</b>	<b>2,808</b>

Interest paid and received and dividend received	2008	2007
Dividend received <sup>1)</sup>	4,673	23,166
Interest received, non-group companies	122	83
Interest paid, non-group companies	-506	-251
Interest received, group companies	116	212
Interest paid, group companies	-1,195	-628
<b>Total</b>	<b>3,210</b>	<b>22,582</b>

<sup>1)</sup> Amount for 2007 includes 23,166 MSEK in the form of distributed subsidiaries.

### NOTE 23 CONTINUED

2008	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Other non-current receivables	150	-	-	733	146	14	1,043	1,043
Other receivables	76	-	-	-	-	7	83	83
Prepaid expenses and accrued income	7	-	-	9	20	28	64	64
Cash and cash equivalents	2,702	-	-	-	-	-	2,702	2,702
<b>Total assets</b>	<b>2,935</b>	<b>-</b>	<b>-</b>	<b>742</b>	<b>166</b>	<b>49</b>	<b>3,892</b>	<b>3,892</b>
Loans and borrowings	-	-	10,133	-	-	-	10,133	10,143
Other liabilities	53	-	-	146	-	12	211	211
Accrued expenses and prepaid income	50	-	-	115	29	57	251	251
Trade payables	-	18	-	-	-	-	18	18
<b>Total liabilities</b>	<b>103</b>	<b>18</b>	<b>10,133</b>	<b>261</b>	<b>29</b>	<b>69</b>	<b>10,613</b>	<b>10,623</b>

Adjustments for non cash items and other	2008	2007
Depreciation and amortization	13	13
Impairment losses	2,720	6,552
Unrealized exchange rate differences	31	-130
Changes in the value of financial instruments	1	15
Share based payments, IFRS 2	20	20
Dividends received	-	-23,166
Change in accrued interest	6	127
Change in market value revaluations	3	-6
Realized exchange rate differences	-35	111
Gain on sale of shares	-	-340
Liquidation group company	-	91
Other	1	1
<b>Total</b>	<b>2,760</b>	<b>-16,712</b>

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

### Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each type of financial instruments at December 31, 2008. Trade receivables and trade payables have a short duration and are reported at nominal value without discounting. Estimated fair values are based on market prices at the balance sheet date. Loans have been measured by using the applicable benchmark interest rates at the balance sheet date, adding original credit spread and using these interest rates to estimate the present value of future cash flow. The values presented are indicative and may not necessarily be realized.

## NOTE 23 CONTINUED

2007	Items carried at fair value via the income statement	Trade receivables and trade payables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Other non-current receivables	–	–	–	–	–	8	8	8
Other receivables	20	–	–	36	53	5	114	114
Prepaid expenses and accrued income	11	–	–	–2	12	22	43	43
Cash and cash equivalents	2,808	–	–	–	–	–	2,808	2,808
<b>Total assets</b>	<b>2,839</b>	<b>–</b>	<b>–</b>	<b>34</b>	<b>65</b>	<b>35</b>	<b>2,973</b>	<b>2,973</b>
Loans and borrowings	–	–	9,493	–	–	–	9,493	9,498
Other liabilities	19	–	–	–3	11	10	37	37
Accrued expenses and prepaid income	53	–	–	99	17	71	240	240
Trade payables	–	16	–	–	–	–	16	16
<b>Total liabilities</b>	<b>72</b>	<b>16</b>	<b>9,493</b>	<b>96</b>	<b>28</b>	<b>81</b>	<b>9,786</b>	<b>9,791</b>

## 24. Employee benefits

### Post-employment employee benefits

Certain pensions are covered by a Swedish pension trust and as of December 2008 Swedish Match AB assumed a pension trust for employees in the divested Swedish Match UK Ltd. The tables below specifies the pension obligations pertaining to these two pension arrangements.

	Defined-benefit pension plan	
	2008	2007
Present value of funded obligations	–539	–66
Fair value of separately held assets	693	95
<b>Surplus, net</b>	<b>154</b>	<b>29</b>
Net surplus in pension trust not recognized in balance sheet	–154	–29
<b>Net pension liability recognized in the balance sheet</b>	<b>0</b>	<b>0</b>

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

	2008	2007
<b>Net pension liability, January 1</b>	<b>0</b>	<b>0</b>
Costs recognized in income statement attributable to pension	0	3
Benefits paid	–3	–3
Contribution received from pension trust	3	–
<b>Net pension liability, December 31</b>	<b>0</b>	<b>0</b>

32 MSEK (29) of the total net pension asset is covered by “Tryggandelagen”.

Specification of expenses and income attributable to pension:

	2008	2007
Current service costs	2	0
Differens between contribution received from pension trust and benefits paid	0	3
Interest cost on obligation	35	3
Actual return on separately held assets	19	–1
<b>Net expenses for pension</b>	<b>56</b>	<b>5</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	29	24
Increase in surplus in pension trust	–56	–5
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>29</b>	<b>24</b>

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

The actual return on separately held assets expressed in percentage is negative 3 percent (1 percent).

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

	2008	2007
Equity securities	180	–
Debt instruments	513	95
<b>Total</b>	<b>693</b>	<b>95</b>

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 6.4 percent (3.5 percent) and current salary level at the reporting date for the Swedish pension trust and salary increases of 4.0 percent for the UK pension trust.

No contributions attributable to the pension plans above are expected to be paid for the coming year.

# Proposed distribution of earnings

According to the Parent Company's balance sheet, the funds available for distribution by the Annual General Meeting amount to 21,758 MSEK, of which 1,914 MSEK is net profit for the year.

The Board of Directors and the President propose that the 21,758 MSEK which is at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 4.10 SEK per share, amounting to a total of 1,022 MSEK, based on the number of shares at end of year, and that the remaining earnings be carried forward.

The income statements and balance sheets will be presented to the Annual General Meeting on April 28, 2009 for

adoption. The Board of Directors also proposes May 4, 2009 as the record date for shareholders listed in the Swedish Securities Register Center (Euroclear Sweden AB former VPC AB).

The results of operations of the Parent Company, Swedish Match AB, and of the Group during the 2008 fiscal year, and their respective positions at the close of 2008, are set forth in the income statements and balance sheets and accompanying notes.

The Board of Directors and the President declare that the Annual Report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have

been prepared in accordance with accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The Annual Report and the consolidated accounts give a true and fair view of the position and earnings of the Parent Company and the Group.

The Board of Directors report for the Parent Company and the Group gives a true and fair view of the operations, position and earnings and describes significant risks and uncertainties facing the Parent Company and companies included in the Group.

Stockholm, February 17, 2009

Conny Karlsson  
Chairman of the Board

Andrew Cripps  
Deputy Chairman

Charles A. Blixt  
Board member

Kenneth Ek  
Board member

Karen Guerra  
Board member

Arne Jurbrant  
Board member

Eva Larsson  
Board member

Joakim Lindström  
Board member

Kersti Strandqvist  
Board member

Meg Tivéus  
Board member

Lars Dahlgren  
President and CEO

Our Auditor's report was submitted on March 11, 2009

KPMG AB

Thomas Thiel

Authorized Public Accountant

# Auditor's report

To the annual meeting of the shareholders of Swedish Match AB (publ)  
Corporate identity number 556015-0756

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Swedish Match AB (publ) for the year 2008. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 50–98. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

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

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

Stockholm, 11 March 2009  
KPMG AB

Thomas Thiel  
Authorized Public Accountant

**The Board of Directors' proposal under items 10 a) and 10 b) on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

**Item 10 a)**

The Board of Directors proposes a reduction in the Company's share capital of 6,110,045.76 SEK means of the withdrawal of 4 000 000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorisation granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

**Item 10 b)**

Provided that the Meeting passes a resolution in accordance with the Board's proposals under item 10 a) above, the Board of Directors proposes an increase in the Company's share capital of 6,110,045.76 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's proposals under item 10 a) above, the decision to reduce the share capital can be taken without obtaining the permission of the Swedish Companies' Registration Office (Bolagsverket), or, in disputed cases, the permission of the court.

The effect of the Board of Directors' proposal under item 10 a) entails a reduction in the Company's share capital of 6,110,045.76 SEK. The effect of the Board of Directors' proposal under item 10 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

The resolution of the General Meeting in accordance with the Board's proposal under item 10 a) is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

**The Board of Directors' proposal under item 11 on the agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

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

The resolution of the General Meeting with regard to the Board proposals under item 11 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

**Previous buy-backs\***

<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Number of repurchased shares</b>	6 816 288	15 615 612	31 533 300	18 493 181	6 714 800
<b>Holding at year-end</b>	15 079 288	18 694 900	5 632 019	11 125 200	5 840 000
<b>Holding at year-end as a percentage of total share capital</b>	4.5%	5.8 %	2.0 %	4,2%	2,3%

\* net after shares sold in conjunction with stock option programmes

**The Board of Directors' proposal under item 12 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

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

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

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

*1. Fixed salary*

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

*2. Variable salary*

The members of the Group Management Team may be entitled to a variable salary in addition to the fixed salary. The variable salary shall primarily be based on specific, clear and measurable financial or operational objectives set by the Board of Directors from year to year. A maximum of 25 per cent of the variable salary may be based on individual objectives set by the President (and in relation to the President by the Board of Directors). Variable salary shall, for each member of the Group Management Team, be capped in relation to the fixed salary and shall reflect the market practice in the country of residence.

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

It is estimated that the Company's maximum cost for variable salary for 2009 will amount to 14,3 MSEK.

*3. Profit Sharing System*

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

*4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the Group Management Team is resident. Members of the Group Management Team residing in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined contribution pensions for portions of their salary in excess thereof. Pensions for members of the Group Management Team residing outside Sweden shall preferably be through defined contribution pensions based on the fixed salary.

*5. Severance pay, etc*

A mutual period of notice of six months shall apply. Severance pay shall normally total a maximum of eighteen months fixed salary if notice of termination is given by the Company. The severance pay shall be reduced by income from other employment or assignments, but by no more than 50 per cent thereof and no more than half of the severance pay. In individual cases the Board of Directors may approve severance arrangements where notice of termination given by the employee due to significant structural changes, in certain circumstances, is equated with notice of termination served by the Company.

*6. Other benefits*

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

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

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

*8. Committee work and decisions*

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

salary is based for the Group Management Team.

*9. Previous undertakings not yet due*

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

*10. Deviations from earlier approved principles*

The Board of Directors has, in accordance with section 7 of the principles adopted by the Annual General Meeting 2008, agreed with Sven Hindrikes a stay bonus corresponding to eighteen months fixed salary to secure that he remained as acting President until a new President had been appointed and that he would support the introduction and transition of a new President.

**The Board of Directors' proposal under item 13 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on April 28, 2009**

**Background**

In 1999, the Board of Directors adopted a stock option programme in Swedish Match. The purpose of the option programme is to further increase the involvement of employees in the Company and their ownership of it, to attract and motivate employees within the Company, and to generate incentives for employees that coincide with the interests of the shareholders. Details of the options programmes have been provided in the Annual Reports for all of the years in question and at the General Meetings held between 2002 and 2008.

The allocation of options in the 2008 programme is based on two criteria, namely the improvement in earnings per share and the average return after tax on adjusted operating capital. The Board proposes, with regard to the 2009 programme, and as specified below, that the allocation of options be based on the same criteria as the 2008 programme.

**Proposals by the Board of Directors:**

The Board of Directors proposes that the Meeting approve the call option program for 2009. The call option program proposed by the Board for 2009 comprises a maximum of 74 employees (the President and other members of the Group Management Team included). Allotment of options in accordance with the program is based on the result of two mutually independent criteria:

- **firstly**, the average annual improvement in the Group's earnings per share during the period from 2007 to 2009 (i.e. 2007 in comparison with 2006, 2008 in comparison with 2007 and 2009 in comparison with 2008). Maximum allotment in accordance with this criterion shall occur if the average improvement during the three-year period is 20 percent or more. No allotment will be made if the average improvement is less than 5 percent;
- **secondly**, the result of the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2007 to 2009 in comparison with the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2006 to 2008. Of the maximum allotment in accordance with this criterion, 75 percent shall accrue if the return has remained unchanged and maximum allotment in accordance with this criterion shall accrue if the latest three-year average has increased by two percentage points or more in relation to

the preceding three-year average. No allotment will be made in accordance with this criterion if the latest three-year average for the return is two percentage points lower than for the preceding period.

Both of these criteria (improvement of earnings per share and improvement in the return after tax on operating capital, adjusted for amortization of intangible assets) are equally weighted when determining allotment in accordance with the option program. When only one of the criteria set forth above is met, allotment will thus comprise a maximum of 50 percent of the maximum allotment.

When calculating the earnings per share and the average return on adjusted operating capital after tax, the calculations may, at the discretion of the Board of Directors, be adjusted to take into account the distortive effect of larger one-time items.

The market value of the options shall be determined by an independent valuation institute in accordance with a generally accepted valuation model (Black-Scholes). Employees domiciled in countries where the allotment of options constitutes a taxable benefit at the time of grant shall receive a cash payment from the Company equal to the maximum value of allotment and shall at a minimum purchase allotted options from the Company for an amount equal to such payment net after tax. For other employees the options shall be received without payment from the employees. The combined maximum value of the options allotted in accordance with the proposed option program for 2009 shall not exceed 49 MSEK. The options are freely transferable and are not conditioned on employment. The options can be exercised to acquire shares in the Company during the period March, 2013 up to and including February, 2015 and shall carry an exercise price corresponding to 120 percent of the average share price during a ten-day period after the published year-end report for 2009.

Commitments under the option program may be hedged by repurchasing shares in the Company and transferring such shares in conjunction with any demand for the redemption of the call options. Any resolution regarding the repurchase and transfer of shares in the Company and the issue of call options for the 2009 option program shall be taken by the 2010 Annual General Meeting. Ultimate allotment, based on the result for 2009, will be determined by the Compensation Committee at the time of the publication of the full-year report for 2009.

The Group Management Team (i.e. the President, Divisional Presidents and Senior Vice Presidents in charge of Group functions reporting directly to the President) may be allotted call options with a value that corresponds to a maximum of 65 percent of the respective Group Management Team member's fixed salary. This corresponds to a maximum allotment to the Group Management Team of call options with a value of approximately 16.5 MSEK, of which the President can be allotted options to a value corresponding to a maximum of approximately 3.5 MSEK. The other

participants may collectively be allotted options with a maximum value of 32.5 MSEK.

### Costs

It is estimated that maximum allotment of options, at a total value of 49 MSEK, will give rise to social security contributions of approximately 8.1 MSEK for the Swedish participants in the program. Taken as a whole, this may mean a charge of 57.1 MSEK against operating profit during the year the options are vested, provided that the options are issued by the Company.

### Preparation of the Board's decision

The Board of Directors' proposal regarding the 2009 employee stock option program has been prepared by the Compensation Committee.

### Majority requirement

A resolution in accordance with item 13 requires a simple majority, i.e. that the proposal is supported by shareholders representing over half of the votes cast.

### Previous options programmes

The options programmes for 2004-2007:

Year Earned/Allocated	No. company officials included	Options issued, expressed as the number of underlying shares	Outstanding options, expressed as the number of underlying shares, 18 <sup>th</sup> March 2009	Redemption price <sup>1)</sup>	Value per option when issued <sup>2)</sup>	Value per option, 18 <sup>th</sup> March 2009 <sup>3)</sup>	Redemption period
2004/2005	47	661 871	661 871	99:75 SEK	10:80 SEK	21:25 SEK	03-03-2008-01-03-2010
2005/2006	52	523 817	523 817	127:10 SEK	13:20 SEK	-	02-03-2009-28-02-2011
2006/2007	59	931 702	931 702	145:50 SEK	19:90 SEK	-	01-03-2010-29-02-2012
2007/2008	67	1 592 851	1 592 851	172:68 SEK	17:10 SEK	-	01-03-2011-28-02-2013
<b>Total</b>		3 710 241	3 710 241				

#### Notes

1. Calculated as 120 per cent of the average most recent price paid for the company's share on the NASDAQ OMX Stockholm over a period of ten banking days in conjunction with the announcement of the annual accounts.
2. Value calculated by an independent valuation institution in accordance with the Black-Scholes valuation model for options.
3. The value has been calculated as the difference between the redemption price and the most recent price paid for the company's share as of 18 March 2009, which

was 121 SEK. No account has been taken of whether the options can currently be redeemed.

In addition to the options specified in the table above, the Board of Directors proposes under item 14 that the Annual General Meeting shall pass a resolution to the effect that the Company shall issue 1 720 000 stock options in accordance with the 2008 option programme. If these options are issued by the Company, the Company has a total of 5 430 241 outstanding options according to the stock option programmes for 2004 to 2008. Under item 14 the Board of Directors also proposes that the Company should deviate from the preferential rights of shareholders and be allowed to transfer 1 720 000 shares in the Company at a selling price of 141:24 SEK per share in the event of redemption of the call options being requested. The number of shares and the selling price of these shares may be recalculated due to a bonus issue, a consolidation or split of shares, a new share issue, a reduction in the share capital or other similar measures.

Allocation to the President<sup>1</sup> in accordance with the options programmes for 2004-2007:

<b>Options programme</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
<b>No. options allocated</b>	27 222	19 600	32 502	95 717	175 041

Notes

- 1 The options allocations refers to options allocated to the previous CEO Sven Hindrikes.

Allocation to other Group management officials in accordance with the options programmes for 2004-2007:

<b>Options programme</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
<b>No. options allocated</b>	127 590	132 532	142 390	393 589	796 101

Swedish Match's share capital is divided into 255 000 000 shares with a nominal value of 1:53 SEK per share. All shares carry one vote each. Repurchases have meant that as of March 18, 2009 the company held a total of 5,397,600 of its own shares, and the net number of outstanding shares is hence 249,602,400. Options issued relate, in the event of the options being exercised, to ring-fenced repurchased shares. The company has, between 2000 (incl.) and the present day, and in accordance with resolutions by the Annual General Meetings of the Shareholders of the Company, repurchased shares in the company in order, *inter alia*, to cover the allocation of options as part of the company's rolling options programme. The Board proposes, in item 11, that the 2009 Annual General Meeting authorise the Board of Directors to acquire the company's own shares to a corresponding degree.

### **Dilution, etc.**

On full exercise of options not redeemed on March 18, 2009 of all options issued in accordance with resolutions passed at the Annual General Meetings in 2004-2008, the number of outstanding shares, net after buy-backs, will increase as follows. The percentage change is based on the number of outstanding shares, as of March 18, 2009.

<b>Options programme</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Total</b>
<b>Increase in no. shares</b>	661 871	523 817	931 702	1 592 851	3 710 241
<b>Percentage increase</b>	0.3 %	0.2%	0.4%	0.6%	1.5 %

On full exercise of the options proposed for issue in accordance with item 14 at the 2008 Annual General Meeting, the number of outstanding shares, net after buy-backs, will increase as follows:

<b>Option programme</b>	<b>2004-2007</b>	<b>2008</b>	<b>Total</b>
<b>Increase in number of shares</b>	3 710 241	1 720 000	5 430 241
<b>Percentage increase</b>	1.5%	0.7%	2.2%

If all options issued in accordance with resolutions at the Annual General Meetings from 2004 until 2009 (and provided that the 2009 Annual General Meeting passes a resolution in accordance with the Board of directors' motion in item 14 concerning issuing 1 720 000 call options to execute the option programme for 2008) are exercised, the number of outstanding shares (net after repurchases) will increase by 2.2 per cent. It is estimated that the above options programme in which the options will be earned in 2009 and allocated in 2010 will, if the maximum number of options are allocated and given an option price of 16:56 SEK in conjunction with the allocation, increase the number of outstanding shares (net after repurchases) by a further 1.2 per cent (provided that hedging is effected through the transfer of repurchased shares).

Calculated in accordance with the accounting standard of the International Financial Reporting Standards (IFRS) applying to earnings per share, options issued by the Company but not redeemed on December 31, 2008 a total dilution effect on earnings per share of 0:02 SEK per share (from 8:98 to 8:96 SEK), which is equivalent to 0.2 per cent. The options that may be issued in accordance with the 2009 programme also have a dilution effect on earnings per share to the extent that they are secured by repurchased shares.

## APPENDIX 12

My name is Åsa Nisell and I represent Swedbank Robur funds. Our shareholding in Swedish Match amounts to just over 7,1 million shares and about 2,85 % of the voting rights and capital in the company.

Swedbank Robur is positive towards share-related incentive programs which promote a long-term investment for employees.

Despite that, we were the only shareholder to vote against the Options Program proposed in 2007 and we voted No to the 2008 program. The reason was that we considered these programs to be poorly structured in comparison with previous Options programs at the company.

Aside from the fact the maximum allocation of options had increased sharply, it was our view that the performance-related criteria had fallen.

- We are lacking, for example, a relative demand on performance where Swedish Match's development is compared to a relevant group.
- The absolute performance measurement was changed from an increase in net profits to an increase in earnings per share. We view this as inappropriate in a company of Swedish Match's nature, with significant buyback programs.
- Furthermore, we consider the Options program to be insufficiently forward-looking, as the measurement period until 2/3 has already passed.

We believe that, unfortunately, nothing of substance has changed and, for the same reasons underlying our view of the 2007 and 2008 year programs, we do not support the proposal submitted for the 2009 year Options program.

We ask that the board, ahead of next year's annual shareholder meeting, conducts an evaluation of the programs against the background of, among other things, the comments we have made.

We ask that our statement be recorded in the minutes of this meeting.

**The Board of Directors' proposal under item 14 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

Over the period from 1999 to 2008, Swedish Match has implemented a rolling stock option programme whereby it has been possible to allocate call options on shares in the Company on an annual basis to a number of key Company employees if certain terms and conditions are met. The Board of Directors has resolved on allocation of the stock options and the Company's shareholders have, at each respective general meeting, resolved to issue call options relating to the Company's own shares to secure the Company's obligations. The general meeting has, provided that the meeting passed a resolution in accordance with item 13, also a resolution resolved on a corresponding programme for the year 2009.

The resolution under item 14 on the agenda concerns the question of whether the Company shall, in order to be in a position to honour the existing stock option programme for 2008, be entitled to issue the relevant call options itself and to transfer shares in connection with requests for the exercise of these call options. The alternative to such a procedure is to purchase options on the open market.

For the sake of order, it must be emphasised here that the shareholders' meeting shall not, under this item, adopt a position with regard to the stock option programme per se as the Company is bound by the general meeting's decision on the stock options programme for the year 2008.

According to the call option program for 2008, which was adopted by the General Meeting of April 2008, certain senior executives shall be allotted a minimum of 6 340 options and a maximum of 179 385 options per person. The options may be exercised for the purchase of shares during the period from March 2012 to February 2014 inclusive, at an exercise price of 141,24 SEK. The terms and conditions applying to the options were established on the basis of the average price of the Swedish Match share on the NASDAQ OMX Stockholm during the period from February 18 to March 3, 2009 inclusive, which was 117,70 SEK. The market value of the options, calculated on the basis of conditions prevailing at the time when the terms and conditions applying to the options were established, has been established by an independent valuation institute to be 16,56 SEK per option, corresponding to a total maximum value of 28 483 200 SEK.

The stock option programme for 2008 covers 64 senior executives. The allocation of options was approved by the Compensation Committee in February 2009.

**The Board of Directors proposes**

The Board of Directors proposes that the Meeting resolve that the Company issue 1 720 000 call options to execute the option program for 2008. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer 1 720 000 shares in the Company at a selling price of 141,24 SEK per share in conjunction with a potential exercise of the call options. The number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bo-

nus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or another similar measure, in accordance with “Terms and conditions for call options, 2009/2014”, Appendix 14.

The resolution of the Meeting in accordance with the Board’s proposals in item 14 is contingent upon it being supported by shareholders representing at least nine-tenths of both the votes cast and the shares represented at the Meeting.

### **Dilution etc.**

Swedish Match’s share capital breaks down into 255 000 000 shares with a quota value of 1,53 SEK per share. All shares carry one vote each. Via buy-backs, the Company has a holding on 17<sup>th</sup> March 2009 of a total of 5 397 600 of its own shares and the net number of outstanding shares therefore totals 249 602 400 shares. The intention is that the options issued will, when exercised, lead to the acquisition of these repurchased shares. Over the period starting in 2000 and lasting until now, the Company has, in accordance with decisions by the Company’s shareholders’ meetings, bought back shares in the Company with a view, among other things, to covering the allocation of options in the Company’s rolling stock option programme. The Board of Directors proposes in item 11 that the 2009 Annual General Meeting should, with a corresponding purpose in mind, authorise the Board to decide on the acquisition of the Company’s own shares.

If the stock options proposed for issue in connection with this item 14, following a resolution passed at the 2009 Annual General Meeting, are exercised, the net number of shares after repurchases will increase by 1 720 000, or 0,7 per cent calculated on the basis of the net number of outstanding shares.

The stock options issued have a potentially dilutive effect. Calculated in accordance with the accounting standard issued by the International Accounting Standards Board concerning earnings per share, the options issued by the Company and still not redeemed on 31 December 2008 had a combined dilutive effect on earnings per share of 0,02 SEK per share (from 8.98 SEK to 8.96 SEK), which is equivalent to 0.2 per cent.

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

**TERMS AND CONDITIONS FOR CALL OPTIONS 2009/2014  
PERTAINING TO PURCHASE OF SHARES  
IN SWEDISH MATCH AB**

§1

DEFINITIONS

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

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

§ 2

ACCOUNT-OPERATING INSTITUTE AND REGISTRATION

The maximum number of Call options is 1 720 000.

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

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

### § 3

#### RIGHT TO PURCHASE SHARES

The Holder shall have the right, but not the obligation, to purchase from the Company one share of the Company for each Call option at an exercise price of SEK 141.24 per share. The exercise price and the number of shares that may be purchased with each Call option may be adjusted in the cases described in § 7 below. Only the full number of shares to which the full number of Call options, which are registered via a given account-operating institute and which one and the same Holder wishes to exercise at the same time, carry rights, may be purchased. Such purchase shall exclude the excess portion of a Call option that cannot be exercised.

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

### § 4

#### PURCHASE OF SHARES

If the Holder wishes to exercise the Call option, the application to purchase shares must be made during the period from March 1, 2012 through February 28, 2014, or at a later final date or prior to an earlier final date for application to purchase that may be established in the cases described in § 7, Subsections C, D, E, L and M below. When such application is made, an application form duly filled out as prescribed shall, for purposes of registrations, be presented to the Bank. As soon as possible following receipt of such application, the Bank will prepare a settlement note between the Company and the Holder pertaining to the purchase of the shares specified in the application. An application to purchase is not possible to make and the Company is not obliged to transfer shares during such period when trading with shares in the Company is

prohibited according to § 15 of the Act concerning reporting obligations for certain holdings of financial instruments (or other at each time prevailing legislation).

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

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

## § 5

### PAYMENT IN CONNECTION WITH PURCHASE OF SHARES

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

## § 6

### POSITION OF CALL OPTION HOLDERS

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

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

§ 7

ADJUSTMENTS, ETC.

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

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

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

$$\begin{array}{l} \text{adjusted number of} \\ \text{shares that each} \\ \text{Call option carries} \\ \text{entitle to purchase} \end{array} = \frac{\begin{array}{l} \text{preceding number of shares that each} \\ \text{Call option carries entitlement} \\ \text{to x number of shares} \\ \text{after bonus issue} \end{array}}{\text{number of shares before bonus}}$$
  
$$\begin{array}{l} \text{adjusted exercise price} \end{array} = \frac{\begin{array}{l} \text{preceding exercise price x number of} \\ \text{shares prior to the bonus issue} \end{array}}{\text{number of shares following the bonus issue}}$$

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

- B. If the Company effects a consolidation or a share split, a corresponding adjustment of the number of shares covered by the Call options, and of the exercise price, shall be made by the Bank in accordance with the same principles applied in adjustments for a bonus issue, as described in Subsection A.
- C. If the Company issues new shares, with the shareholders having preferential rights to subscribe for the new shares to be paid for in cash, an

adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

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

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

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

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

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

$$\text{Maximum number of new shares that may be issued as specified in the resolution authorizing the issue} \times \frac{\text{(average price of the share - the issue price of the new shares)}}{\text{theoretical value of the subscription right}}$$

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

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

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

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

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

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

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

$\times \frac{\text{Preceding exercise price} \times \text{average market price of the share during the subscription period specified in the resolution authorizing the issue}}{\text{average price of the share}}$

Adjusted exercise price = 
$$\frac{\text{(average share price)}}{\text{Average share price increased by the calculated theoretical value of the subscription right}}$$

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

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

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

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

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

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

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

calculated theoretical value of the  
subscription right

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

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

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

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

the offering shall be considered to correspond to the 25 trading days stated in this paragraph. If such a listing does not occur, the value of rights to participate in the offering to the greatest extent possible shall be determined based on the change in market value regarding the Company's share which can be assessed to have arisen as a result of the offering.

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

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

- F. Should the Company decide on a cash dividend to shareholders whereby they would receive dividends that, combined with other dividends paid during the same fiscal year, exceed four and a half (4,5) percent of the average price of the share during a period of 25 trading days immediately preceding the day the Board of the Company announces its intention to submit a proposal to the General Meeting for such a dividend, an adjusted exercise price and an adjusted number of shares that may be purchased with a Call option shall be applied. The adjustment shall be based on that portion of total dividends that exceed four and a half (4,5) percent of the average price of the share during the aforementioned period (Extraordinary dividend).

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

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

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase} \times (\text{average price of the share increased by the extraordinary dividend per share})}{\text{Average price of the share}}$$

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

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

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

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

Preceding number of shares that each

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

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

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

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

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

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

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

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

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

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price} \times \text{average market price of the share over a period of 25 trading days, effective from the date of the reduction decision without entitlement to reduced value (average share price)}}{\text{Average share price increased by the repaid amount per share}}$$

$$\text{Adjusted number of shares each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase} \times (\text{average price of the share increased by the repaid amount per share})}{\text{Average price of the share}}$$

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

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

$$\text{Actual amount to be repaid per purchased share, less average trading price for shares over a period of 25}$$

Estimated repayment  
amount per share =

trading days, effective from the date of  
the issue decision without entitlement  
to reduced value (average share price)  
total number of shares in the Com-  
pany used as basis for purchase of one  
share, less the value of 1

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

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

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

- I. Should the Company repurchase shares through an offer to all shareholders in the Company and whereby, in the opinion of the Bank, such measure, taking into account its technical framework and economic effects, is comparable to a mandatory reduction of the share capital, the exercise price and the number of shares to which each Call option carries entitlement shall be adjusted corresponding to the maximum extent possible with the principles in Subsection H above.
- J. Should the above stated adjustment rules for the exercise price and number of shares not give reasonable economic effects for the Holder in relation to the shareholder - as a result of the technical formulation of the measures adopted by the Company, according to Subsections A-I above, or for other reasons, the Bank shall - provided that the Board of Directors of the Company agrees - revise the adjustment rules so that a reasonable economic effect arises.
- K. Adjustment shall not be such that it results in an increase of the exercise price or a reduction of the number of shares which the Call options entitle

to purchase of in cases other than those described in Subsection B. In effecting the adjustment as described above, the exercise price shall be rounded off to the nearest ten öre, with five öre being rounded upward, and the number of shares being rounded off to two decimals.

- L. Should the shares covered by the Call options become the object of compulsory redemption proceedings in accordance with Chapter 22 of the Swedish Companies Act, the Bank, in cases where the final day for application to purchase would occur later than 30 days following public announcement of the compulsory redemption, shall set a new final day for application to purchase that occurs prior to expiration of said period.
- M. The provisions pertaining to compulsory redemption proceedings in Subsection L shall apply correspondingly if the Company approves an agreement for a merger, whereby the Company would become part of another company, or a demerger whereby all of the assets and debts of the Company is taken over by one or more other companies and the Company is then dissolved without a liquidation, or if a decision is made to liquidate the Company or declare the Company in bankruptcy. In such cases, the time period is calculated from the date of announcement of the decision to merge, demerge, liquidate or enter into bankruptcy.

## §8

### SPECIAL OBLIGATIONS OF THE COMPANY

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

## §9

### REPURCHASE

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

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

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

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

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

## § 10

### TRUSTEES

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

## § 11

### LIMITS OF LIABILITY OF THE BANK AND EUROCLEAR

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

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

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

## § 12

### NOTICES

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

## § 13

### CONFIDENTIALITY

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

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

## § 14

### CHANGES IN TERMS AND CONDITIONS

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

## § 15

### APPLICABLE LAW

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

**The Nominating Committee's proposal under item 17 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

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

Re-election of:            Charles A. Blixt  
                                  Andrew Cripps  
                                  Karen Guerra  
                                  Arne Jurbrant  
                                  Conny Karlsson  
                                  Kersti Strandqvist  
                                  Meg Tivéus

The Nominating Committee further proposes that Conny Karlsson is elected as Chariman of the Board of Directors and Andrew Cripps is elected as deputy Chairman of the Board of Directors.

All proposed Board Members to be elected by the Annual General Meeting are considered to be independent in relation to the Company, the senior management and major shareholders of the Company.

Presentation of proposed Board Members

**Conny Karlsson**

Born 1955, MBA. Chairman since 2007. Board member since 2006. Chairman of the Compensation Committee.

**Other Board Assignments:** Board member of TeliaSonera AB and CapMan OYJ.

Prior Board assignments for Zodiak Television AB and Carl Lamm AB.

**Previous positions:** President, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.

**Own and related parties' shares:** 15,000

**Charles A. Blixt**

Born 1951. J.D. and B.A. Board member since 2007. Member of the Compensation Committee.

**Other Board Assignments:** Corporate Board memberships Targacept Inc. (NASDAQ: TRGT) and Krispy Kreme Doughnuts, Inc. (NYSE: KKD). Also Board member of Salem Academy and College Board of Trustees.

**Previous positions:** Interim General Counsel at Krispy Kreme Doughnuts; Executive Vice President and General Counsel RJ Reynolds Tobacco Holdings; Executive Vice President and General Counsel Reynolds American Inc.

**Own and related parties' shares:** 7,090

### **Andrew Cripps**

Born 1957, B.A., University of Cambridge. Board member since 2006. Deputy Chairman and member of the Audit Committee.

**Other Board Assignments:** Non-executive Director and Chairman of Audit Committee of Booker Group plc. Non-executive director and Chairman of the Remuneration Committee of Molins Plc.

**Previous positions:** Non-executive director of Trifast Plc; Director, Carreras Group Ltd; Head of Acquisitions and Head of Strategy Development, British American Tobacco; Director of Corporate Finance, Rothmans International; Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA. Chartered Accountant.

**Own and related parties' shares:** 8,200

### **Karen Guerra**

Born 1956. BSc. Board member since 2008.

**Other Board Assignments:** Non-executive Director position of Inchcape PLC a leading independent, international automotive retailer and Non Executive Director with Samlerhuset Group BV a private European direct marketing company.

**Previous positions:** President of Colgate Palmolive France SAS; Non Executive Director of More Group PLC; Chairman and Managing Director of Colgate Palmolive UK Ltd.; Pepsi-Cola International as Marketing Manager for Holland and Ireland.

**Own and related parties' shares:** 2,100

### **Arne Jurbrant**

Born 1942, MBA. Board member since 2002. Member of the Compensation Committee.

**Other Board Assignments:** Member of the IF L/MTC Foundation.

**Previous positions:** CEO, Kraft Foods Nordic Region; President Kraft Freia Marabou Nordic Region; President, General Foods Sweden/Denmark; President, General Foods Denmark; Sales Manager, General Foods; Marketing Manager, General Foods Sweden; Product Manager, Pripps Bryggerier; President's assistant, Pripps Bryggerier.

**Own and related parties' shares:** 8,500

**Kersti Strandqvist**

Born 1963, M. Sci., Techn. Lic., Master of Strategic Marketing. Board member since 2005. Member of the Audit Committee. Vice President Feminine Care within SCA Personal Care.

**Previous positions:** Business Area Manager for Baby Care within SCA Personal Care; Director of R&D for Incontinence Care, SCA Hygiene Products; Technical Manager Sourcing SCA Hygiene products, Marketing Manager Elf Atochem (France); various positions in R&D and sales Neste Chemicals (Sweden, Finland, Belgium).

**Own and related parties' shares:** 5,630

**Meg Tivéus**

Born 1943, MBA. Board member since 1999. Chairman of the Audit Committee.

**Other Board Assignments:** Chairman of Folktandvården in Stockholm, Frösunda LSS AB and Sprit och Vinleverantörerna. Board member of Cloetta AB, Billerud AB, Apoteket Farmacci AB, Nordea Fonder AB and. Prior Board assignments for Boss Media, Danderyds Sjukhus AB, Statens Provningsanstalt AB, Operan AB, Postgirot AB, Kommentus AB, SNS, SJ and Framfab.

**Previous positions:** President and CEO of Svenska Spel AB; Vice President of Posten AB; Division Manager at Holmen AB; Division Manager at Åhléns AB; Director of AB Nordiska Kompaniet; Product Manager at Modö AB; Project Manager at McCann Gunther & Bäck.

**Own and related parties' shares:** 8,400

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

As members of the Board:

Kenneth Ek, PTK  
Eva Larsson, LO  
Joakim Lindström, LO

As deputy members of the Board:

Eeva Kazemi-Vala, PTK  
Håkan Johansson, LO  
Gert-Inge Rang, PTK

**The Board of Directors' proposal under item 18 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

**The Board proposes to amend the Articles of Association (announcement of notice).**

The present wording

Proposed amended wording

§ 9	§ 9
Notification of general shareholders' meetings shall take the form of an announcement in the Post- och Inrikes Tidningar and in Svenska Dagbladet.	Notice of a general meeting shall be announced in the Swedish Official Gazette (Post- och Inrikes Tidningar) and on the Company's website. Information that notice to a general meeting has been issued shall be announced in Svenska Dagbladet.

Furthermore, the Board of Directors proposes that the resolution of the General Meeting to amend the Articles of Association in accordance with the above shall be conditional upon an amendment of the procedures for convening general meetings in the Swedish Companies Act (SFS 2005:551) having entered into force and the above proposed wording of the Articles of Association being consistent with the Swedish Companies Act.

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The Board further proposes that the Company's President is authorised to make minor adjustments of an editorial nature to the resolution of the shareholders' meeting that may prove necessary in connection with the registration of such a resolution with the Swedish Companies Registration Office (Bolagsverket).

The resolution of the General Meeting in accordance with the Board's proposal under item 18 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

**The Nominating Committee's proposal under item 19 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 28 April 2009**

The Nominating Committee proposes that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2010 Annual General Meeting. The determination of the identity of the four largest shareholders shall be ascertained in due time before the date falling six months before the Annual General Meeting.

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

**INSTRUCTIONS FOR SWEDISH MATCH AB'S NOMINATING COMMITTEE ADOPTED AT THE ANNUAL GENERAL MEETING HELD ON 28 APRIL 2009**

1. DUTIES

The Nominating Committee shall prepare and submit to the General Meeting proposals regarding:

- (i) the election of the Chairman and other Members of the Board, and determination of the Directors' fees to be divided between the Chairman and other Members, and any remuneration for committee work,
- (ii) the election of and payment of fees to auditors, when applicable,
- (iii) the election of a Chairman of the Annual General Meeting; and
- (iv) the election of a new Nominating Committee or proposal for criteria on how the Chairman and members of the Nominating Committee are to be appointed.

The Nominating Committee shall prepare their proposals and present and explain them to the General Meeting, and shall give an account of the way in which this work has been carried out in accordance with the provisions of the Swedish Corporate Governance Code. In addition, when the notice of the Annual Meeting is issued the Nominating Committee is to issue a statement explaining its proposals regarding the Board of Directors with regard to the requirements concerning the composition of the Board.

The Nominating Committee shall supply the company with information on the Nominating Committee, its work and proposals. The information shall be submitted in sufficient time and in such a way that the company is able to comply with its duty to provide information in accordance with the provisions of the Articles of Association, legislation, stock market regulations, the Swedish Corporate Governance Code, and other recommendations that may be deemed to constitute good practice in the Swedish stock market.

The Nominating Committee shall obtain information on the way in which the work of the Board of Directors and, when applicable, the auditors have been evaluated and the results of such evaluations.

2. MEMBERS AND CHAIRMAN

The Nominating Committee shall comprise five members. The appointment of the Nominating Committee shall entail the Chairman of the Board of Directors, in line with the mandate from the Annual General Meeting, contacting the four largest shareholders in the company and asking them each to appoint a representative, to constitute, together with the Chairman of the Board, the Nominating Committee for the period until a new Nominating Committee is appointed in accordance with a mandate from the next Annual General Meeting. If any shareholder waives their right to ap-

point a representative, the shareholder who is the next largest owner, in terms of number of votes held, shall be offered the opportunity to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months before the subsequent Annual General Meeting. The determination of the identity of the four largest shareholders shall be ascertained in due time before the date falling six months before the Annual General Meeting.

If one or more of the shareholders who have appointed members to the Nominating Committee ceases to be one of the four largest shareholders during the mandate period, the Nominating Committee shall decide whether it is necessary to replace the representative appointed by this shareholder. If this is to be done, the Chairman of the Board shall contact the shareholder or shareholders who are now among the four biggest shareholders and offer him/her/them the chance to appoint a representative to the Nominating Committee.

Members who cease to be employed by the shareholder by whom he/she has been appointed shall resign from the Nominating Committee if the shareholder deems it necessary and a replacement shall be appointed by the shareholder.

The Nominating Committee shall be entitled to co-opt members if deemed appropriate.

The Nominating Committee shall appoint a Chairman from their ranks. The Chairman shall not be a Member of the Board of Directors of the company.

### **3. MEETINGS**

The Nominating Committee shall meet as often as is necessary to enable the Nominating Committee to carry out its duties, but shall meet a minimum of once a year. The first notice of a meeting, once the Nominating Committee has been appointed, shall be issued by the Chairman of the Board, and thereafter, by the Chairman of the Nominating Committee. If a member requests that the Nominating Committee be convened, the request shall be met.

The Nominating Committee is quorate if not less than three members are present. The decision of the Nominating Committee shall be the opinion that is supported by more than half of the members of the Nominating Committee.

Minutes shall be kept at the Nominating Committee's meetings, the Minutes are to be signed or checked by the Chairman and the member designated by the Nominating Committee. The Minutes shall be kept and stored in the same way as the Minutes of the company's Board Meetings.

### **4. AMENDMENTS TO THESE INSTRUCTIONS**

The Nominating Committee shall evaluate these instructions, and the work of the Nominating Committee, on an ongoing basis, and shall submit to the General Meeting proposals regarding any changes to these instructions that the Nominating Committee has deemed appropriate.