



Market-leading brands – a platform

Swedish Match is a global Group with a broad offer of market-leading brands in smokefree products. The Swedish Match share is listed on the OMX Nordic Exchange in Stockholm.

NET SALES

12,551 M SEK

OPERATING PROFIT

2,997 M SEK

- In local currency sales increased by 1 percent
- Profit comparison affected by hoarding effects of snus in Sweden
- Successful launch for Red Man snuff in the US
- Three cigar businesses were acquired in Europe and the US

KEY DATA, M SEK

	2007	2006	2005
Net sales	12,551	12,911	13,311
EBITDA excluding larger one time items	3,166	3,583	3,206
Operating profit	2,997	3,285	2,825
Operating margin, %	21.8	24.3	19.7
Profit for the year	2,056	2,335	1,777
Earnings per share, SEK	7.82	8.13	5.61
Dividend per share, SEK	3.50*	2.50	2.10

* Board proposal

Some of our product news



Vertigo

Vertigo is a modern snus designed for women. It has a unique waisted can and is available in the varieties Bahama Velvet and Cuba Gold, both with a natural tobacco flavor inspired by the sun-ripe Caribbean.



Stradivarius

Stradivarius is a completely new premium cigar brand in the US market. The combination of choice tobacco and exceptional craftsmanship has resulted in a very exclusive cigar.



Red Man

Red Man, the largest brand of chewing tobacco in the US, was launched as traditional moist snuff in the US during the year. It is available in the following varieties: Long Cut Straight, Long Cut Wintergreen and Fine Cut Natural.



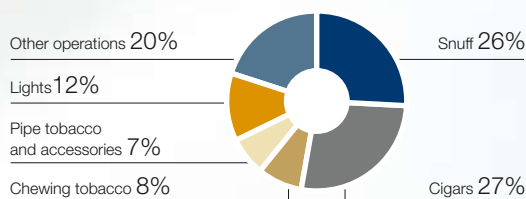
Macanudo Club

Macanudo Club is a new member in the Macanudo family, the most popular premium cigar brand in the US. *Macanudo Club* is a smaller cigar for the international market.

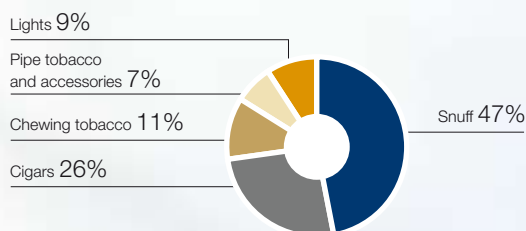
for the future

tobacco products, cigars, pipe tobacco and lights

NET SALES BY PRODUCT AREA



OPERATING PROFIT BY PRODUCT AREA*



* Excluding Other operations and larger one time items.



Borkum Riff Genuine

Borkum Riff Genuine is Borkum Riff's first pipe tobacco without flavor additives and represents an entirely new trend in the brand. This variety consists of Virginia and Burley tobaccos, and has overtones of nuts, chocolate and coffee.

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This is Swedish Match

Snuff and Snus

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

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

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

Production units: Sweden, the US, South Africa

	2007	2006
Sales, MSEK	3,289	3,363
Operating profit, MSEK	1,366	1,614
Operating margin, %	42	48



OPERATING PROFIT

1,366 MSEK



Chewing tobacco

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

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

Main markets: the US

Production units: the US

	2007	2006
Sales, MSEK	956	1,063
Operating profit, MSEK	312	338
Operating margin, %	33	32

OPERATING PROFIT

312 MSEK



Lights

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

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

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

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

	2007	2006
Sales, MSEK	1,473	1,503
Operating profit, MSEK	252	249
Operating margin, %	17	17

OPERATING PROFIT

252 MSEK



OPERATING PROFIT

737 MSEK

Cigars

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

Swedish Match is the world's second largest producer and distributor of cigars and cigarillos. Swedish Match maintains a leading position in the US market for premium cigars.

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

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

	2007	2006
Sales, MSEK	3,411	3,407
Operating profit, MSEK	737	770
Operating margin, %	22	23



Pipe tobacco and accessories

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

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

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

Production units: South Africa, the US

	2007	2006
Sales, MSEK	851	899
Operating profit, MSEK	201	265
Operating margin, %	24	29

OPERATING PROFIT

201 MSEK

Group

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

Consolidated sales amounted to 12,551 MSEK and the average number of employees was 12,075. Production occurs in own production plants in 11 countries: Belgium, Brazil, Bulgaria, the Dominican Republic, Honduras, Indonesia, the Netherlands, the Philippines, Sweden, South Africa and the US.

WWW.SWEDISHMATCH.COM

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

CEO comment

Another successful year

Another successful year has passed for Swedish Match and there are many events to report. We completed two significant cigar acquisitions and noted sharply increased sales of our American snuff. Despite significant increases in the tax on snus, our earnings in Scandinavia rose above the preceding year's level during the second half of the year, which resulted in a gradual improvement in the Group's operating margin. Our strong market positions and healthy cash flow provide us with excellent opportunities for generating a continued favorable return to our shareholders. Our shareholders can be gratified by a 20.7-percent increase in the share price during 2007.



Consolidation of the tobacco industry

The tobacco industry is characterized by high profitability and healthy cash flows, but also by weak sales development and declining volumes in a number of product segments, particularly in industrialized countries.

For a number of years, the tobacco industry has been consolidating and during 2007 two major deals were reported. UK-based Imperial Tobacco acquired the Spanish-French tobacco company Altadis and Japan Tobacco acquired the UK tobacco company Gallaher. Following this consolidation, only a few listed tobacco companies remain. The main reason for the consolidation trend is the declining consumption of cigarettes in the Western World, which is generating a need to merge in order to achieve economies of scale.

The greatest threats to the tobacco industry involve political intervention in the form of regulations, bans and tax increases. The introduction of bans on smoking in a number of European countries during the year had a negative impact on cigar sales.

In Sweden, sales of snus were adversely affected by a sharp tax increase at the beginning of 2007. From a public health viewpoint, it is extremely unfortunate that the tax on snus was increased by more than the tax on cigarettes. Snus has an important role to play in efforts to reduce the harmful impact of cigarette smoking. This is evidenced by the Swedish experience, which shows a uniquely low share of regular smokers today, corresponding to 12 percent of the adult male population, combined with a lower incidence of tobacco-related illnesses than in any other comparable country.

International growth strategy

Organic growth in the tobacco industry is low. Our strategy of focusing on the market for smokefree products and cigars provides us with a favorable position in the main growth segments of the industry. Organic growth constitutes a cornerstone of our business model. This is most noticeable in the segment for smokefree products, where we maintain a leading position in the Scandinavian snus market while we are showing robust growth in the snuff category in the US.

At the same time, we are participating in the consolidation of the industry, primarily in the cigar segment. Through the acquisition of General Cigar, which was completed in 2005, Swedish Match has established a position as one of the leading players in the US cigar market. Our position in the European market has been strengthened through the acquisition of various brands, such as *Hajenius*, *Oud Kampen*, *Bogart* and *Hollandia*.

An important acquisition was completed in September 2007, when the fast-growing Cigars International Inc. was acquired in order to supplement Swedish Match's traditional US distribution channels for cigars. Cigars International Inc. is an American distributor specializing in mail order and internet sales directly to consumers. The company has annual net sales of about 400 MSEK and mainly offers premium cigars from both Swedish Match and other manufacturers. The company's customer database will constitute a unique asset for Swedish Match and provide opportunities for directly testing various product concepts.

The acquisition of Bogaert Cigars in mid-June 2007 enabled Swedish Match to further strengthen its position in Benelux, Germany and France. Bogaert Cigars, with net sales of about 170 MSEK, has a product portfolio comprising machine-made cigars/cigarillos under its own brands, *Bogart* and *Hollandia*, as well as private label cigars. Through Bogaert, we gain access to another factory in a low-cost country, Indonesia. Both of these acquisitions will generate a healthy contribution to earnings in our cigars product area in the years ahead.

In our other product areas, all opportunities to increase sales in various markets must also be capitalized on. During the year, our lighter operations noted a sales increase of 1.5 percent, marking a reversal in relation to the previously negative trend.

Our international growth strategy is supported by a regional, decentralized organization comprising three divisions, through which we have created a strong local market presence and the ability to provide new and innovative products to the market.

Strengthened organization and high tempo

During 2007, we strengthened the organization in the sales and marketing areas, and we will continue to strengthen this area in the years ahead. It is essential that we maintain a continued high tempo in terms of product development and new launches.

A successful launch of *Red Man* snuff throughout the US is high on the list of priorities for 2008. We believe that the snuff product area in the US offers the greatest potential for future growth and we expect a continued increase in our volumes and market share in the years ahead.

We are increasing our marketing investments and pursuing a more active price-segmentation policy in order to enhance our operating margin. An increased focus on selected, strong brands will be prioritized.

Returns to shareholders

The share price increased 20.7 percent during the year to 154.50 SEK, which can be compared with a decline of 5.7 percent for the OMXS30 index. It is proposed that the dividend be raised 40 percent to 3.50 SEK per share (2.50). The dividend proposal issued to the Annual General Meeting should be viewed in the light of the revised dividend policy, which indicates a dividend corresponding to 40–60 percent of earnings per share. During 2007, 2.6 billion SEK was also transferred to the shareholders in the form of share buybacks.

Structure and future

The major structural changes within Swedish Match have now been completed. What now remains is work to bring about continuous rationalization and ongoing improvements in our business processes.

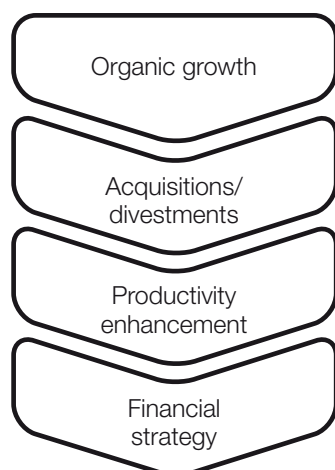
With a focused strategy and implementation of action plans based on this strategy, 2008 is expected to be another successful year for Swedish Match.

Our strategy

Continued emphasis on growth

Swedish Match's overall strategy features four components, which combined are aimed at driving growth and building solid and sustainable operations that are profitable and generate a favorable return for our shareholders.

SWEDISH MATCH STRATEGY



Organic growth

The major challenge currently facing Swedish Match is its focus on organic growth. This is the foundation for Swedish Match's strategy and we see favorable potential for strengthening our market positions in smokefree products and cigars, both in Europe and the US. In the last five years, snuff and cigar sales have increased and operating margins have improved. Sales of cigars have increased from 3,008 MSEK to 3,411 MSEK, with operating profit rising from 393 MSEK to 737 MSEK with a similarly significant improvement in the operating margin.

These successes are the result of investments in active product development, new launches and relaunched, new flavors, innovative formats and various forms of brand extensions. They are also the result of adaptation to changes in consumption patterns, market positioning and the right product/price mix in our broad product portfolio.

Despite the general decline in tobacco consumption in North America and Scandinavia, these markets include growth areas in which Swedish Match has a presence. The US snuff market is the largest and most rapidly growing market worldwide, expanding rapidly in volume annually in

recent years. The US is also a potential market for Swedish snus. Since 2007, Swedish Match has conducted trial sales of Swedish snus in more than 100 stores in the major metropolitan regions of the US.

Scandinavia, another strategically important market for snus, primarily comprises Sweden, along with a growing market in Norway and rising tax-free sales. One factor influencing growth in Scandinavia has been the switch from cigarettes to snus.

A third area is the growing market for premium cigars and machine-made cigars, notably in the US. The Asian and Eastern European markets offer growth potential but the size of these markets is still small.

Acquisitions/divestments

This is the strategic component that has generated most value for our shareholders. The sale of cigarette operations in 1999 was a major strategic decision. These operations no longer suited the Group structure, given the requirements we imposed for profitable growth. Meanwhile, the sale released capital that was used to acquire cigar operations in the US, both premium and machine-made varieties. Our entire US cigar business is based on acquisitions. This also applies to our pipe tobacco operations in South Africa. The acquisition strategy is based on strengthening our market positions by acquiring operations that supplement our portfolio and create production, sales and distribution synergies.

Two significant acquisitions were implemented during the year, one in Europe and the other in the US. In September, the rapidly expanding Cigars International Inc. was acquired in order to supplement Swedish Match's traditional US distribution channels for cigars. Through the acquisition of Bogaert Cigars in June, we further strengthened our position in Benelux, Germany and France.

The disposal of assets not required in the core business is another part of this strategy component. The sale of the company's headquarters in Stockholm for 1.1 billion SEK must be viewed from this perspective.

Productivity enhancement

In parallel with the focus on organic growth and acquisitions, efforts are pursued consistently to attain a more market-oriented organization and a more efficient production structure. The focus in recent years on significant structural and rationalization programs has led to sizeable improvements in consolidated operating profit and operating margin.

In cigars, Swedish Match has effected successful rationalization and restructuring programs. Among other developments, output in Indonesia has been expanded and additional measures were taken to raise productivity in Belgium, as well as in Alabama, USA. These changes led to higher earnings and improved resource management.

The Lights product area has also seen the completion of wide-ranging restructuring programs in recent years aimed at boosting earnings. Operations lacking clearly identifiable synergies with other businesses have been divested, as have activities which provided low earnings. In addition, rationalization programs at match plants have been completed. As a result, Group earnings have improved substantially, with operating margins rising from 5 percent in 2003 to more than 17 percent in 2007.

Financial strategy

Swedish Match's operations are characterized by strong cash flows and a relatively limited need for capacity-enhancement expenditure. The financial strategy is based on the basic principles of not utilizing more capital than necessary, and continually optimizing the balance sheet, with due consideration of flexibility and stability requirements.

The overall capital structure and dividend policy were analyzed and revised as part of the annual strategic review. As a result, the previous dividend policy – entailing a dividend in the range of 30 to 50 percent of annual earnings – has been amended so that the dividend should now be in the range of 40 to 60 percent of earnings per share, adjusted for major non-recurring items. Moreover, in view of the stability of the company's operations, it has been deemed possible to raise the net debt level. Consequently, the financial policy has been revised and we have set a net debt level which we believe to be optimal for shareholders, namely, that we shall strive to maintain a net debt that does not exceed three times annual EBITA.

Since the listing of the Company, we have consistently transferred capital to our shareholders. By means of share redemptions and buybacks from 1998 to the end of 2007, we reduced the number of shares outstanding from 463.6 million to 255.9 million, or by 45 percent. This was completed alongside substantial acquisitions. Our financial strategy has made a major contribution to our ability to increase earnings per share over a period of many years. In 2007, Swedish Match was able to transfer considerable amounts to shareholders via share buybacks.

Outlook

The trend during the year confirms our strategic direction, characterized by focus on organic growth. We are continuing with programs to stimulate growth, primarily for snuff and cigars, with product development, new brand launches and market segmentation as key components. In these efforts, we will capitalize on changing consumption patterns in the tobacco area by offering consumers modern smokefree tobacco products and attractive cigars.

We are also evaluating appropriate acquisitions to complement operations, primarily in the cigar area. In addition to this, efforts aimed at enhancing the efficiency and productivity of production and distribution are continuing. We will also continue our programs aimed at becoming more market oriented and will work closely with consumers to capitalize on our established brand portfolio and identify new consumer trends and lifestyle patterns. In the financial area, we will continue to optimize the balance sheet in light of the substantial free cash flows that operations will generate and, thus, achieve an efficient return of capital to our shareholders.

These actions will lay the foundation for our continuing efforts to create value for customers, consumers and Swedish Match shareholders.

Swedish Match has a strong, highly motivated organization with skilled, professional employees worldwide, factors that provide the conditions for the company to develop successfully. The past year has entailed considerable progress in various areas, which will provide a platform for our continuing growth. I would like to extend a sincere thanks to all our employees for their excellent work and inputs to create an even stronger and even more successful Company.

Stockholm, March 2008



Sven Hindrikes
President and CEO

Market and business environment

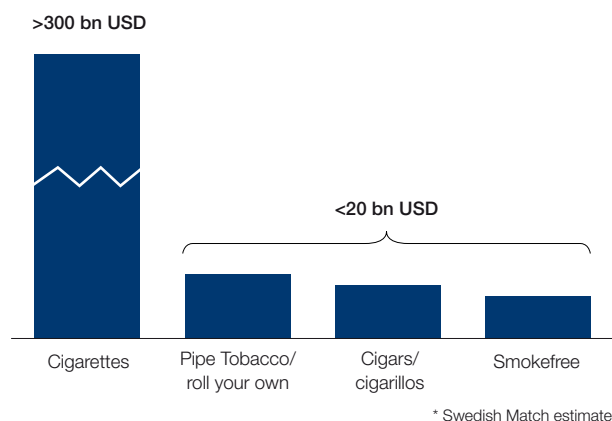
Opportunities and challenges in a changing industry

The global market for tobacco is estimated to more than 300 billion USD annually. The segments comprising smokefree products, cigars and pipe tobacco account for about 7 percent of the total market. Growth is expected primarily within smokefree products and cigars.

Considerable consolidation of the market has occurred in recent years. The market is dominated by a number of large multinational players primarily within the segment for cigarettes. Within smokefree products, the number of players is much fewer. In recent years, however, there is a distinct trend of major players increasingly showing an interest in smokefree products, in the form of both proprietary developed products and the acquisition of operations.

Swedish Match has established a strategic position in niche areas of the tobacco market, smokefree products and cigars, which are the fastest growing segments of the tobacco market. While Swedish Match is a relatively small player in the global tobacco industry, it has strong positions in local markets, primarily in Europe, South Africa and the US.

TOTAL MARKET VALUE*



The short term outlook for the tobacco industry is positive. The strongest volume growth is in smokefree products and pipe tobacco/roll your own. There is continued potential for cigars, in particular small cigars. For cigarettes, consumption is decreasing in the western world, even though a moderate growth is expected globally.

Market

Snuff and Snus

Snuff is the product category that is demonstrating the highest rate of organic growth. The principal markets for snuff and snus are the US and Scandinavia. In North America, the snuff market is growing rapidly and has shown volume growth of more than 6 percent in recent years, while a more stable trend has been noted in the Scandinavian market.

The snus market in Scandinavia is characterized by a long-standing user tradition and use of the product is accepted in all social categories. The Scandinavian market is being driven by increased market segmentation and adaptation of the products to satisfy consumer preferences. In North America, consumption of snuff is much less widespread within various social categories compared to Scandinavia. Growth is driven by accelerating consumer interest in snuff products, primarily in the low-price category, not least among smokers who choose a smokefree alternative.

Cigars

North America and Western Europe are the largest markets for cigars. The US cigar market grew both within the premium and the machine-made segments. In terms of volume, the US market for machine-made cigars grew by 8.9 percent in 2007*, while growth for premium cigars was lower.

The North American consumers show a greater interest in premium cigars. The market is more concentrated than the European market.

In 2007, the total market for cigars stagnated in Europe. The European market is fragmented, characterized by many smaller players and regional, family-owned cigar companies. Major variations are also discernible between these markets in terms of consumption, pricing and tax conditions.

* Source: ACNielsen



Lifestyle patterns and consumer trends – driving forces for growth

Consumer insight is of vital importance to create growth and sustainable profitability of fast-moving consumer products. Consumer preferences for tobacco products are influenced by such factors as lifestyle patterns, health trends and market regulations.

One trend among tobacco consumers in Scandinavia, Swedish Match's main market, and also in the US, is a continued switch from cigarettes to smokefree products, such as snus. Brand loyalty among consumers is also considerable, which means that strong brands, brand care and consumer-driven product development are key competitive tools in efforts to capitalize on growth opportunities and profitability.

Preferences for products that provide a feeling of luxury, enjoyment as well as social status is a general social trend in many markets. Cigars, primarily premium cigars, fit in well with this lifestyle trend, whereby the special character, packaging and not least brand of the product create a unique experience.

Snus is a modern and socially accepted product in Scandinavia and, with the continually improving products and greater health awareness, snus products are reaching growing numbers of consumer groups. Today, snus is not used exclusively as an everyday product, but also on special occasions.

Shopping via the Internet is increasing for virtually all types of consumer products. This also applies to certain tobacco products. In North America, the Internet is growing as a distribution channel for the marketing and sale of cigars

and Swedish Match envisages opportunities to further develop this sales channel.

Regulations

Unlike most other consumer products, tobacco products are subject to stringent regulations, which have become significantly more restrictive in the past few decades. The opinion of Swedish Match is that such regulations should aim to prevent consumption among underaged and that the use of tobacco should be steered away from cigarette smoking to low-risk products, primarily snus.

Comprehensive bans on smoking in public environments are creating scope for smokefree products. For cigars, this is resulting in new product design and packaging requirements.

Recurrent tax increases for tobacco, primarily in Sweden, have hit sales of snus the hardest and means that the price difference in relation to cigarettes has decreased. This is unfortunate from a public health perspective, since extensive scientific data clearly shows that snus has a dramatically lower risk profile than cigarettes.

Within the EU, a ban on marketing and selling products of the Swedish snus type exists since 1992. In February 2008, the European Commission published a scientific report aimed at evaluating smokefree tobacco products which may have the potential to reduce harm (Art. 11, Dir. 2001/37). The conclusions of this report firmly speak in favor of Swedish snus as means for risk assessment and harm reduction. Read more on page 39.

Brand strategy and product development

Brands for the 21st century consumer

Our brand portfolio is the foundation for continued growth. Thanks to long-term strategic brand work, characterized by consumer insight and innovation, Swedish Match has established leading positions in many markets. This has taken place through the meticulous care of existing brands and the development of new products. In 2007, Swedish Match has launched some 40 new products or product varieties. Based on this platform, we are creating the Swedish Match of the future.

Active, consumer-driven product development is the foundation of continued organic growth. Brand loyalty among tobacco consumers is high, meaning that the Group can benefit long term from its investments in brands. The Group's main strength in relation to its consumers is its broad portfolio of strong and well-established brands, and new brands adapted to modern and discerning consumers. Strong brands stimulate brand loyalty, and repeat purchases as well as a high turnover rate in the distribution stage sustain profitability for both Swedish Match and retailers. Accordingly, brand care and product development are important competitive tools.

The ambition of generating added value for our consumers imposes rigorous demands on the Company. The success is attributable to extensive product knowledge and in-depth consumer insight. Consumer surveys as well as studies of consumer trends and behavior are a key part of the development of both existing and new products.

Product development is driven by intense competition about consumer attention. To attract consumers, it is essential that Swedish Match offers a broad range of different product varieties in terms of flavor, size and format, regardless of the price level in which the consumer is looking for a product or experience. This requires a high pace of innovation, as reflected in intensified product development work. During the year, some 40 new products or product varieties were launched, primarily within the cigars, snuff and snus segments.

Existing brands

Swedish Match owns considerable brand capital through its numerous strong and well-known brands. *Red Man* and *Macanudo* in the US, *Solstickan* and *General* in Sweden and now also in selected locations in the US, *La Paz* in the Netherlands, *Redbeads* in Australia, *Taxi* in South Africa and *Fiat Lux* in Brazil, are brands that create a stable and strong market position. Each individual brand represents unique values that are preserved and further developed with immense care. Brand work is conducted in close contact with consumers and retailers in order to ensure that products and brands fill the right needs and expectations.

Brand care also involves investing resources in maintaining a high level of quality in terms of purchasing, sales and distribution. This is essential so that the product has the same high level of quality and gives the same experience regardless of when and where the consumer purchased the product.

Some classic brands have values that are so strong that they can even be transferred to other types of products. An example is the American chewing tobacco *Red Man*, which is very closely related to quality, heritage and tradition – values that are highly important to the very brand-loyal *Red Man* consumers. To capitalize on these strong brand values, Swedish Match has expanded the *Red Man* brand from the chewing tobacco category to also encompass snuff products in the US.

The design of the products and packaging are additional stages in the development of existing brands. Tobacco products are often displayed in a limited space in stores and, since the marketing of tobacco products is regulated, it is important to optimize the use of the space available. A large part of the communication with consumers takes place



Smokeless products, such as snuff and snus, is the product category showing the highest growth rate. Increased consumer interest in smokeless products is driving growth and also contributing to the development of new products and brands such as *Onico*, *Vertigo* and *Red Man* snuff.

through packaging, placement and the manner in which the products are presented in the store.

In the Scandinavian snus market, three of the largest brands, *General*, *Ettan* and *Grovsnus*, were redesigned during the year. The packaging of some lights products has been developed to facilitate identification of the various products. *Cricket*, our largest brand of disposable lighters, regularly launches new series of designs to differentiate the products from competitors and to enhance the brand image toward consumers.

New products and brands

An important part of Swedish Match's brand strategy is the development of new products and brands. As with other fast-moving consumer goods, it is primarily trends and consumer preferences that govern product development.

To identify improvement and development opportunities for new products at an early stage, a continuous dialogue is maintained with consumers through consumer surveys. All development work is conducted on a cross-functional basis to make use of the competencies in the company. A product development team comprises employees from marketing and sales, manufacturing, packaging development and our tobacco masters. The groups analyze different consumer trends for the purpose of producing products for tomorrow's needs. With insight into consumer preferences, new products and brands are developed for 21st century consumers.

In developing a new product, we create an offering where the product as a whole matches consumer needs. All parts of the product offering are taken into account: content and flavor, packaging, design, market communication and the brand's role in the product portfolio. The degree of satisfaction and loyalty to the brand is based on how well the total offering meets such needs. In addition, the consumer is influenced by the stores in which the product is sold, how the product is displayed in the store, the consumer price, how the packaging is perceived and the values that the consumer associate with the brand. All of these parts must interact to make the product correspond to consumer expectations and demands.

Once a product offering has been launched, we work to ensure that the product remains the same over time by implementing internal quality controls and carrying out regular analysis of customer satisfaction with the product. This is important in efforts to create long-term trust and brand loyalty.

In view of the comprehensive marketing restrictions to which tobacco products are subject in most markets, effective distribution capacity and an effective sales force are very important. Sales work ensures that the product is available and is highly visible in as many stores as possible. By building, maintaining and developing the distribution channels, Swedish Match strengthens its market position.

Snuff and snus

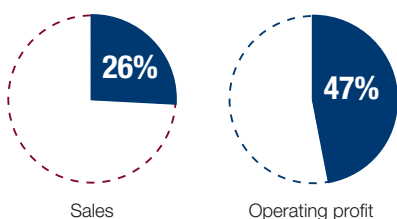
Growing markets and a high pace of product innovation

Swedish Match is by far the largest producer of snus in the Scandinavian markets, where snus is a highly popular tobacco product. Moist snuff is the fastest growing category in the US tobacco market and is well positioned in the value segment. Through innovative products, new and repositioned brands, Swedish Match strives to maintain and enhance its market positions wherever it competes. These product categories offer significant growth potential for Swedish Match.

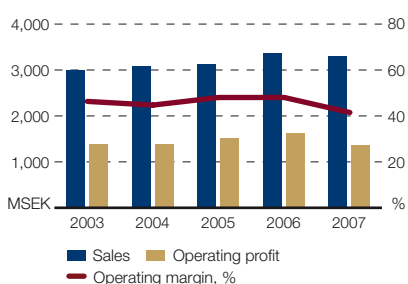
OPERATING PROFIT

1,366 MSEK

SHARE OF GROUP TOTAL



SALES AND OPERATING PROFIT



KEY DATA, MSEK	2007	2006	2005*
Sales	3,289	3,363	3,131
Operating profit	1,366	1,614	1,504
Operating margin, %	42	48	48
Investments in property, plant and equipment	233	118	157
Average operating capital	1,652	1,478	1,166
Average number of employees	974	954	916

* Operating capital for 2005 has not been restated in accordance with the new definition of net debt and includes net pension liabilities.

Operational highlights

- Continued strong volume growth in Norway and duty free
- Lower volumes in Sweden on doubling of excise tax
- North American snuff volumes up 21 percent
- Red Man moist snuff launched in the US

Financial development

Sales during the year decreased 2 percent to 3,289 MSEK (3,363). Operating profit for the year declined by 15 percent to 1,366 MSEK (1,614).

In the Scandinavian market, Swedish Match sales declined by 4 percent, as improved pricing and strong growth in Norway and duty free sales offset sales declines in Sweden. Sales volumes declined by 9 percent in Scandinavia. In Sweden, volumes declined, impacted by a doubling of the weight based tax for snus. Volumes in Norway, as well as duty free sales, increased.

In the US, sales grew as the Company gained market share in a market that grew by more than 7 percent*. Swedish Match shipment volumes increased by 21 percent.

The operating margin was 42 percent for the year (48). The lower operating margin results from a combination of factors including lower volumes in the first part of the year in Scandinavia, a mix shift toward value price products, and higher expenses for marketing and product launches.

Market

Scandinavia and the US are the world's largest markets for snuff. In 2007, the US moist snuff market grew by more than 7 percent* in volume terms, with the value priced and pouch segments demonstrating the strongest growth. Growth in the US market has accelerated in recent years, as more consumers entered the category, including those having made the transition from cigarettes. A broader range of brands, product varieties, and price points have further fuelled this market growth.

* Source: Swedish Match and industry estimates. ACNielsen estimates 2007 market growth of 10 percent.



The Scandinavian market offers a broad range of brands and product varieties, with pouch products being the most popular and continuing to grow in importance. By far the largest market in Scandinavia is Sweden, which is a mature market.

Scandinavia

Main brands

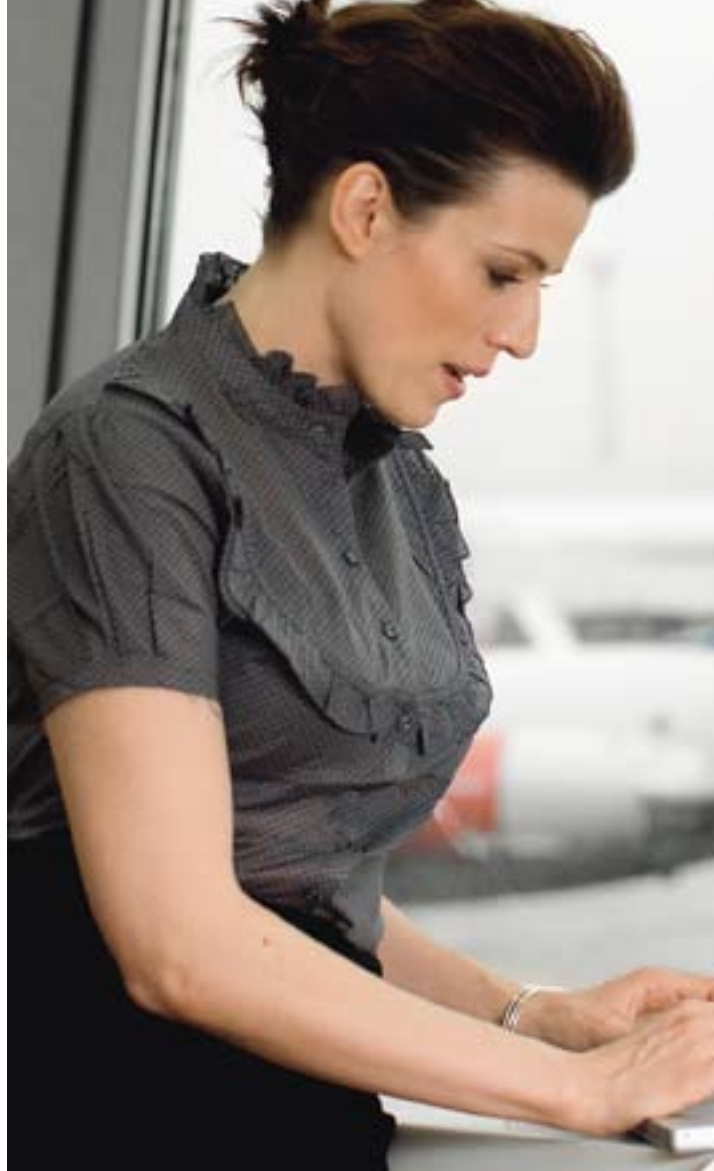
The largest brands on the Scandinavian market are *General*, *Ettan*, *Grovsnus*, *Göteborgs Rapé*, *Kronan*, and *Catch*. During 2007, the Company improved the package design of several of its brands, the most notable being for *General*. *Kronan*, a value priced product, has grown quickly and is now the number one brand in that segment in Sweden. On the Swedish market, the Company expanded its product range in the non-tobacco smokefree segment under the *Onico* brand. *Onico* gives consumers a nicotine free alternative to traditional snus products. On the Norwegian market, the Company has continued to increase its presence with brands such as *Nick and Johnny*, *General*, *Röda lacket*, and *Göteborgs Rapé*.

Market

Swedish Match is by far the largest manufacturer of snus, with a volume share in Sweden of nearly 90 percent at the end of 2007*. In Norway, Swedish Match has an estimated volume share of 85 percent*. While both the Norwegian and duty free markets continued to grow at double digit levels, declines in the Swedish market, brought on by higher retail prices on the back of significant tax increases, caused overall sales in Scandinavia to decline by 4 percent during 2007. During the past few years, sales of portion-packed (pouch) snus have increased sharply and now account for about 62 percent of volumes in Scandinavia.

With more than one million snus consumers in Sweden approximately 200,000 are women. Swedish Match estimates that over 26 percent** of men use snus on a regular basis. The number of men using snus has been relatively stable, while the number of women using snus on a regular basis is increasing.

Tobacco excise taxes in Sweden, based on weight, are a significant proportion of the retail price of a can of snus. In September 2007, the Swedish Government announced that this weight based tax on snus would increase by 90 SEK per kilo, effective January 1, 2008. This follows an increase in 2007 of 123 SEK per kilo, double the level in 2006. The effect of these tax increases caused volumes at the end of 2006 and 2007 to rise substantially due to both consumer and retailer product hoarding. During the first six months of 2007 both trade destocking and consumption declines in Sweden resulted in lower shipment volumes. Volumes in Scandinavia reverted to prior year levels in the third quarter of 2007 as increases in Norway and duty free offset declines in Sweden.



Point of sales

The most important sales channels for snus in Scandinavia are supermarkets, convenience stores, and gasoline stations. Snus is also sold on the Internet, in tobacconists, bars, restaurants, and in duty free outlets, including airports and ferries. The sales price is set by the retailers, with the result that prices can vary widely. Snus is merchandised from coolers to help ensure freshness and quality.

Competitors

The largest competitor in Scandinavia is Skandinavisk Tobakskompagni (STK) with approximately 6 percent volume share of the market*. Other competitors on the Scandinavian market include Japan Tobacco/Gallagher and Imperial/Altadis, among others. Most competitive brands are positioned in the low priced segment.

North America

Main brands

The largest brands for Swedish Match on the US market are *Timber Wolf* and *Longhorn*. During the second half 2007, the Company launched a new moist snuff brand, *Red Man*. The *Red Man* family of products is a range of traditional moist snuff in the market's most popular cuts and flavors.

* Source: ACNielsen

** Source: National Public Health Survey, Hälsa på lika villkor, The Swedish National Institute of Public Health



General is the largest brand of snus in the Scandinavian market and is available in several varieties. During the year, *General* cans received a new design and the *General Sterk* brand was launched in Norway.

Ettan is Sweden's oldest snus and was introduced as early as in 1822. *Ettan* has become somewhat of a Swedish cultural symbol and, with its genuine tobacco flavor, it is the most traditional Swedish snus.



The *Red Man* brand is now available as traditional moist snuff. It is already well known in the smokefree tobacco category, as the number one brand of chewing tobacco in the US.

The *Red Man* brand is well known in the smokefree tobacco category, as it is the number one brand of chewing tobacco.

Market

In the US, the market for traditional moist snuff has continued to experience rapid growth, as more and more consumers recognize the advantages of this smokefree product. Moist snuff is sold throughout the US, with particularly strong sales in the Southern US. The fastest growth in the US moist snuff market is in the value priced segment and the pouch segment. There is also increased interest in the US for Swedish style snus which unlike American moist snuff is spitless and is used under the upper lip. The production processes for American moist snuff and Swedish snus differ in that moist snuff in the US is fermented while Swedish-style snus is pasteurized. However, both production techniques complies with the quality standard **GothiaTek®**. Still a very small category in the US, Swedish style snus is considered to have a long term growth potential.

The US is the world's largest moist snuff market, with consumption in 2007 estimated at more than 1.1 billion cans. During the past four years, the moist snuff market has grown at the rate of more than 6 percent annually, and during 2007 the market growth rate is estimated to have

been more than 7 percent*. The pouch category in the US is rapidly growing, up by more than 15 percent in 2007*, and now accounts for approximately 7 percent* of the cans of moist snuff sold in the US.

The portfolio of products available to the US consumer continues to grow, further encouraging volume growth in this dynamic category. Pricing is also a significant factor in the growth of the snuff category in the US. Retail prices vary considerably, with premium brands in many cases double the price of value priced brands. Swedish Match is active in the value priced segment. Another factor in the accelerating category growth is the influx of cigarette smokers into the category, as more convenient formats, like pouches, are introduced into the market.

During the year, Swedish Match's market share by volume was 11.1 percent up from 10.0 percent in 2006*. The increase during the year was primarily attributable to the growth of *Longhorn*, which had approximately 4.4 percent of the market at the end of 2007*. *Longhorn* was the fastest growing brand in the US moist snuff category*. *Timber Wolf* also grew. The value segment grew by more than 15 percent in terms of the number of cans sold during the year, and at year-end accounted for approximately 43 percent of the US market*.

* Source: ACNielsen for market share in volume, and Swedish Match for market size

Point of sales

The main distribution channels are special low-price tobacco stores, supermarkets, convenience stores and gasoline stations, as well as on the internet.

Competitors

The largest competitors in the market are UST (with a market share by volume of 60.6 percent for 2007), and Conwood (26.7 percent)*. Traditional cigarette companies have recently shown increased interest in both Swedish style snus and traditional American moist snuff products and have been actively testing products in these areas.

Other markets and other snuff products

Sales of snus and moist snuff are limited outside the US and Scandinavia. Swedish Match is continuing its small scale sales of Swedish brands in Moscow and Saint Petersburg in Russia. Sales of snus have been banned within the European Union since 1992. Sweden was granted an exemption from the sales ban for the Swedish market when it became an EU member in 1995.

In addition to its moist snuff products, Swedish Match sells nasal snuff in both South Africa and Europe. Swedish Match is number two in the South African market with the locally produced *Taxi* brand, sold mainly via convenience stores, low-price outlets, small stores and kiosks. In Europe, Swedish Match markets nasal snuff under the *Singleton's*, *Kensington* and *Rumney's* brands, mainly in and around the Alps.

Product development

In both the US and Scandinavia, product development has become more important than ever to meet new demands, new consumers and competition. The most obvious trend in moist snuff and Swedish snus is the increased interest in portion-packed (pouch) products. In Scandinavia, growth of the share of white-portion snus was particularly noted, a product with unique product characteristics, produced using Swedish Match's patented technology.

The Scandinavian snus market has become more segmented in terms of retail price, based on both brand and product type. The non-tobacco nicotine free market, represented by Swedish Match with the *Onico* brand, has also grown considerably.

In the US, market segmentation continues to be defined by brand and retail price and is generally traditional loose snuff product, although the pouch segment is gaining ground, with approximately 7 percent of volume sold in 2007.

On the Scandinavian market, Swedish Match has a number of strong snus brands and a wide variety of products to satisfy the various consumer preferences. New products during the year included the launch of *Vertigo*, the new snus for women, in Sweden and Norway. *Vertigo* was designed specially to satisfy this target group's specific requirements in terms of product characteristics and packaging. There are



The *General* brand is heading out into the world. During 2007, Swedish Match conducted a test launch of this Swedish snus in the US, with premium snus *General* as the category's flagship.

now around 40 different types and varieties of snus in Swedish Match's brand portfolio in Scandinavia and new product launches continue at a rapid pace.

During 2007, Swedish Match launched a new consumer website for the Swedish market that offers service and information to consumers and other stakeholders on all snus products: www.swedishmatch.com/konsument. Consumers will be able to more easily explore the Swedish Match product range.

In the US market, a new moist snuff product was launched in parts of the US in September under the iconic brand *Red Man*. As the number one brand of chewing tobacco, *Red Man* has exceptionally strong recognition among smokefree tobacco consumers in the US. Expanding the brand to include the snuff category provides the snuff with immediate access to the strong brand values that *Red Man* represents: quality, heritage and tradition. *Red Man* moist snuff is available in three cuts and flavors. Also, *Timber Wolf Packs* was launched in a new variety, Mint Pouches.

During 2007, Swedish Match expanded its test sales of Swedish snus produced in Sweden in metropolitan areas in the US. The *General* brand increased its presence in outlets in New York, California, and Texas. The product is merchandised in custom coolers at premium cigar outlets.

* Source: ACNielsen for market share in volume, and Swedish Match for market size

Outlook

Snuff and snus producers face challenges and opportunities as a result of the changing dynamics in the market place, with continued rapid growth of the snuff market in the US, and a broadening assortment of available products in both the US and Scandinavia. Continued growth in the US market is expected due to the relatively low usage incidence, smoking bans, and heightened understanding of the concept of harm reduction. While nearly all of the growth in the US will come from traditional moist snuff in the shorter term, opportunities also exist to further develop and increase the size of the Swedish style snus market in the US.

Hoarding following significantly increased excise taxes for snus in Sweden has a negative impact on shipments of snus during the first half of 2008. However, with the extensive product range and rapid pace of innovative new product development, Swedish Match is well positioned to meet market challenges. At the same time as focusing on existing markets, the Group continues to explore the potential for geographical expansion.

Production and distribution

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

Swedish Match produces moist snuff for the US market in Owensboro, Kentucky. The Owensboro factory is a well-established plant which produces snuff, chewing tobacco and pipe tobacco. The plant has developed a flexible production platform which allows resources to be employed where needed. This flexible setup means that the Company can efficiently adapt to production changes as increases in snuff production offset declines in chewing and pipe tobacco.

Swedish Match produces nasal snuff in Boksburg, South Africa.

Distribution for all tobacco products in Sweden, including products from other manufacturers, is shipped from the Company's distribution facilities in Solna and Gothenburg. The Company has a high level of purchase orders through its webshop and supplementary electronic purchase systems. Products are most often delivered on a weekly basis to avoid retail out of stock situations.

In 2007, the Swedish Match sales organization was recognized by the Sales Partner Group as the favorite supplier to retailers of consumer goods in Sweden.

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

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

WWW.SWEDISHSNUS.COM

You can order Swedish snus through our webshop.

The market

Swedish Match main brands

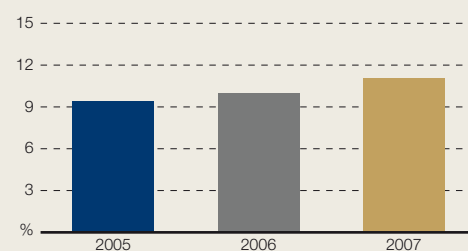
Scandinavia: *General, Ettan, Grovsnus, Kronan, Göteborgs Rapé, Catch*

US: *Timber Wolf, Longhorn, Red Man*

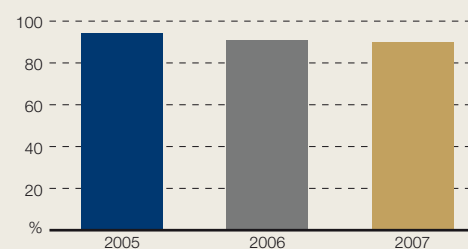
MARKET FACTS 2007	Scandinavia	US
Market size, no. of cans	250 million	1.1 billion
Swedish Match market share*	90%*	11%

* ACNielsen market share in Sweden

MARKET SHARE, US



MARKET SHARE, SWEDEN



Source: ACNielsen for market share in volume, and Swedish Match for market size

Cigars

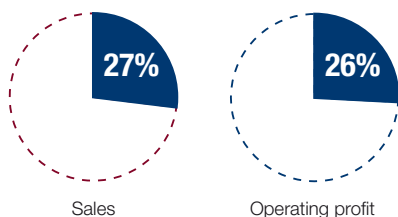
Stronger market presence by product launches

As the world's second largest producer of cigars and cigarillos in sales value, and the largest premium cigar manufacturer in the US, Swedish Match provides the ultimate in taste and quality in every segment of the worldwide cigar market. With its full range of high quality cigar products, both occasional cigar smokers and cigar aficionados will find the right cigar in the Swedish Match assortment.

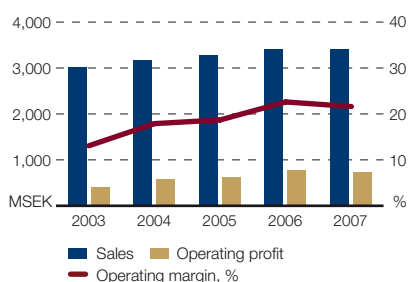
OPERATING PROFIT

737 MSEK

SHARE OF GROUP TOTAL



SALES AND OPERATING PROFIT



KEY DATA, MSEK	2007	2006	2005*
Sales	3,411	3,407	3,283
Operating profit	737	770	613
Operating margin, %	22	23	19
Investments in property, plant and equipment	99	90	90
Average operating capital	5,235	4,977	4,596
Average number of employees	8,715	8,915	8,529

* Operating capital for 2005 has not been restated in accordance with the new definition of net debt and includes net pension liabilities.

Operational highlights

- Sales increased by 6 percent in local currencies
- Cigars International and Bogaert acquired
- European cigar volumes negatively impacted by smoking bans

Financial development

Group sales for the full year were 3,411 MSEK (3,407), while operating profit was 737 MSEK (770). In local currencies, sales increased by 6 percent, while operating profit increased by 2 percent, primarily attributable to acquired businesses.

In the US, sales grew by 7 percent in local currency. The American market represents 62 percent of total Swedish Match cigar sales. Cigars International Inc. was acquired in September 2007 and provided a positive contribution to both the sales and operating profit. Excluding the sales from Cigars International Inc., US cigar sales were down marginally in local currency.

About one third of Swedish Match cigar sales are in Europe. Sales outside of the US grew by 3 percent. This includes 6 months of sales from the recently acquired company Bogaert, which is especially strong in Benelux, France, and Germany.

Market

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

The premium hand-rolled cigar market in the US is estimated by Swedish Match to amount to 320 million cigars in 2007, fluctuating from year to year, but generally growing at between one to two percent per year in volume terms. Premium cigars are produced mainly in Latin America and the Caribbean with about two-thirds of this production estimated to be sold in the US. Outside the US, other important premium cigar markets are Spain, France and the UK.





US consumers of premium cigars are keen to try new varieties of their favorite brands.

The market for machine-made cigars in the US is estimated by Swedish Match to amount to more than 7 billion cigars, and has been growing at an average rate of 2 percent per year in volume terms over the last ten years. In 2007, the US machine-made cigar market is estimated to have grown by more than 8 percent*, with growth in the little cigar segment offsetting declines in the flavored cigar segment. The European market is estimated by Swedish Match to amount to approximately 6 billion cigars, and is estimated to have declined by nearly 3 percent in 2007. The decline in Europe is partly due to the enactment or expansion of smoking bans in several countries.

Over the course of 2007, Swedish Match strengthened its presence in both Europe and the US by integrating the *Hajenius* and *Oud Kampen* European businesses acquired in 2006, acquiring the Bogaert cigar business in Europe and the Cigars International Inc. business in the US.

In June 2007, the acquisition of Bogaert took place, a manufacturer of both branded and private label machine-made cigars with production units in Belgium and Indonesia. Bogaert brands include, *Hollandia* and *Bogart*.

During the third quarter, Cigars International Inc. was acquired, a fast growing provider of high quality premium cigars which caters directly to consumers via mail order and the internet. With this acquisition, Swedish Match will be able to more quickly and accurately assess consumer trends in the premium cigar business, as well as improving the Company's ability to market directly to the consumer.

North America – Premium cigars

Main brands

The leading brand in the US is *Macanudo*, produced in the Dominican Republic by Swedish Match. Other major Swedish Match Dominican and Honduran premium cigar brands in the US include *Partagas*, *Punch*, *Hoyo de Monterrey*, *Cohiba*, *La Gloria Cubana*, *Don Tomas* and *Helix*.

Market

Premium cigars on the North American market accounted for 38 percent of the Group's total cigar sales in 2007.

Swedish Match estimates that the North American market for premium cigars grew modestly in volume terms during

* Volume share based on ACNielsen (US machine-made) or Swedish Match estimates (other businesses).

2007, reaching 320 million units. The trend in the US has been toward a higher percentage of smaller premium cigars. Swedish Match is the market leader in the US, with a market share estimated by Swedish Match to be approximately 35 percent, measured in number of cigars sold.

Consumers of premium cigars in the US are brand loyal, but enjoy trying new varieties of their favorite brands. Continuous new product development and line extensions are therefore very important in this category.

Point of sales

Premium cigars are generally sold in fine tobacconist shops, where the interaction between the consumer and the cigar expert is very important. Mail order and internet sales are also an increasingly important class of trade.

Competitors

Swedish Match is the market leader in the US. The Company has a number of large competitors, including Imperial/Altadis, Fuente and Davidoff.

North America – Machine-made cigars

Main brands

Swedish Match is well positioned in the natural wrapper machine-made cigar segment, with its *Garcia y Vega* brand and its popular *Game* assortment. The Company's other major brand is *White Owl*, a popular priced cigar line which is strong in the flavoured cigar segment. Machine-made cigars on the North American market accounted for 24 percent of the Group's total cigar sales in 2007.

Market

During 2007, little cigars continued their upswing in popularity in the US, while in the US mass market there was a transition away from flavoured cigars and toward natural wrapper and lightly aromatic cigars. As natural wrapper cigars tend to sell at higher retail price than these flavored cigars, this trend has had a positive impact on sales.

In the US, manufacturers typically introduce several new products using well-established brands every year. During 2007, Swedish Match was active with new product launches, especially in the natural wrapper segment, with line extensions in its *Garcia y Vega* "Game" assortment as well as the *White Owl* portfolio.

Point of sales

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

Competitors

Imperial/Altadis, Swisher and Altria/Middleton are the major competitors to Swedish Match on the US market for machine-made cigars. Imperial/Altadis is the largest competitor in sales terms. Swedish Match's market share by volume in this sector is close to 7 percent*.

Europe

Main brands

Across Europe, Swedish Match is present with a number of well known machine-made cigar brands including *La Paz*, *Willem II* and *Justus van Maurik*. The portfolio also includes brands which are especially strong in certain markets such as *Hajenius* and *Oud Kampen* which are mainly sold in the Netherlands. The acquisition of the Bogaert business also added the *Bogart* and *Hollandia* brands to the portfolio in 2007 which are especially strong in the Benelux region.

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

Market

The European machine made cigar market is estimated to have declined slightly in terms of volume during 2007, with market declines in France, Germany, and the Netherlands

* Source: ACNielsen

During 2007, a number of new premium cigars, including *Macanudo Club*, were launched in the US market. *Macanudo* is the most widely sold premium cigar brand in the US; a growing market in which Swedish Match maintains a leading position.



partially offset by market growth in Spain, Italy, and Finland. Sales of machine-made cigars in Europe accounted for 30 percent of the Group's total cigar sales during 2007.

Swedish Match estimates that its market share grew in most European markets during the year, driven largely by the acquisitions of the *Oud Kampen* and *Hajenius* brands as well as the *Bogart* and *Hollandia* brands. Countries in Europe where Swedish Match sells the most cigars include the Benelux countries, France, Finland, Spain, and Germany which are also the largest markets in Europe for machine-made cigars. In some of these markets, restrictions on smoking have led to market declines during 2007.

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

Point of sales

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

Competitors

The European market for machine-made cigars is fragmented. The Group's largest competitors are Winterman's/STK and Imperial/Altadis, and there are a number of privately held cigar companies that are strong in their respective home markets.

Other markets

Swedish Match has a small presence in various markets outside the US and Europe. Swedish Match is the market leader in the Australian market with its best selling cigar brand *Willem II*. Swedish Match estimates its market share

in Australia to amount to approximately 40 percent. Swedish Match also sells cigars in parts of Asia. Cigar volumes are small in Asia and Eastern Europe but there is growth potential in countries with increasing purchasing power in these regions.

Product development

Swedish Match is working intensely with product development. Within the premium cigar segment the interest in full-bodied cigar blends, smaller cigars that can be enjoyed in a shorter time and cigars in special packaging, such as tubes are increasing. During 2007, a number of premium cigars were launched in the US to meet consumer demands and new trends. Most of these launches were introduced as varieties under well known brands, making use of the existing strong brand recognition. Examples of such launches are *Hoyo de Tradicion*, *Don Tomas Sun Grown* and several varieties of *Macanudo*. Swedish Match also launched a completely new premium brand, *Stradivarius*, an exclusive cigar created with craftsmanship and exquisite tobacco.

For the European market, Swedish Match produces a full range of machine-made cigars covering all established and growing segments. The most important consumer trends are a continued interest in aromatic cigars, a growing interest in shorter cigarillos and cigarillos with filters as well as smaller packs. During 2007 a number of new launches were made with varieties under strong existing brands. Examples of new launches are *La Paz Poker Cigars*, *Willem II Moments*, *Salsa Puritos* and *Hajenius Tuitknak*. Launches were also made in the cigar series "Op reis met de Heeren", the limited edition of the cigar brand *Heeren van Ruysdael*, with different wrappers from all over the world.





La Paz is Swedish Match's largest cigar brand in Europe in terms of sales volume. The cigar is rich in flavor with a distinct aroma, and the brand family consists of a number of different sizes and flavor varieties.

Production and distribution

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

For the European market, cigars are manufactured in Houthalen in Belgium as well as Pandaan and Pasuruan in Indonesia. Some hand-rolled and machine-made cigars from the American production units are also sold in Europe.

In the US, premium cigars are mainly shipped directly on a daily basis to individual retailers as well as distributors, internet/catalog, and wholesalers across the country from the Company's New Jersey distribution facility. Outside of the US, products are shipped from the factory in the Dominican Republic.

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

In Europe and other markets, cigars are delivered from Houthalen in Belgium and various facilities to local warehouse units in the different countries.

Swedish Match also has a limited number of stand alone retail locations, including the exclusive Hajenius Cigar Store in Amsterdam and stores operated by Cigars International Inc. in Pennsylvania, as well as the Macanudo Club in New York. There are also exclusive Club Macanudo stores in South Africa, Washington DC, Miami, London and Jakarta.

* Source: ACNielsen

Outlook

Swedish Match will work to improve its market position, with particular focus on existing markets in the US and Europe. The Company will strengthen its market presence from the continued development of new products, supplemented by acquisitions.

The market

Swedish Match main brands

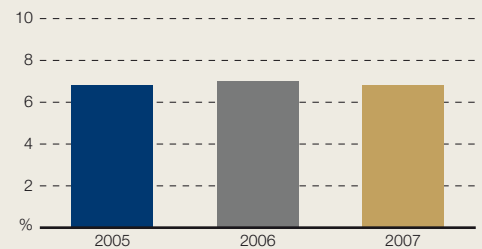
Premium US: *Macanudo, Partagas, Punch, Hoyo de Monterey, La Gloria Cubana, Cohiba, Helix, Don Tomas* (all produced in the Dominican Republic or Honduras)

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

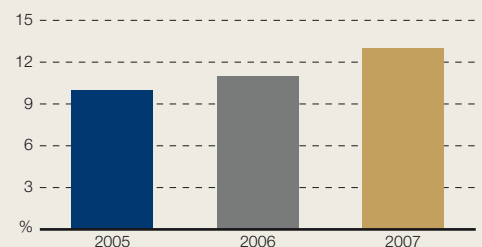
Machine-made Europe: *La Paz, Willem II, Bellman, Oud Kampen, Justus van Maurik, Hajenius, Hofnar*

MARKET FACTS 2007	Premium US	Machine-made US	Machine-made Europe
Market size, no. of cigars	320 million	7 billion	6 billion
Swedish Match market share	35%	7%	13%

MARKET SHARE, MACHINE-MADE US



MARKET SHARE, MACHINE-MADE EUROPE



Source: ACNielsen for market share in volume US machine-made, and Swedish Match for market size and US premium market share and Europe market share. "Europe" includes markets where Swedish Match sells machine-made cigars.

Chewing tobacco

Red Man – a flagship brand

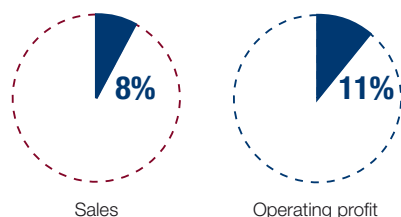
Fishing, hunting, the great outdoors, and *Red Man* chewing tobacco. For over one hundred years this typically American product has been enjoyed as part of an outdoor and country lifestyle.

Chewing tobacco is particularly popular in the southern US, where *Red Man* is one of the best known and enjoyed brands. The category is significant, but declining, as consumers choose to leave the segment, some moving to moist snuff.

OPERATING PROFIT

312 MSEK

SHARE OF GROUP TOTAL



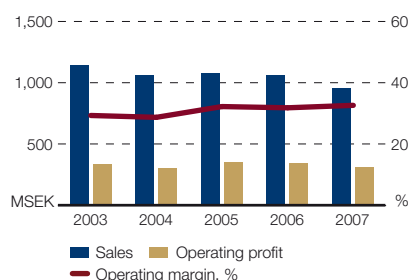
Operational highlights

- Continued market share gains in the US
- Sales down 2 percent in local currency
- Operating profit up 1 percent in local currency

Financial development

Sales for the year declined by 10 percent to 956 MSEK (1,063), and operating profit declined by 8 percent to 312 MSEK (338). In local currency terms sales declined by 2 percent. Higher average prices offset volume declines, while a weaker USD had a negative impact on reported operating profit. The operating margin was 32.7 percent (31.8).

SALES AND OPERATING PROFIT



KEY DATA, MSEK	2007	2006	2005*
Sales	956	1,063	1,079
Operating profit	312	338	347
Operating margin, %	33	32	32
Investments in property, plant and equipment	25	17	9
Average operating capital	312	359	184
Average number of employees	369	357	340

* Operating capital for 2005 has not been restated in accordance with the new definition of net debt and includes net pension liabilities.

Market

The US market for chewing tobacco is in a long term state of decline in volume terms. Consumption declines annually in the range of 5–8 percent. Volume declines in the category occur as consumers leave the market, some moving to moist snuff. With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability.

Swedish Match is the largest producer of chewing tobacco in the US, with a market share of approximately 46 percent*.

The market is segmented by brand, flavour and price point, with the value priced segment growing as a percentage of the overall mix.

Approximately 70 percent of sales are in the premium segment, with *Red Man* being the leading brand.

North America

Main brands

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

Point of sales

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

* Source: ACNielsen



Red Man chewing tobacco is by far the best-known Swedish Match brand in the US, and the principal reason for the Group's leading position in the US market for chewing tobacco.



Competitors

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

Other markets

Swedish Match has very limited sales of chewing tobacco outside the US. However, there are some sales in other markets. For example, the *Piccanell* brand in Sweden.

Product development

Red Man is the flagship brand within chewing tobacco and the brand's leading market position has been defended through periodic innovation and product development. New product development is more limited than, for example snuff and cigars, owing to the declining nature of the category. One example of a recent introduction was the successful launch in 2005 of *Red Man Silver Blend*, the first sugar-free chewing tobacco product. Since its introduction, the brand has established a strong position in the US market and has continued to expand its distribution over the years.

In Sweden, the classic brand *Piccanell*, a Swedish smokefree chewing tobacco, was renewed with new design, new packaging and two new flavours in 2007.

Production and distribution

Production takes place in the combined facility in Owensboro, Kentucky in the US. Swedish Match ships products daily to wholesaler and selected retailer locations throughout the country direct from its production facilities and through both owned and third party warehouses.

Outlook

Consumption is expected to continue declining in the US near the historical level of 5–8 percent. Swedish Match will focus on high product quality and effective market communication. The product area is expected to generate a continued strong cash flow.

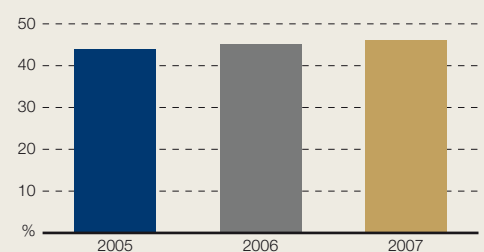
The market

Swedish Match main brands (US only)

Red Man, Southern Pride, Granger Select

MARKET FACTS 2007	US
Market size, no. of pounds (million)	29
Swedish Match market share	46%

MARKET SHARE, US



Source: ACNielsen for market share in volume, and Swedish Match for market size.

Pipe tobacco and accessories

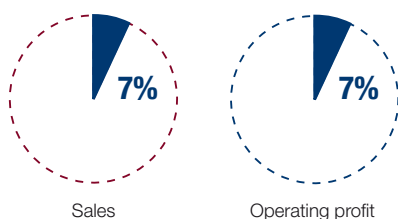
Continued strong cash flow

Swedish Match is one of the world's largest producers of pipe tobacco, with strong local and international brands in many countries. Pipe tobacco is enjoyed worldwide. While consumption of pipe tobacco is declining in most markets, this trend is especially pronounced in Europe and the US. The South African market, a very important market for Swedish Match, is also declining somewhat. In other parts of the world, consumption of pipe tobacco is stable or increasing modestly. Accessories include cigarette filters and paper.

OPERATING PROFIT

201 MSEK

SHARE OF GROUP TOTAL



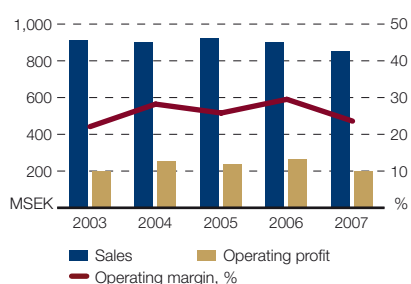
Operational highlights

- Sales increased by 2 percent in local currencies
- Group-wide volume declined by 5 percent
- Operating profit negatively affected by closure of Rustenburg factory in South Africa

Financial development

Sales for the year amounted to 851 MSEK (899). Operating profit amounted to 201 MSEK (265) and the operating margin was 23.6 percent (29.5). During 2007 operating profit was negatively affected by a consolidation of production and plant closure in South Africa, as well as by the decline in value of the South African rand versus the Swedish krona.

SALES AND OPERATING PROFIT



KEY DATA, MSEK	2007	2006	2005*
Sales	851	899	920
Operating profit	201	265	237
Operating margin, %	24	29	26
Investments in property, plant and equipment	20	23	20
Average operating capital	831	1,015	1,013
Average number of employees	364	457	524

* Operating capital for 2005 has not been restated in accordance with the new definition of net debt and includes net pension liabilities.

Market

Global consumption of pipe tobacco is declining, in terms of both volumes and sales. The largest markets for pipe tobacco are North America and Europe, where Swedish Match estimates consumption to decline at low double digit levels. South Africa is an important market for Swedish Match, where the Group has a leading market position. In Asia and parts of Eastern Europe, the use of pipe tobacco is relatively limited. Most of Swedish Match's brands are local, including *Boxer* and *Best Blend* in South Africa, and *Half and Half* in the US. In Europe and many other markets, *Borkum Riff* is one of the leading international brands.

Europe

Swedish Match markets its products throughout Europe, with the strongest positions in Sweden, Austria, Spain and Switzerland. Consumption in Europe typically declines by 10 percent or more per year.

Borkum Riff is one of the Company's best known brands. In the accessories segment, Swedish Match has a leading position for many smoking related accessories in the UK, and is present in some other countries.

Pipe tobacco is sold mainly through tobacconists, as well as convenience stores and supermarkets.





During 2008, *Borkum Riff* will turn 40 years old. This brand maintains a very strong position as the world's third largest in the market for pipe tobacco.

The classic *Half and Half* brand and *Borkum Riff* are the Swedish Match pipe tobaccos that sell the most in the US.



Outlook

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

The market

Swedish Match main brands

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

Main markets

South Africa, the UK, Australia, the US, Sweden

REGIONAL MARKET DYNAMICS*	Trend
US	volume declining 8–12% per year
Europe	volume declining 8–12% per year
South Africa	volume declining 3–6% per year

* Source: AC Nielsen and Swedish Match volume estimate, 2003–2007 for US. Swedish Match estimates 2003–2007 for Europe and South Africa.

North America

Consumption of pipe tobacco in North America declined by an estimated 8 percent during 2007*. Swedish Match's market share in terms of volume is approximately 16 percent. *Half and Half* and *Borkum Riff* are two of the Company's best selling brands. Pipe tobacco is sold mainly through drugstores, supermarkets, convenience stores, low-price outlets and specialty tobacco stores in the US.

South Africa

Swedish Match is the largest manufacturer and distributor in South Africa, and brands sold by the Group include *Boxer*, *Best Blend*, *Nineteen O'Four*, *Black and White*, and *Giraffe*. Consumption of pipe tobacco in South Africa declined by approximately 4 percent in volume terms during 2007. Some consumers use pipe tobacco as a traditional product and others as roll your own.

Other markets

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

Competitors

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

Product development

Consumer trends in pipe tobacco show that the consumers like to vary their choice of tobacco; to try new varieties, new flavors, and that they are interested in new experiences. A specific trend is the request for natural tobacco flavors. To meet this demand, Swedish Match launched a new *Borkum Riff* product in 2007. The previously purely aromatic portfolio was complemented with *Borkum Riff Genuine*, a product with the genuine flavor and aroma of high quality tobacco.

Production and distribution

In South Africa the production takes place in Boksburg. During 2007 the Rustenburg facilities production was moved to and integrated in the more modern Boksburg facility, with the purpose of efficiency and product enhancement.

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

* Source: ACNielsen



Lights

Quality products around the world

Swedish Match is the market leader in a number of markets for matches and fire related products. Whether for a barbeque, or lighting a fire in the fireplace, or for lighting up a cigar, Swedish Match has a product for any lighting need. For matches, the brands are mostly local, and have leading positions in their home markets. More well-known match related brands include *Solstickan*, *Three Stars*, *Fiat Lux*, and *Redheads*. The main Swedish Match brand for lighters is *Cricket*, recognized as one of the leading quality disposable lighters throughout Russia and Europe and other parts of the world.

Operational highlights

- Sales declined by 2 percent
- Operating profit increased by 1 percent
- Operating margin reached 17.1 percent for the year

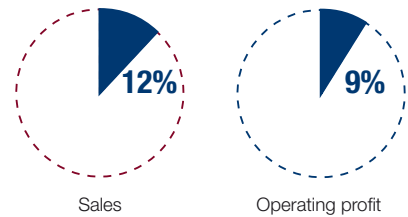
Financial development

Sales for the year declined by 2 percent to 1,473 MSEK (1,503). Operating profit increased to 252 MSEK (249). The operating margin rose to 17.1 percent (16.6).

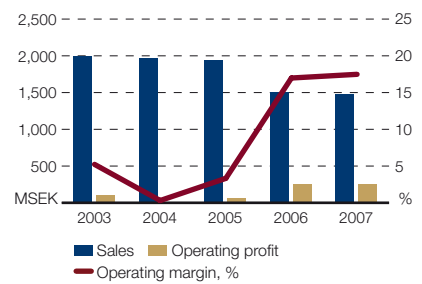
OPERATING PROFIT

252 MSEK

SHARE OF GROUP TOTAL



SALES AND OPERATING PROFIT



KEY DATA, MSEK	2007	2006	2005*
Sales	1,473	1,503	1,936
Operating profit	252	249	58
Operating margin, %	17	17	3
Investments in property, plant and equipment	92	38	47
Average operating capital	826	840	963
Average number of employees	1,440	1,565	3,770

* Operating capital for 2005 has not been restated in accordance with the new definition of net debt and includes net pension liabilities.



Tres Estrellas is the best-known match brand in Spain.

Market

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

The main markets for lighters are Russia, the European Union and parts of Asia. Worldwide, sales are generally stable, although sales are declining in Western Europe, they are growing in Russia.

Europe

Main brands

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

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

Market

Swedish Match estimates that consumption of matches continued to decline during 2007, while the market for specialty matches and products with higher margins, such as firestarters and disposable barbecue grills, grew.

For lighters, Swedish Match holds a leading market position in Russia for premium disposable lighters. The Group also has well entrenched positions in the Nordic countries, the UK and France. Retail sales of Swedish Match brands in the European market are estimated to have been stable during 2007. *Cricket* lighters are marketed using the key selling points of quality, design and safety.

Point of sales

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



Cricket, the world's third largest brand of disposable lighters, is characterized by quality, safety and design. With sales in more than 100 countries, it is one of Swedish Match's most widely distributed brands.

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

Competitors

Major lighter competitors include Bic and Tokai, and a number of other manufacturers based mainly in China and other parts of Asia. Match competition comes mostly from low cost Asian suppliers as well as a few East European suppliers.

Latin America

Main brands

Swedish Match has the largest match brand on the Brazilian market, with *Fiat Lux*. The *Cricket* brand of disposable lighters is also widely available.

Market

Swedish Match has a significant presence in Latin America, and the largest match market in this region is Brazil, where the Company has a leading position. Swedish Match estimates its market share in Brazil to be at or near 50 percent. In terms of volume, the Brazilian market is about the same size as the total European market and consumption is declining. For lighters, *Cricket* is a major brand in Brazil.

Outlook

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



Solstickan and *Fiat Lux* are strong brands in their respective local markets in Sweden and Brazil.

Point of sales

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

Competitors

For lighters, the largest competitors in Latin America are Bic, Tokai and other Asian manufacturers. In matches, there are some local competitors in Brazil.

Other markets

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

Product development

During 2007, the Company has continued in its efforts to provide improved and innovative packaging and graphics for its fire related products (e.g. fire logs), in order to better serve consumer demands for clear product communication. One approach that has clear consumer appeal has been to integrate all of the fire and match related products under the brand name of the flagship brand in each country, with graphics that are similar across all markets.

For lighters, continuous product development and innovation is necessary, since consumers who purchase lighters are not particularly brand loyal and frequently make impulsive purchases. Swedish Match's largest and most widespread brand of lighters is *Cricket*, which represents the premium segment in disposable lighters. *Cricket* is characterized by quality, safety and design. Innovative design is an increasingly important tool in reaching consumers at the point of sales and *Cricket* regularly launches new design series.

Swedish Match is also active in developing new safety solutions. To meet with the requirements on child resistant lighters put into effect in the EU 2007, the Company has developed a new safety solution that is one of the most consumer friendly available on the market.

Production and distribution

Extensive restructuring of the lights operations over the past three years has resulted in fewer, but highly efficient, facilities in Europe, Brazil and the Philippines. Lighter facilities are located in Manila in the Philippines, Assen in the Netherlands and Manaus in Brazil. Match related production takes place primarily in Tidaholm and Vetlanda in Sweden and in Curitiba in Brazil.

The market

Swedish Match main brands

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

Lighters: *Cricket*

Main markets

Russia, Brazil, Sweden, France, the UK, Australia

Market dynamics*

Matches: Declining in Europe. Stable to declining in other geographies

Lighters: Declining in Western Europe. Growing in Russia and emerging markets

* Source: Swedish Match estimates.

Our people

People securing growth

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

Result-oriented company culture

Swedish Match provides an international environment with varied work assignments and opportunities. Swedish Match is characterized by a decentralized organization in terms of responsibility for the local business. The atmosphere is informal but professional. Empowerment is a key component of the Swedish Match culture and leadership style, and own initiatives and result-oriented actions are encouraged.

For the past several years, Swedish Match has worked to ensure that managers and employees have ongoing and open discussions with regard to targets and plans, both at Company and individual levels. Managers in Swedish Match must act as leaders and have the ability to manage people by setting clear targets, conducting reviews and delegating tasks and assignments to appropriate levels in the organization.

Organizational development

During 2007, Swedish Match strengthened the organization in order to meet new demands in the marketplace. At the beginning of the year, a cross-divisional business unit was established with the objective to exploit opportunities in the smokefree product segment.

Furthermore, the Divisions have adjusted their organizational structures to better fit the rapid changes in the marketplace. During 2007, a collaboration project between the North Europe Division and the North America Division was initiated to build on a technical development platform to improve cost-efficiency in production.

Securing management resources

Management planning is a priority of the Swedish Match senior management. Both the Board of Directors and the Group Management Team are involved in the process.

The process includes 150 people, with the objective being to secure appropriate staffing of senior management and key personnel in order to meet organizational long term requirements.

The management planning process starts locally, where the management teams continuously review their needs and

where key positions and talents are identified. At Group level, the CEO, the Divisional Presidents, together with representatives from Group Human Resources, review the results and a summary is prepared for the Board. The process enables the organization to gain an overall profile of the requirements and of the potential available in the Group and identifies the managerial capabilities as well as possible alternative careers and successors.

Career and competence development

For Swedish Match it is a priority to always have access to qualified people. It is important to provide possibilities for our employees to develop and grow through new or varied work assignments and responsibilities. Activities are made to find and develop the talents required to achieve the Group's business objectives. As a global player, the organization strives to create a working climate that rewards information and competence sharing while encouraging a behavior that promotes high performance across all markets.

Development programs for Swedish Match are based on professional education and training that provide our employees and managers with the competencies necessary to achieve exceptional individual and group performance. This also promotes professional growth and career enhancement.

Most of the Group's competence development takes place within the Divisions and is designed to meet their specific needs and business objectives. During 2007, work continued on customized training focusing on personal leadership and knowledge and understanding of business operations.

Internal recruitment is a natural part of the Swedish Match company culture. It is customary for employees to have several assignments within the organization during the course of their careers.

To support internal development opportunities vacancies are advertised on the Group's Intranet. During the year, the majority of management vacancies were filled through internal recruitment.

Employee surveys

Swedish Match encourages employees to have an active dialogue with their managers to create an attractive and motivating work place. The Company regularly conducts employee surveys to measure how Swedish Match is perceived as an employer. Based on the results, managers together with their employees, are responsible for identifying possible improvement areas and for developing action plans. These plans are designed to enhance both the working climate and performance with the intent to make Swedish Match an even better place to work.

Meeting forums

In order to create a strong leadership culture within the Swedish Match organization and to implement the Group's strategies, the Company regularly arranges management conferences for key managers from the entire Group. The conferences focus on strategies and business targets as well as sharing of experiences. During the year, a top management conference for 120 participants was held.

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

Cooperation with trade unions

Swedish Match has an agreement in accordance with the Co-Determination in the Workplace Act (MBL) concerning collaboration with trade union organizations active in the Swedish business units of the Group. Under this agreement, a council comprising representatives of management and employee representatives appointed to the Board meets ahead of scheduled Board meetings and on other ad hoc occasions. The Council discusses matters on the agenda of meetings of the Group Board, particularly issues that could give rise to MBL negotiations.

A reference group also meets ahead of such Board meetings. The reference group comprises local trade union representatives of LO* and PTK**.

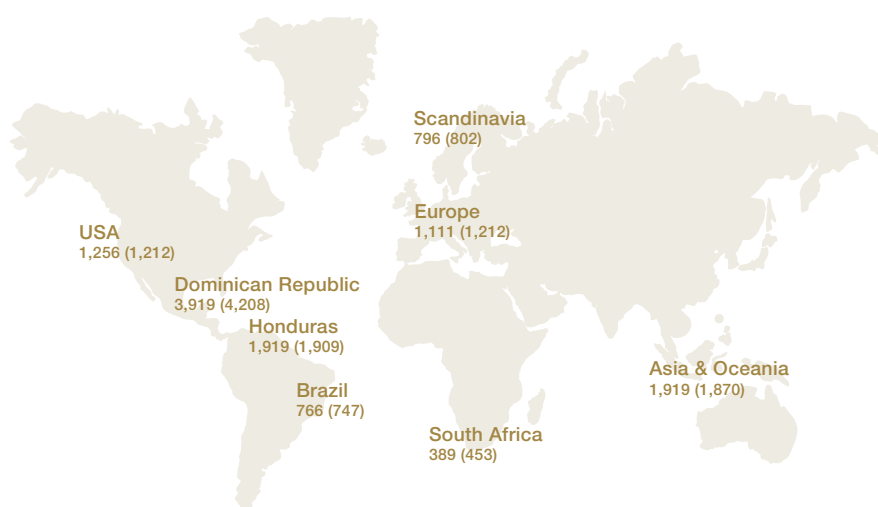
European Works Council

The European Works Council (EWC) was formed on the basis of an EU directive (Council Directive 94/45/EC), the purpose of which is to improve information provided to employees of companies that have operations in several countries and more than 1,000 employees. Within the Group, employee representatives from five countries meet. Two meetings were held in 2007.

* Swedish Trade Union Confederation

** Council for Negotiation and Cooperation

AVERAGE NUMBER OF EMPLOYEES



	2007	2006
Corporate Headquarters	50	44
North Europe Division	746	758
North America Division	7,093	7,329
– USA	1,256	1,212
– The Dominican Republic	3,919	4,208
– Honduras	1,919	1,909
International Division	4,185	4,334
– Europe	1,111	1,212
– Africa (South Africa)	389	453
– South America (Brazil)	766	747
– Asia & Oceania	1,919	1,870
– Other	–	52
Total Group	12,075	12,465

Our role in society

The Code of Conduct

Social responsibility is integrated in Swedish Match's corporate culture and the way we conduct our business. We recognize our role as a corporate citizen and we believe that active work on social responsibility and environmental issues contributes to a sustainable development of business operations. We also work to increase knowledge about the health benefits of Swedish snus.

We have a long-standing tradition of involvement in a variety of projects intended to promote human rights and contribute to local communities as well as charitable projects. We strive to have close relationships with the communities in which we operate. We also strive to make improvements and work with a systematic environment and quality focus in areas with environmental impact.

Swedish Match's commitment to social responsibility and environmental issues is supported by the Group's core values of Communication, Teamwork, Trust, Innovation, Recognition and Growth. These values are the foundation of our business ethics and, as such, they are demonstrated in our relations with stakeholders and are a natural part of the way we conduct our business.

Swedish Match's position on social and environmental issues is stated in the Group's Code of Conduct. Consisting of a number of policy documents, the Code creates the foundation for our position in areas such as human rights, health and safety, child and forced labor, environment and business ethics.

The Code of Conduct was established in 2004 and applies to all employees and all business units. Our business units may never act in a manner that conflicts with the principles stated in the Code.

The Code of Conduct is reviewed once a year to ensure a high level of business ethics within the Group. The Group's

social guidelines are monitored through a process that primarily comprises an examination of the Company's own business units. The review process is conducted by an external partner, an international risk management company, and it includes implementation of the Code as such, fundamental human rights, health and safety, child and forced labor, supplier contracts and tobacco policies. The business units in the divisions are reviewed annually or every second year according to a set time schedule.

Conclusions from the review process are reported to the Human Resources Council, which consists of representatives from all divisions as well as the Parent Company and is headed by the Senior Vice President Group Human Resources. Operational responsibility for the compliance of the Code rests with the divisional management. The Human Resources Council is responsible for overall compliance and development of the Code.

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

The Code of Conduct

The main principles of the Code are:

- ▶▶ Swedish Match does not tolerate child labor as defined by the UN Convention on the Rights of the Child. Neither does the Group accept forced labor or any form of discrimination, such as in respect of ethnic background, religion, age or gender. The Group maintains that all employees are entitled to voluntarily join associations in accordance with local legislation and regulations.
- ▶▶ Swedish Match strives to create a good work environment that safeguards health and safety in the workplace and provides opportunities for personal development and job satisfaction.
- ▶▶ Swedish Match shall adhere to accepted business practices and act in accordance with the Group's ethical norms and expectations.
- ▶▶ Recruitment of, and remuneration to employees shall always be based on competence, qualifications and experience. Ethnic background, language, religion, skin color, gender, economic or other social status may not influence such decisions.
- ▶▶ Swedish Match strives to continuously reduce the environmental impact of our business in order to safeguard the environment.

- ▶▶ Swedish Match's policy regarding tobacco reflects the Group's global commitment to offering high-quality tobacco products to adult consumers, persons above the age of 18, while respecting the demands and expectations that society places on an international supplier of tobacco products.
- ▶▶ Swedish Match encourages its suppliers to establish and follow their own ethical policies and guidelines in line with international conventions.
- ▶▶ Swedish Match complies with the national laws and regulations of the countries in which it operates. Individual business units must never fail to comply with national laws and regulations but may go above and beyond them.

The parts in the Code of Conduct relating to social responsibility are based on international conventions on human rights and terms of employment, such as the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the central ILO conventions and the OECD's Guidelines for Multinational Enterprises.

WWW.SWEDISHMATCH.COM

The Code of Conduct is accessible in its entirety on the Corporate website.

Social responsibility

Our social responsibility investments are predominantly directed towards our employees and stakeholders with close relations to the Company. Around the world, our business units' initiatives to address local needs and aspirations vary. However, social investments have a long standing tradition and are a natural part of how we conduct our business.

Empowerment of our employees

In some developing countries, local conditions differ from industrialized countries. Our empowerment projects in these countries focus mainly on health, giving people training, education and other opportunities to help them develop. These projects include scholarships and various forms of training, or may comprise financial support for medicines and improved housing conditions for employees.

The Company is dedicated to provide a workplace free from safety and health hazards. In addition to mandatory safety training, Swedish Match continuously looks to identify and correct potential safety issues, offers a wide range of wellness programs, and ensures that the workplace is ergonomically sound. Many forms of proactive measures are undertaken at Swedish Match's workplaces to ensure proper facility safety and security in order to protect our employees.



Dominican Republic and Honduras

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

The programs include health plans for all employees and the hosting of regular health fairs, free dental exams and blood-

pressure screening conducted regularly on-site and various literacy programs for both employees and members of the surrounding communities. Other efforts include bicycle-purchase programs, support of home-improvement projects, funding and supporting schools located in economically challenged communities near company facilities and professional development of employees through funding of studies in a variety of disciplines.

South Africa

Swedish Match's employees in South Africa are highly committed to combating HIV/AIDS in a joint project with the International Council of Swedish Industry, the Swedish Metalworkers' Association and the Swedish International Development Cooperation Agency (SIDA). As a consequence, Swedish Match South Africa embarked on a three year HIV/AIDS management initiative during 2005–2007. The program has become self-sustaining and support, guidance, counseling and education is now available in-house.

Professional medical assistance resides in our on-site clinic, at which employees have been skilled in providing support, in the form of peer educators and support committees for fellow workers.

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

Civic life – community projects

Swedish Match has a long record of community involvement, not only with direct stakeholders such as employees, shareholders and consumers, but also with a broader set of stakeholders.

A number of social initiatives are directed towards the community in which the Company operates. Swedish Match's

fundamental approach is to conduct community projects as close to the business operations as possible, but we also invest in other independent projects. These activities include support to children, disabled persons or other people in need, as well as enrich public community life, such as arts, educational institutions and restoring public spaces. They also encompass measures to protect the environment.



Honorary Chairman of the Solstickan Foundation is Princess Christina, Mrs. Magnuson.

Sweden

In Sweden, a number of different community projects are ongoing, the most well-known being the *Solstickan Foundation*. Founded in 1936, with a purpose, according to its charter, of working toward "the benefit of chronically ill children, the disabled and the needy, primarily the elderly." More than 100 MSEK have been distributed over the years in the form of the *Solstickan Prize*.

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

Furthermore, Swedish Match has become a signatory member of ECLT (Eliminating Child Labor in Tobacco).

With its extensive collections, the Tobacco and Match Museum at Skansen, Stockholm, is the custodian of an important part of Swedish industrial culture.

During 2007, Swedish Match also contributed to the Swedish team in the Special Olympics in Shanghai.



Brazil

The community involvement for Swedish Match in Brazil consists of, among other things, contributions to selected institutions which take care of homeless children, elderly and disabled people. One example is the Bom Menino-project (Young Boy), a skill building program for 14–18 years old youths, from low-income families, enabling them to develop educational, employment and recreational skills.

Dominican Republic

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

In the neighboring country of Haiti, there are few trees left and the land consists largely of a rocky desert. To prevent this from happening in the Dominican Republic, Swedish Match has planted 40,000 mahogany plants that will restore the natural flora. The roots will bind the soil together and the crowns will soften the impact of the heavy rains.

US

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

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

Environment

Swedish Match believes that the work on environmental issues contributes to the long-term and sustainable development of business operations. We continuously strive to make improvements in areas with environmental impact. Thus, we create sustainable conditions for our businesses, employees and other stakeholders. The Company has participated in a global environmental initiative, the Carbon Disclosure Project, where Swedish Match received acknowledgements for its environmental efforts.

Environmental Policy

The importance of environmental issues is increasing in pace with more stringent requirements and increased awareness on the part of consumers, customers, suppliers and authorities. Legislation and other standards in the environmental area are constantly being tightened.

The Swedish Match Group has adopted an environmental policy encircling all aspects of its operations, which is based on the principles of the environmental standard ISO 14001. The policy is available to external as well as internal stakeholders on the Group's website and on the Group's intranet. However, the diversity of Swedish Match activities requires that subordinated environmental policies are formulated for each division.

Review of the policy implementation takes place through an internal process, where the responsible people confirm reception and implementation of the policy.

In addition corporate representatives have the obligation to analyse and review the environmental work regularly through internal as well as external audits. The results of the audits are reported to the divisional management teams.

Environmental organization

The responsibility for implementing the Group Environmental Policy and running the improvement programs lie with the divisional management teams. The operational work is carried out by appointed environmental representatives. Each major business unit has an environmental manager.

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

Environmental Management System

Swedish Match works systematically with environment and quality focus in areas with environmental impact. The large majority of our business units are certified according to the environmental standard ISO 14001 representing approximately 90 per cent of the Group's sales. During the year, the General Cigar production entities in the Dominican Republic have been certified and the entities in Honduras are planned to be certified during 2008.

Since the ISO 14001 certifications are mainly applicable to the production units in Swedish Match an internal Environmental Management System, EMS, has been developed, to cover all other business units, such as head offices and sales offices.

During 2007, the Group Council has formulated a common working platform for environmental issues. Swedish Match now has one single reporting and evaluation structure with common definitions for the entire Group.

Swedish Match Environmental Policy

- ▶▶ We are committed to continual environmental improvement and prevention of pollution in all our activities, products and services.
- ▶▶ We will operate an environmental management system, applicable on corporate, divisional and factory levels, which will safeguard that said commitment is continuously maintained.
- ▶▶ We are likewise committed to comply with all relevant environmental legislation, regulation and other requirements in the countries where we are operating.
- ▶▶ We will continuously search environmental objectives identified through our environmental management system.
- ▶▶ We will undertake appropriate improvements and remedial actions based on financial and environmental criteria.
- ▶▶ We are committed to inform and document changes of major environmental impact as a result of our activities, products and services.

Improvement work

The production processes and raw materials used in the tobacco industry generally have limited impact on the environment. Approximately 80 percent of the Group's raw materials are renewable and production handles environmentally harmful substances to only a limited extent. Swedish Match, however, is eager to bring improvements in the areas that do have effects on the environment.

In order to increase resource efficiency, the Group is continuously developing its systems for cleaning and reducing emissions. Swedish Match works constantly to achieve improvements in areas that have an environmental impact such as water and energy consumption and waste management.

Swedish Match identifies the environmental aspects of its activities, products and services. The search for items with negative environmental impact originates at business unit level. Our philosophy is that the environmental work is to be carried out as locally as possible and based on identified environmental aspects, local targets for environmental efforts are formulated. These targets should be clear, measurable and consistent with the environmental policy. Examples of targets are prevention of air or water pollution, reduction of energy consumption and compliance with regulations, and other commitments.

Climate change

Increased awareness of the scientific findings surrounding climate change has resulted in a shift in perceptions and attitudes concerning the causes and importance of global warming. Swedish Match's prioritized environmental target is to limit the impact of greenhouse gas emissions on the climate. The Company is working purposefully on different improvement activities and projects.

Emission reduction programs are in place for all business units certified according to ISO 14001. Systematic reduction programs have been in place since 1999.

Emission reduction programs are related mainly to energy consumption in production facilities as well as fuel consumption related to transports. Many of our business units are working with energy saving programs and programs to reduce the consumption of electricity for heating/cooling and lighting. Measures taken include, among other things, the installation of low-energy lighting, insulation, heat-recovery systems and energy consumption controls.

Carbon Disclosure Project

During the year, Swedish Match has participated in the Carbon Disclosure Project (CDP), which provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents a process whereby many institutional investors collectively have signed a single global request for disclosure of information on greenhouse gas emissions.

Besides the total greenhouse gas emissions accounting, the CDP report covers among other things various opportunity and risk dimensions related to regulatory and physical issues. Companies are encouraged to present actions taken or planned to manage and reduce emissions.

The CDP report includes the 125 largest listed companies from Sweden, Denmark, Norway and Finland and was carried out for the first time in the Scandinavian region. In the report, a Carbon Disclosure Leadership Index, CLI, has been developed in order to highlight the companies that provide the most comprehensive response to the CDP questionnaire. Swedish Match is considered a low-carbon intensive company and was ranked among the best companies in Scandinavia with a CLI score of 73 out of 100.

WWW.SWEDISHMATCH.COM 

The environmental policy is accessible in its entirety on the Corporate website.

Snus and health

Health benefits of smokefree products gaining ground

Swedish snus is dramatically less harmful than cigarettes. Without a doubt, Swedish snus has a unique position in the smokefree category with scientifically supported health gains compared with cigarettes, which has now also been confirmed by a scientific committee on assignment from the EU.

“If all the tobacco that is consumed was Swedish snus, more than 99 percent* of the health risks would be eliminated. Unfortunately, this is not the case. The number of smokers is not declining fast enough and, consequently, smokefree products, and Swedish snus in particular, have an extremely vital function to fulfill. In Scandinavia, smokefree products have long been a socially accepted alternative for those wanting to use tobacco. We have also noticed that, to a larger extent, women are using snus instead of smoking cigarettes. Swedish snus contributes to improving public health in Sweden, a trend in which smoke-related cancer diseases are declining and producing the lowest frequency of, for example, lung cancer in Europe among men.”

This was confirmed by the studies conducted at the Karolinska Institute by Professor Lars Erik Rutqvist and Associate Professor Freddi Lewin, which were published in the international scientific press in 1998. By generating international debate, Lars Erik Rutqvist disseminates knowledge and highlights the tobacco issue from several perspectives.

“It is important to create a dialog characterized by professionalism and scientific facts. The public must be able to trust that the decisions made by authorities are based on facts and not unsubstantiated assumptions or ideologies,” says Lars Erik Rutqvist. “It is gratifying to see that the debate is now being conducted in a more objective and sensible manner than in the past, despite it still being characterized by

certain ideological and political obstructions that make it difficult to recognize the relative health benefits of snus.

“The fundamental problem is not the tobacco itself but how it is consumed. Cigarettes, the most common tobacco product, represent 96 percent of the total tobacco market and constitute an immense health risk. Snus provides smokers with an alternative that implies a significantly increased opportunity to avoid cigarette-related illnesses, such as cancer, heart attacks, stroke and chronic lung diseases,” says Lars Erik Rutqvist.

The Swedish method for manufacturing snus is unique and maintains a very high quality. Swedish Match’s quality standard, **GothiaTek®**, is world leading and the company’s products are modern, developed in line with current research findings, and demanded by consumers.

EU Committee confirms relative health benefits of Swedish snus

On February 18, 2008, the scientific committee, SCENIHR, (Standing Committee on Emerging and Newly Identified Health Risks) published its final report. The Committee had been assigned by the EU Commission (Art. 11, Dir. 2001/37) to investigate whether smokefree products, including Swedish snus, have a potentially risk-reducing effect.

The SCENIHR report confirms the fact that Swedish snus has scientifically substantiated risk-reducing effects and

* Source: Royal College of Physicians, Harm reduction in nicotine addiction, London 2007.



Lars Erik Rutqvist


Licensed physician at Radiumhemmet 1979, specialist in cancer diseases 1985. During the 1990s, Lars Erik held various executive positions at the Karolinska University Hospital, including head of the regional cancer register. Head of the Department of Oncology at Huddinge University Hospital 2000–2005. Appointed Professor of Oncology at the Karolinska Institute in 2002. Employed by Swedish Match in 2006. Conducts research and teaches postgraduate students at the Karolinska Institute in parallel with his work for Swedish Match.

establishes that there is no longer any scientific support for a continued ban on snus within the EU. The expert committee confirms that: (page references to the SCENIHR report within parenthesis)

- Using snus is significantly less harmful than smoking (page 113–114)
- A smoker who switches to snus will significantly reduce his/her risk of contracting tobacco-related illnesses (page 115–117)
- Access to snus has had a positive effect on Swedish public health (page 116–117)
- Swedish data opposes the notion that snus is a gateway to smoking (page 108, 116, 121).

“This means that the scientific issue concerning risk reduction within the tobacco area has been finally investigated. Swedish snus has a documented lower relative risk than the significantly more harmful cigarettes, which are currently sold openly within the EU. In addition, Swedish snus is best in its class with regard to risk reduction among known smokefree products,” says Lars Erik Rutqvist.

“The Commission should now assume its responsibility for risk management and risk reduction in tobacco and thus utilize the report’s findings on the relative risk benefits of snus. The Commission has a historic opportunity to question and change the existing sales ban within the EU and replace it with solid, scientifically based product regulation, which will allow Europe’s cigarette smokers to have access to Swedish snus. The product regulation should not only include content and limit potential risk components, but also marketing, consumer communication and the manner in which the product shall be introduced in new markets. Only then will it be possible to seriously steer tobacco consumption away from cigarette smoking to a significantly less hazardous alternative,” says Lars Erik Rutqvist.

Read more about the SCENIHR report: 

[HTTP://EC.EUROPA.EU/HEALTH/PH_RISK/COMMITTEES/04_SCENIHR/DOCS/SCENIHR_O_013.PDF](http://ec.europa.eu/health/ph_risk/committees/04_scenihr/docs/scenihr_o_013.pdf)

EU and the snus debate – background

In 1992, an EU directive came into effect banning the sale of snus, particularly portion-packed snus. The reason was that the products were considered to attract young people and could function as a gateway to smoking, and that the health effects were not well documented. Since 1992, scientific facts have been presented to support the view that Swedish snus is a dramatically less harmful alternative than cigarettes. Swedish data has demonstrated categorically that snus is not a gateway to smoking among young people, but a means for enabling adult smokers to quit smoking.* The SCENIHR report has now confirmed that Swedish snus has scientifically substantiated risk-reducing effects and means that there is no longer any scientific support to continue the ban on snus within the EU.

“The Swedish experience”

Sweden has been successful in its aim of curtailing cigarette smoking and the proportion of daily smokers is currently less than 15 percent, which is the lowest proportion in Europe. The astonishing fact is that total tobacco consumption among Swedes is about the same as in comparable countries. What makes Swedish snus consumption unique is that there are about as many snus users as there are smokers. The positive effect of this circumstance is a very low frequency of tobacco-related diseases among Swedish men. Statistics also indicate the lowest risk of lung cancer in developing countries.

GothiaTek®

The **GothiaTek®** quality standard serves as a guarantee that the consumer can always be sure that Swedish Match snus products have been quality tested and maintain the highest quality standards at all levels, from tobacco plant to consumer. **GothiaTek®** ensures that requirements have been satisfied in terms of the highest permissible levels of potentially harmful substances that are found naturally in tobacco plants, the manufacturing process and raw materials, and high-quality product information to consumers. The aim is to continuously strive to minimize potential health risks in our Swedish snus, and to contribute to an increase in knowledge of the characteristics and use of our snus products.

* Source: L M Ramström and J Foulds, Role of snus in initiation and cessation of tobacco smoking in Sweden, *Tob. Control* 2006; 15: 210-214 doi: 10.1136/tc.2005.014969
Socialstyrelsen 2006, Folkhälsa, Lägesrapporter 2005

Many share the view of the health gains of snus

The internationally recognized tobacco scientists, Jonathan Foulds and Lynn Kozlowski, wrote an editorial in *The Lancet* magazine in May 2007 stating that it is “perverted” public health politics to make tobacco accessible in its most harmful form, namely cigarettes, and simultaneously refrain from informing consumers that tobacco is available in a significantly less harmful form.

The US newspaper, *The Wall Street Journal*, drew attention to an expert panel at the National Cancer Institute that had concluded that the health risk associated with smokefree tobacco was 90 percent lower and Sweden was highlighted as an example of how snus has contributed health gains in the form of reduced frequency of cancer of the lungs and the oral cavity.

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Report of the Board of Directors

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

Swedish Match is a global Group of companies with a broad range of market-leading brands of smokeless tobacco products, cigars, pipe tobacco and lights products. The Swedish Match share is listed on the OMX Nordic Exchange in Stockholm.

Net sales

Net sales for the year amounted to 12,551 MSEK (12,911). In local currencies, sales increased by 1 percent. Currency translation differences have affected sales comparisons negatively by 433 MSEK.

Sales of snuff amounted to 3,289 MSEK (3,363). In Scandinavia sales volumes decreased by 9 percent measured in number of cans. Volumes in Sweden decreased whilst volumes in Norway and tax free increased. Effective January 1, 2007 the excise tax on snus in Sweden doubled from 123 SEK per kilo to 246 SEK per kilo. The excise tax was increased again on January 1, 2008 by another 37 percent to 336 SEK per kilo. 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 21 percent.

Sales of Cigars totaled 3,411 MSEK (3,407). In local currencies, sales increased by 6 percent. In mid June, Swedish Match acquired Bogaert Cigars, a privately held cigar company headquartered in Belgium with production facilities in Belgium and Indonesia. The Bogaert Cigars portfolio consists of machine-made cigars/cigarillos of own-brands (Bogart and Hollandia) as well as private label. Bogaert has an annual turnover of approximately 20 MEUR. In September, the Group acquired Cigars International Inc., a US based distributor of premium cigars

with annual sales of approximately 60 MUSD specializing in mail order and internet sales.

Chewing tobacco is sold primarily on the North American market. Sales decreased to 956 MSEK (1,063). In local currency sales decreased by less than 2 percent. Higher average prices compensated for volume declines. Sales for Pipe tobacco and accessories amounted to 851 MSEK (899). Currency effects, primarily from the South African rand, have affected sales negatively by 69 MSEK. For the Lights product area sales amounted to 1,473 MSEK (1,503).

Other operations

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

Sales in Other operations were 2,571 MSEK (2,677) while operating result was a negative 137 MSEK (negative 99). Sales in the Swedish distribution of tobacco products were unusually low in the beginning of the year as a consequence of high retailer inventories in anticipation of the sharply raised tobacco excise taxes effective January 1, 2007.

Research and development

Swedish Match conducts a majority of its research and development in Sweden and the US, mainly related to the characteristics of the tobacco plant and tobacco. Costs of 73 MSEK (76) for research and development are included in the Group's selling expenses, and of 9 MSEK (19) in cost of sales.

Operating profit

Operating profit for the year amounted to 2,997 MSEK (3,285). Operating profit, excluding larger one time items of a gain from sale of real estate in 2007 of 267 MSEK and a pension curtailment gain in 2006 of 148 MSEK, amounted

Net sales and operating profit by product area

MSEK	Net sales		Operating profit/loss	
	2007	2006	2007	2006
Snuff	3,289	3,363	1,366	1,614
Cigars	3,411	3,407	737	770
Chewing tobacco	956	1,063	312	338
Pipe tobacco and accessories	851	899	201	265
Lights	1,473	1,503	252	249
Other operations	2,571	2,677	-137	-99
Subtotal	12,551	12,911	2,730	3,137
<i>Larger one time items:</i>				
Pension curtailment gain				148
Capital gain from sale of real estate			267	
Subtotal			267	148
Total	12,551	12,911	2,997	3,285

Summary of consolidated income statement

MSEK	2007	2006
Net sales	12,551	12,911
Operating profit	2,997	3,285
Net finance cost	-336	-112
Taxes	-606	-838
Profit for the year	2,056	2,335
<i>Attributable to:</i>		
Equity holders of the Parent	2,055	2,335
Minority interests	1	1
Earnings per share, SEK	7.82	8.13

to 2,730 MSEK (3,137). The lower operating profit is mainly due to lower Scandinavian snus volumes in the beginning of the year, higher marketing investments as well as currency translation effects. Currency translation has affected the operating profit comparison negatively by 117 MSEK.

Group operating margin for the full year was 23.9 percent (25.4). Group operating margin excluding larger one time items was 21.8 percent (24.3).

Net finance cost

Net finance costs increased to 336 MSEK (112) as a result of a gain on the sale of securities of 111 MSEK in 2006 as well as higher net debt and increased interest rates in 2007.

Taxes

The Group tax expense for the full year amounted to 606 MSEK (838), corresponding to a tax rate of 22.8 percent (26.4). There was no income tax expense on the gain on the sale of the head office buildings in Stockholm. In 2007 a realignment of the operational and legal structures has resulted in a more effective capital structure and thus a lowered tax rate. In 2006 the tax expense was favourably impacted by the reversal of a provision for withholding tax on unremitted earnings from US subsidiaries of 125 MSEK.

Earnings per share

Earnings per share for the year amounted to 7.82 SEK (8.13). Last year's earnings per share was positively impacted by the one time pension plan curtailment gain, reversal of the tax provision as well as the one time gain on investments. Earnings per share for 2007 were favorably impacted by the gain from the sale of the head office buildings in Stockholm.

Liquid funds

At the close of the fiscal year, cash and cash equivalents, together with other current investments, amounted to 3,444 MSEK compared to 3,098 at the beginning of the year.

In addition to cash and cash equivalents and other

current investments, the Company had a confirmed line of credit totaling 250 MEUR at year end.

Financing and cash flow

Cash flow from operations for the year increased to 2,327 MSEK compared with 1,335 MSEK at December 31, 2006. Tax payments during the year were 410 MSEK, compared with unusually high 1,732 MSEK during 2006.

The net debt as per December 31, 2007 amounted to 7,127 MSEK compared to 5,658 MSEK at December 31, 2006. The increase of 1,469 MSEK includes share repurchases, net, of 2,453 MSEK, payment of dividends of 664 MSEK and the acquisitions of Bogaert Cigars and Cigars International of 1.3 billion SEK. The proceeds from the sale of the Stockholm buildings amounted to a cash inflow of 1,085 MSEK. Investments in property, plant and equipment, including assets held for sale and biological assets, amounted to 541 MSEK.

During the year new bond loans of 2,250 MSEK have been issued. Payments of bond loans for the same period amounted to 300 MSEK.

The Group's main financing is effected through a Swedish medium-term note program of 4,000 MSEK and a global medium-term note program with a framework amount of 1,000 MEUR. Utilization of these programs amounted to 9,569 MSEK on December 31, 2007.

The net debt at year end divided by EBITA amounted to 2.5 (1.7). The interest cover ratio based on EBITA amounted to 9.0 (15.7).

Capital expenditure and depreciation

The Group's direct investment in property, plant and equipment, including assets held for sale and biological assets, amounted to 541 MSEK (304) primarily in the moist snuff and cigars product areas. Proceeds from the sale of fixed assets amounted to 1,165 MSEK (100) including the sale of the Stockholm head office buildings. Total depreciation and amortization, including write-downs, amounted to 435 MSEK (446), of which depreciation on

Summary of consolidated balance sheet

MSEK	2007	2006
Fixed assets	7,818	6,744
Inventories	2,520	2,473
Other current assets	2,685	3,355
Cash and cash equivalents and other investments	3,444	3,098
Total assets	16,467	15,670
Equity	724	2,041
Non-current liabilities and provisions	1,859	1,849
Non-current loans	8,768	7,815
Current liabilities and provisions	3,845	3,556
Current loans	1,271	409
Total equity and liabilities	16,467	15,670

Summary of consolidated cash flow statement

MSEK	2007	2006
Net cash from operating activities	2,327	1,335
Net cash used in investing activities	-490	-255
Net cash used in financing activities	-1,426	-1,164
Net increase/decrease in cash and cash equivalents	410	-85
Cash and cash equivalents at the beginning of year	3,042	3,325
Effect of exchange rate fluctuations on cash and cash equivalents	-13	-198
Cash and cash equivalents at end of year	3,439	3,042

property, plant and equipment amounted to 300 MSEK (314) and amortization of intangible assets amounted to 135 MSEK (132).

Revised dividend and financial policy

In conjunction with the publication of the results for the third quarter 2007, the Board announced a change to the dividend and the financial policy of the Company. The Board concluded that the strategic position of Swedish Match supports a modified dividend policy and raised the 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 further 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 should be that the Company 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 remains committed to maintain an investment grade credit rating.

Proposed dividend per share

The Board proposes an increased dividend to 3.50 SEK (2.50), equivalent to 45 percent (31) of the earnings per share for the year. The proposed dividend amounts to 896 MSEK based on the 255.9 million shares outstanding at the end of the year.

Share structure

The Annual General Meeting on April 23, 2007 renewed the mandate to repurchase shares up to 10 percent of the shares of the Company until the next Annual General Meeting for a maximum amount of 3 billion SEK. In addition, a decision was made to cancel 13.0 million shares held in treasury, with a contemporaneous bonus issue without issuing new shares of an amount equivalent the amount represented by the cancelled shares or 18.1 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. The total amount of registered shares in the Company after the cancellation of shares is 267,000,000 shares with a quotient value of 1.4589 SEK representing share capital of 389.5 MSEK. During the year, the Company issued 931,702 call options to senior Company officials and key employees for the stock option program for 2006. These call options can be exercised from March 1, 2010 to February 29, 2012. The exercise price is 145.50 SEK.

During 2007, 20.1 million shares corresponding to a total quotient value of 29.3 MSEK or 7.5 percent of the share capital were repurchased for 2,575 MSEK representing an average price of 128.13 SEK. As of December 31, 2007

Swedish Match held 11.1 million shares in its treasury, corresponding to 4.2 percent of the total number of shares. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 76.78 SEK. During 2007, the Company also sold 1.6 million treasury shares corresponding to a total quotient value of 2.3 MSEK or 0.6 percent of the share capital, for 122 MSEK representing an average price of 75.95 SEK as a result of option holders exercising their options. The share repurchases are primarily to enable the Company to adjust the capital structure and to cover the allocation of options as part of the Company's option program. The number of shares outstanding, net after repurchase and after the sale of treasury shares, as per December 31, 2007 amounted to 255.9 million. In addition, the Company has call options outstanding as of December 31, 2007 corresponding to 3.4 million shares exercisable in gradual stages from 2008–2012.

The Board will propose to the Annual General Meeting in April 2008 a renewed mandate to repurchase shares of the Company up to an amount of 3 billion SEK until the next Annual Meeting in 2009. In addition a proposal will be made to cancel shares held in treasury with a contemporaneous bonus issue without issuing new shares of an amount equivalent to the reduction of share capital through the cancellation of shares.

Average number of Group employees

The average number of employees in the Group during the full year 2007 was 12,075 compared with 12,465 for the full year 2006.

Environmental impact

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

To support its environmental efforts Swedish Match has 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 upon 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 reporting

All plants satisfied the requirements of their permits during 2007. The snus plants in Gothenburg and Kungälv in

Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

The plant in Vetlanda, Sweden produces match sticks and boxes with striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

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

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

New accounting principle

In 2007 Swedish Match has changed the principle for reporting of actuarial gains and losses in the Group's various defined benefit plans. These actuarial gains and losses are now directly recognized in equity in the period when they occur. The new method of accounting for actuarial gains and losses is a change of accounting principle and 2006 has been restated. The effect of the restatement on Swedish Match opening equity 2006 amounts to a negative 284 MSEK and increased net liability of 397 MSEK. The effect on the profit for the year is not material. See also Note 1. Accounting principles, page 52.

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 is 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 Company's defenses will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, 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 27. Financial instruments, page 74.

Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. The 250 MEUR Revolving Credit Facility has covenants that can force the Company to pay back loans in a change of control situation. In addition Swedish Match has certain outstanding bond issues containing change of control clauses which may trigger prepayment. Subsidiaries in the Group are parties to agreements primarily related to distribution agreements. The distribution agreements with third parties in the Swedish tobacco distribution business can be cancelled should there be a change of control of Swedish Match. Also 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.

Other events

On July 6, 2007, the Company announced that it had reached an agreement to sell a real estate company which was the owner of two buildings belonging to the

Tobaksmonopolet property in Stockholm. The purchaser of the real estate was Aberdeen Property Fund Pan-Nordic and the purchase price was 995 MSEK. The closing date of the sale was October 1, 2007. In addition to the buildings involved in this transaction, two adjacent parcels of land have been sold to NCC, a Swedish construction company. The total capital gain on these transactions was 267 MSEK and was recorded during the fourth quarter 2007.

Due to a prior listing on the American Nasdaq stock exchange, Swedish Match has been registered with the U.S. Securities and Exchange Commission (SEC). On June 5, 2007 Swedish Match filed a deregistration with SEC and therefore does not have any further reporting obligations to SEC.

Sven Hindrikes has advised the Board of Directors that he wishes to retire as President and CEO of Swedish Match AB during the course of 2008. The Board has accepted his decision and has initiated a search process for his successor. Sven Hindrikes has agreed with the Board to remain in his position until a new President and CEO has been appointed and will be available to support the transition process.

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

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management (i.e. the President, Divisional Managers and Senior Vice Presidents in charge of Group functions reporting directly to the President) be adopted by the Annual General Meeting 2008. 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 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 Annual Report for 2007 sets out details of the total remuneration and benefits awarded to the Group Management Team during 2007.

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.

1. 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.

2. 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 mutually 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.

3. 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.

4. Pension

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 with a premium based on the fixed salary.

5. 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.

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 2007.

For principles of remuneration to management approved by the Annual General Meeting in April 2007, see Note 6. Personnel, page 61.

Outlook

The trend during the year confirms our strategic direction, characterized by focus on organic growth, complementary acquisitions and an efficient balance sheet. The past year has entailed considerable progress in a number of areas which provides a platform for continuing growth.

We finished 2007 on a strong note. Group sales reached an all time high in the fourth quarter. We will continue with programs to stimulate growth, primarily for snuff and cigars, with product development, new brand launches and market segmentation as key components. In these efforts, we will capitalize on changing consumption patterns in the tobacco area by offering consumers modern smokefree tobacco products and attractive cigars.

A continued positive development is foreseen for 2008. Both the Group's underlying sales and operating profit are expected to improve compared to 2007.

For the product line snuff, for the full year, a continued volume and market share increase are expected in the US. For the Scandinavian market the increase in Swedish excise tax in January 2008 is expected to create a destocking effect in the beginning of the year following the hoarding of some five million cans in December, 2007. The actions taken last year are expected to result in improved operating profit and margins compared to 2007 for the Scandinavian market, despite the expected reduction in volumes to the Swedish market following the excise tax increase.

For the product line cigars, sales for the full year 2008 are expected to increase significantly. The inclusion of recently acquired businesses, including amortization of intangible assets, and the challenging market conditions in some European countries, are however expected to put some pressure on the operating margin, especially in the beginning of the year.

In the financial area, we will continue to optimize the balance sheet in light of the expected substantial cash flow from operations and thus achieve an efficient return on capital to our shareholders.

The tax rate for 2008 is estimated to be around 20 percent.

The expected development for the Group 2008, will lay the foundation for our continuing efforts to create value for our customers, consumers and Swedish Match shareholders.

Swedish Match AB (publ)

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

Sales in the Parent company for the full year amounted to 6 MSEK (13). Operating result amounted to negative 348 MSEK (negative 368) and net profit for the year amounted to 17,039 MSEK (6,619). The main sources of revenues for the Parent company are dividends and Group contributions from subsidiaries.

The Group's treasury operations are included in the operations of the Parent company and include the major part of the Group's external borrowings. The increased debt position has resulted in increased interest expenses in 2007.

Capital expenditures for the full year amounted to 2 MSEK (0). The cash flow for the period was 1,124 MSEK (negative 223). Cash and bank at the end of the period amounted to 2,808 MSEK (1,684). During the year the Parent company made share repurchases, net, of 2,453 MSEK (3,585) and paid dividends of 664 MSEK (627).

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

Consolidated Income Statement

MSEK	Note	2007	2006
Net sales, including tobacco tax		22,852	21,991
Less tobacco tax		-10,301	-9,080
Net sales	2, 3	12,551	12,911
Cost of sales		-6,578	-6,674
Gross profit		5,973	6,237
Other income	5	7	1
Selling expenses		-2,260	-2,148
Administrative expenses		-720	-801
Other expenses	5	-4	-16
Share of profit in equity accounted investees	14	1	11
Operating profit	3, 5, 7, 8	2,997	3,285
Financial income		165	239
Financial expenses		-501	-351
Net finance cost	9	-336	-112
Profit before income tax		2,662	3,173
Income tax expense	10	-606	-838
Profit for the year		2,056	2,335
Attributable to:			
Equity holders of the Parent		2,055	2,335
Minority interest		1	1
Profit for the year		2,056	2,335
Earnings per share	21		
basic, SEK		7.82	8.13
diluted, SEK		7.80	8.10

Consolidated Balance Sheet

MSEK	Note	December 31, 2007	December 31, 2006
Assets			
Intangible assets	11	4,419	3,469
Property, plant and equipment	12	2,297	2,138
Biological assets	13	91	83
Investment in associates	14	89	90
Non-current receivables	15	558	487
Deferred tax assets	10	365	477
Total non-current assets		7,818	6,744
Inventories	16	2,520	2,473
Trade receivables	17	2,022	1,891
Prepaid expenses and accrued income		132	107
Income tax receivables		145	74
Other receivables	15	386	535
Other investments	18	5	56
Cash and cash equivalents*	18	3,439	3,042
Assets held for sale	19	–	747
Total current assets		8,649	8,925
TOTAL ASSETS		16,467	15,670
Equity			
	20		
Share capital		390	390
Reserves		–486	–256
Retained earnings		816	1,903
Equity attributable to equity holders of the Parent		720	2,037
Minority interest		4	3
TOTAL EQUITY		724	2,041
Liabilities			
Loans and borrowings	22, 27	8,768	7,815
Other liabilities	25	12	4
Provision for pensions and similar obligations	23	555	652
Other provisions	24	597	566
Deferred tax liabilities	10	695	626
Total non-current liabilities		10,627	9,664
Loans and borrowings	22, 27	1,271	409
Accounts payable		738	724
Income tax liabilities	10	258	119
Other liabilities	25	2,007	1,825
Accrued expenses and deferred income	26	782	826
Provisions	24	60	61
Total current liabilities		5,117	3,965
TOTAL LIABILITIES		15,743	13,629
TOTAL EQUITY AND LIABILITIES		16,467	15,670

For information on the Group's pledged assets and contingent liabilities, see Note 29 and Note 30.

* Cash and cash equivalents include current investments with maturity of less than 90 days from acquisition.

Statement of Recognized Income and Expense

MSEK	2007	2006
Translation difference in foreign operations	-258	-867
Net change in fair value of available-for-sale financial assets	-	-40
Effective portion of changes in fair value of cash flow hedges	38	-
Actuarial gains and losses related to pensions, incl. payroll tax	-57	44
Tax on items taken to/transferred from equity	-5	-27
Total transactions taken to equity, excluding transactions with equity holders of the Parent	-282	-891
Profit for the period recognized in the income statement	2,056	2,335
Total income and expense recognized for the period, excluding transactions with equity holders of the Parent	1,773	1,443
<i>Attributable to:</i>		
Equity holders of the Parent	1,772	1,443
Minority interest	1	1

The effect of the change in the accounting principle as per January 1, 2007 are specified in the table below:

	2007
Equity holders of the Parent	
Translation reserve	14
Actuarial gains and losses	-263
Minority interest	-
Total	-250

Consolidated Cash Flow Statement

MSEK	Note	2007	2006
	32		
Operating activities			
Profit before income tax		2,662	3,173
Adjustments for non-cash items and other		120	110
Income tax paid		-410	-1,732
Cash flow from operating activities before changes in working capital		2,372	1,551
Cash flow from changes in working capital			
Increase (-)/ Decrease (+) in inventories		59	-97
Increase (-)/Decrease (+) in operating receivables		-122	-185
Increase (+)/Decrease (-) in operating liabilities		18	65
Net cash from operating activities		2,327	1,335
Investing activities			
Purchase of property, plant and equipment*		-541	-304
Proceeds from sale of property, plant and equipment		1,165	100
Purchase of intangible assets		-68	-270
Acquisition of subsidiaries, net of cash acquired		-1,209	-29
Proceeds from sale of subsidiaries, net of cash disposed of		-	31
Change in non-current receivables		112	-60
Change in other current investments		51	277
Net cash used in investing activities		-490	-255
Financing activities			
Repurchase of own shares		-2,575	-3,674
Stock options exercised		122	94
Proceeds from non-current borrowings		2,239	5,512
Repayment of borrowings		-437	-2,383
Dividends paid to equity holders of the Parent		-664	-627
Other		-111	-86
Net cash used in financing activities		-1,426	-1,164
Net increase/decrease in cash and cash equivalents		410	-85
Cash and cash equivalents at the beginning of the year		3,042	3,325
Effect of exchange rate fluctuations on cash and cash equivalents		-13	-198
Cash and cash equivalent at end of year		3,439	3,042

* Includes investments in assets held for sale and biological assets.

Notes for the Group

1. Accounting principles

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 the Swedish Financial Accounting Standards Council's recommendation RR 30:06, Supplementary Accounting Regulations for Groups, 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 SEK. 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.

Functional currency and reporting currency

The functional currency of the Parent Company is Swedish kronor which is also the reporting currency of the Group. This means that the reports are presented in Swedish kronor. All amounts, unless otherwise stated, are in million of kronor.

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 33, Critical estimates and judgements.

New accounting principles

In 2007 Swedish Match has changed the principle for reporting of actuarial gains and losses in the Group's various defined benefit plans. These actuarial gains and losses are now recognized directly in equity in the period in which they occur.

The net of plan surpluses and deficits is included in the calculation of net debt. The total cost relating to defined benefit plans which previously was charged to personnel costs is now divided between personnel costs and financial income and expenses. Financial income and expenses are calculated from the net value of each plan at the beginning of the year. For surplus plans financial income is calculated using the expected return on plan assets and for deficit plans financial

expenses is calculated using the discount factor decided for each plan. The new method of accounting for actuarial gains and losses is a change of accounting principles and 2006 has been restated. The effect of the restatement on Swedish Match's opening equity 2006 amounts to a negative 284 MSEK and an increased liability for retirement benefits of 397 MSEK. The effect on the closing equity 2006 compared with previously reported numbers amounts to a negative 250 MSEK and an increased net liability for retirement benefits of 304 MSEK. The restated operating profit for 2006 increases with 50 MSEK, finance net is charged with 44 MSEK and tax is charged with 2 MSEK.

IFRS7 Financial instruments, disclosures requires entities to provide additional disclosures about significant financial instruments and the nature and extent of risks arising from financial instruments. The standard does not involve a change of accounting principle but only pertains to additional disclosures for financial instruments.

New IFRSs and Interpretations which have not yet been applied

A number of new standards, change in standards and interpretations of standards apply from 2008 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.

Changes 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.

Interpretation according to IFRIC 11 IFRS 2: Group and Treasury Share Transactions is not expected to have a material impact on the financial reports.

Reporting by segment

Swedish Match's operations comprise of six operating segments: Snuff, Cigars, Chewing tobacco, 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 a decisive influence 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 companies 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.

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	
		2007	2006	2007	2006
USA	USD	6.76	7.38	6.43	6.86
Euro zone	EUR	9.25	9.25	9.45	9.04
Brazil	BRL	3.47	3.39	3.66	3.22
South Africa	ZAR	0.96	1.10	0.94	0.98

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 includes accrued amounts of transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable and the amount received at maturity. Issue expenses and similar transaction costs for raising loans are accrued over the term of the loan.

Financial instruments

Financial instruments are valued and reported within the Group in accordance with the rules contained in IAS 39 as of January 1, 2005.

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. Management determines the classification of instruments 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 at profit and loss

Financial assets in this category which include financial investments reported as other investments or cash equivalents 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.

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. Non-current liabilities have an anticipated duration of longer than one year, while current liabilities have a duration of less than one year.

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.

Non-current receivables and other current 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. If the expected holding time is longer than one year, they are non-current receivables, and if it is shorter, they are current receivables. These receivables belong to the category loan receivables and trade receivables.

NOTE 1 CONTINUE

Trade receivables

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. Even 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. 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.

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 reporting 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.

Hedging of fair value

When a hedging instrument is used for hedging of fair value, the derivative is reported at its fair value in the balance sheet and the hedged asset/liability is also reported at fair value in regard to the risk that is hedged. The change in value of the derivative is reported in the income statement together with the change in value of the hedged item.

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.

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) Trademarks and other intangible assets

Trademarks 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 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.

(iii) Amortization

Amortization is charged to the income statement linearly over the estimated useful life of the intangible assets, unless the useful life is indefinite. Goodwill and intangible assets with an indefinite useful life are 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

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 linearly over the asset's estimated useful life, land is not depreciated.

Estimated useful life of:

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

Biological assets

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.

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 biological assets.

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.

Assets held for sale

Fixed assets and disposal groups held for sale are reported at the lower of their previous carrying amount or their fair value less costs to sell.

Impairments

The carrying amounts for the Group's assets, with the exception of biological assets, 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 meet the obligation and that a reliable estimate of the amount can be made.

Share capital

Repurchases 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 re-evaluate 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 costs for service during prior periods and the present value of future repayments from the plan or reduced future payments to the plan.

From 2007 actuarial gains and losses are reported directly in equity and are not reported in the income statement. See the section on New Accounting Principles above.

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 of vesting. 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. Social fees pertaining to Swedish employees are expensed in full during the year of vesting.

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.

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 Swedish Financial Accounting Standards Council's recommendation RR 32:06 Accounting for Legal Entities. RR 32:06 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.

NOTE 1 CONTINUE

Taxes

In the Parent Company, untaxed reserves are reported including deferred tax liabilities. In the 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. Revenue

The Group's revenue 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, sales of advertising products and corporate overheads. The advertising business was divested during the first quarter 2006. Product area assets consist primarily of property, plant and equipment and 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.

Revenue	External sales	
	2007	2006
Snuff	3,289	3,363
Cigars	3,411	3,407
Chewing tobacco	956	1,063
Pipe tobacco and accessories	851	899
Lights	1,473	1,503
Other operations	2,571	2,677
Total	12,551	12,911

Operating profit/loss	Operating profit/loss		Share of profits of equity accounted investees		Total operating profit/loss	
	2007	2006	2007	2006	2007	2006
Snuff	1,368	1,613	-3	1	1,366	1,614
Cigars	734	761	3	9	737	770
Chewing tobacco	312	338	-	-	312	338
Pipe tobacco and accessories	201	265	-	-	201	265
Lights	252	248	0	1	252	249
Other operations	-137	-99	-	-	-137	-99
Subtotal	2,730	3,126	1	11	2,730	3,137
Pension curtailment gain	-	148	-	-	-	148
Capital gain from sale of real estate	267	-	-	-	267	-
Total	2,997	3,274	1	11	2,997	3,285

Unallocated costs and revenue

Financial income	165	239
Financial expenses	-501	-351
Income taxes	-606	-838
Profit for the year	2,056	2,335
Attributable to		
Equity holders of the Parent	2,055	2,335
Minority interest	1	1
Profit for the year	2,056	2,335

Assets	Assets		Share of equity in associated companies		Total assets	
	2007	2006	2007	2006	2007	2006
Snuff	2,092	2,031	-	-	2,092	2,031
Cigars	6,248	5,181	79	82	6,327	5,263
Chewing tobacco	410	465	-	-	410	465
Pipe tobacco and accessories	962	1,053	-	-	962	1,053
Lights	1,259	1,164	9	8	1,268	1,172
Other operations	1,035	1,582	-	-	1,035	1,582
Unallocated assets*	4,374	4,104	-	-	4,374	4,104
Total	16,380	15,580	89	90	16,467	15,670

* Unallocated assets mainly pertain to cash and cash equivalents and deferred tax assets.

NOTE 3 CONTINUE

Liabilities and equity		
Liabilities	2007	2006
Snuff	424	395
Cigars	578	542
Chewing tobacco	129	121
Pipe tobacco and accessories	176	177
Lights	410	378
Other operations	1,938	1,893
Unallocated liabilities*	12,090	10,122
Equity	724	2,041
Total	16,467	15,670

* Unallocated liabilities mainly pertain to taxes and interest-bearing liabilities.

Investments	Property, plant and equipment*		Intangible assets		Total investments	
	2007	2006	2007	2006	2007	2006
Snuff	233	118	–	–	233	118
Cigars	99	90	0	339	99	429
Chewing tobacco	25	17	–	–	25	17
Pipe tobacco and accessories	20	23	–	–	20	23
Lights	92	38	–	–	92	38
Other operations	6	5	1	–	7	5
Total	475	291	1	339	476	630

* Investments in property, plant and equipment include investments in biological assets.

Depreciation and amortization	Property, plant and equipment		Intangible assets		Total depreciation and amortization	
	2007	2006	2007	2006	2007	2006
Snuff	130	122	15	15	145	137
Cigars	86	90	92	84	178	174
Chewing tobacco	17	18	0	0	18	18
Pipe tobacco and accessories	13	12	21	23	34	35
Lights	44	52	3	5	47	57
Other operations	5	9	3	4	8	13
Total	295	303	135	132	430	435

During 2007, as well as in 2006, there were no impairment losses for intangible assets. Impairment losses with respect to property, plant and equipment were charged to product areas as follows: Lights 0 MSEK (9) and Cigars 5 MSEK (1).

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 also based on geographical location. Unallocated assets mainly consist of financial items and taxes.

Revenue	External sales	
	2007	2006
Nordic region	5,205	5,412
North America	3,918	4,041
Rest of the world	3,428	3,458
Total	12,551	12,911

Assets	Assets	
	2007	2006
Nordic region	3,606	4,691
North America	4,377	4,144
Rest of the world	4,111	3,686
Unallocated assets*	4,373	3,150
Total	16,467	15,670

* Unallocated assets mainly pertain to cash and cash equivalents and deferred tax assets.

Investments	Property, plant and equipment*		Intangible assets	
	2007	2006	2007	2006
Nordic region	222	116	1	326
North America	82	61	–	13
Rest of the world	171	115	–	–
Total	475	291	1	339

* Investments in property, plant and equipment include investments in biological assets.

4. Business combinations

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 EUR/SEK 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 recognised 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.

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:

MSEK	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
Net identifiable assets and liabilities	11	221	398	586	1,215
Group goodwill					922
Total purchase price*					1,216
Cash (acquired)					1
Net purchase price					1,215

* 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 USD/SEK 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 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.

No businesses were acquired in 2006.

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 USD/SEK 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 recognised in the acquired business, 149 MSEK of the purchase price was allocated separable intangible assets, consisting of customer lists, computer systems, internet websites, tradenames, 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.

5. Other operating income and other operating expenses

Other operating income includes foreign exchange gains of 7 MSEK (1).

Other operating expenses include foreign exchange losses of 4 MSEK (16).

6. Personnel

The average number of employees in the Parent Company during 2007 was 50, and in the Group 12,075. The corresponding numbers in 2006 were 44 and 12,465 respectively.

Board and management by gender¹⁾:

	2007		2006	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	11	73	11	73
President and other management	7	100	4	100
Group				
Board members	145	86	120	91
President and other management	150	86	106	94

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

Group employees by country are summarized in the table below:

	2007		2006	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	50	56	44	52
Subsidiaries				
Australia	52	58	53	55
Austria	5	60	11	55
Belgium	365	33	355	32
Brazil	766	71	747	71
Bulgaria	102	38	99	42
China	–	–	28	79
Dominican Republic	3,942	48	4,208	44
France	65	65	61	59
Germany	–	–	13	62
Honduras	1,893	53	1,909	53
Hungary	1	–	44	32
Indonesia	1,686	15	1,638	14
Netherlands	261	77	296	79
New Zealand	9	56	9	78
Norway	42	69	40	70
Philippines	171	59	142	48
Poland	14	57	14	50
Portugal	19	74	20	75
Slovenia	14	86	14	86
South Africa	389	84	453	87
Spain	45	76	50	78
Sweden	857	55	886	56
Turkey	25	80	72	85
United Kingdom	28	66	35	71
United States	1,259	64	1,212	64
Other countries	13	75	12	75
Group total	12,075	50	12,465	49

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

MSEK	2007			2006		
	Wages, salaries and other remunerations	Social costs	of which, pension costs*	Wages, salaries and other remunerations	Social costs	of which, pension costs*
Parent Company	78	37	11	56	28	8
Subsidiaries	1,646	487	119	1,539	615	140
Group	1,724	524	130	1,595	643	148

* 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 includes 5 MSEK (4) attributable to the President and other management consisting of seven persons during 2007 and four in 2006. The defined benefit obligations related to the President amounts to 20 MSEK (19) and other management amounting to 38 MSEK (35). The pension costs for the subsidiaries include 17 MSEK (16) attributable to Board members, Presidents and other management consisting of 90 persons (71). The defined benefit obligations related to these persons amount to 84 MSEK (89).

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

MSEK	2007			2006		
	Board, President and other Management*	of which, bonuses, etc.	Other employees	Board, President and other Management*	of which, bonuses, etc.	Other employees
Parent Company						
Sweden	44	16	42	25	8	37
Subsidiaries						
Total in subsidiaries	152	34	1,494	128	27	1,412
Group total	196	50	1,536	153	35	1,449

* The Board, President and other management consist of 16 persons (13) in the Parent Company and 93 persons (74) in the subsidiaries.

During 2007, 34 MSEK (8) to a profit-sharing foundation on behalf of Group personnel in Sweden were expensed including social charges.

NOTE 6 CONTINUE

Remuneration to Swedish Match AB's Board of Directors

The Extraordinary General Meeting on December 4, 2006 decided that, for the period from the resolution by the Meeting up to and including April 23, 2007 when the next Annual General Meeting is held, the Chairman of the Board shall receive a fee of 575,000 SEK and other Members of the Board elected by the General Meeting of Shareholders shall each receive a fee of 230,000 SEK, compensation for committee work shall amount to 335,000 SEK in total, of which the Chairman of the Audit Committee and the Chairman of the Compensation Committee shall receive 75,000 SEK respectively and the other members of these committees shall each receive 37,000 SEK. Members of the Board employed by the Swedish Match Group shall not receive any Directors' fees.

The Annual General Meeting on April 23, 2007 decided, for the period up to and including April 22, 2008 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,500,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 600,000 SEK and that compensation for committee work shall amount to a maximum of 875,000 SEK in total of which the Chairmen of the Compensation Committee and the Audit Committee shall receive 210,000 SEK respectively and the other members of these committees shall each receive 110,000 SEK. Members of the Board employed by Swedish Match Group shall not receive any Directors' fees.

During 2007 fixed fees were paid to the Chairman of the Board and Board members in accordance with decisions of the Extraordinary General Meeting (EGM) on December 4, 2006 and the Annual General Meeting (AGM) on April 23, 2007. No Board fee is paid to the President and other Board members employed by the Group. There are no variable salaries or other benefits paid to the Board members for Board work during 2007 and 2006. In 2007 a study fee in the amount of 48,075 SEK was paid to each of the three employee representatives on the Board, and in the amount of 35,975 SEK to each of the three deputy members. The fees paid to Board members elected by the Annual General Meeting for Board work during 2007 and 2006 are shown in the tables below:

Board fees paid to Board members

TSEK	2007			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Conny Karlsson Board Chairman	1,730	247		1,977
Andrew Cripps Board member	830		147	977
Arne Jurbrant Board member	830	147		977
Bernt Magnusson Board member	575	75		650
Charles A. Blixt Board member	600			600
John P. Bridendall Board member	600			600
Karsten Slotte Board member	230		37	267
Kersti Strandqvist Board member	830		147	977
Meg Tivéus Board member	830	110	285	1,225
Total	7,055	579	616	8,250

TSEK	2006			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Bernt Magnusson Board Chairman	728	91		819
Andrew Cripps Board member	205		34	239
Arne Jurbrant Board member	280	46		326
Conny Karlsson Board member	205	34		239
Jan Blomberg Board member	103	16	26	144
Karsten Slotte Board member	280		46	326
Kersti Strandqvist Board member	280		46	326
Meg Tivéus Board member	280		81	361
Tuve Johannesson Board member	245			245
Total	2,605	187	232	3,024

The President is both a Board member and part of the Group Management Team. The remuneration to the President is presented in the below table "Remuneration and other benefits to Group Management Team".

Remuneration and other benefits to Group Management Team*Principles adopted by the 2007 Annual General Meeting*

The Annual General Meeting on April 23, 2007 adopted the following principles for determination of salary and other remuneration payable to the President and other members of Group Management Team: 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 the shareholders' interests. The principles shall be subject to annual review. The principles stated below shall apply to remuneration and other terms of employment for Group Management Team (i.e. the President, Divisional Managers and Senior Vice Presidents in charge of Group functions reporting directly to the President) in all agreements entered into as of January 1, 2007. These principles already apply at present, although in some cases, agreements with somewhat different contents that were previously entered into still apply. The remuneration models shall unify the Group, be simple, long-term and quantifiable, and shall correspond to market rates. There shall be "ceilings" on variable remuneration.

The total remuneration paid to Group Management Team officials shall comprise the following components: fixed salary, annual variable salary, a long-term incentive program in the form of employee stock options, pension benefits, terms in conjunction with notice of termination and severance pay, and other benefits.

Fixed salary: The fixed salary for Group Management Team officials shall correspond to market rates and shall be based on competence, responsibility and performance. This principle for determining the fixed salary component for Group Management Team officials is already being applied.

Annual variable salary: Group Management Team officials shall, over and above their fixed salaries, be entitled to a variable salary determined annually in accordance with the following principles. The maximum result of the annual variable salary shall be 35 percent of the fixed salary. The Divisional President for the North America Division also participates in a local variable salary program, the result of which can yield a maximum of a further 100 percent of the fixed salary every other year. The allocation of the variable salary for the President and the Senior Vice Presidents in charge of Group functions shall be based on the result of two mutually independent criteria:

NOTE 6 CONTINUE

- firstly, the average annual improvement in the Group's earnings per share during the period from 2005 to 2007 (i.e. 2005 in comparison with 2004, 2006 in comparison with 2005, and 2007 in comparison with 2006). The maximum allocation in accordance with this shall occur if the average improvement during the three-year period is 20 percent or more. No allocation 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 2005 to 2007 in comparison with the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2004 to 2006. 75 percent of the maximum allocation in accordance with this criterion shall occur if the return has remained unchanged and maximum allocation in accordance with this criterion shall occur if the latest three-year average has increased by two percentage points or more in relation to the preceding three-year average. No allocation 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.

When calculating earnings per share and average return on operating capital after tax, these numbers may be adjusted to take into account certain larger one time items affecting comparability in accordance with resolutions by the Board of Directors. Half of the total variable salary payable to the Divisional Managers shall be based on the same criteria and target values as for the President and the Senior Vice Presidents in charge of Group functions, whilst the other half shall be based on the result in relation to the goals set by the Compensation Committee for each Division, e.g. the Division's operating result in relation to a set goal. The Divisional President for the North America Division also participates in a local program with a variable salary component, as specified above and where the result is based on target values for the individual Division.

Employee stock options: Group Management Team officials are covered by an ongoing employee stock option program under which call options in Swedish Match AB may be allocated. The options have a five-year term and can be redeemed during the fourth and fifth years of the term. The value of the options allocated shall be maximized to 65 percent of the fixed salary and the allocation calculated on the basis of two equally weighted criteria: one is a measurement based on the Group's earnings per share and one is a measurement based on the return on adjusted operating capital.

Summary of variable salary and employee stock options: The combined value of the annual variable salary and the value of employee stock options allocated in accordance with the programs described above shall not exceed the fixed annual salary, other than for the Divisional President of the North America Division, for whom the combined value of the variable salary and the value of employee stock options allocated shall correspond to a maximum of 175 percent of the fixed annual salary every other year and to a maximum of 75 percent in other years (an average of 125 percent over a two-year period).

Pension: Members of Group Management Team resident 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 Group Management Team resident abroad shall preferably comprise defined-contribution pensions and the premium shall be based on the fixed salary.

Severance pay, etc: For members of Group Management Team, 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 to members of Group Management Team 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 General Meeting if special reasons for so doing exist in any individual case.

Committee work and decisions: Swedish Match's Board of Directors shall have a Compensation Committee. The Committee shall be tasked with preparing and presenting proposals for decisions to the Board on issues relating to Group Management Team remuneration and other employment terms within the framework of the principles adopted by the General Meeting. In this context, the Committee shall, ahead of decisions by the Board, prepare and present proposals for salaries, variable salaries and other employment terms for the President and shall approve salaries, variable salaries and other employment terms proposed by the President for senior officials in an immediately subordinate position.

Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Options*	Other benefits	Pension costs	Total	Defined benefit obligations
President	2007	6,165	2,158	4,007	172	2,216	14,719	19,931
	2006	5,899	2,065	1,540	157	2,126	11,786	19,251
Other members of Group Management Team employed by the Parent Company	2007	11,082	3,747	5,865	671	2,957	24,322	37,830
	2006	5,566	1,908	2,310	271	2,302	12,357	35,287
Other members of Group Management Team employed by subsidiaries	2007	7,957	4,006	6,316	993	2,930	22,202	7,340
	2006	9,312	4,854	2,310	1,047	2,969	20,491	14,217
Total	2007	25,205	9,910	16,187	1,836	8,104	61,242	65,101
	2006	20,777	8,826	6,160	1,474	7,397	44,634	68,755

* Options costs are recognized in accordance with IFRS 2, excluding social security charges.

Comments to the table

- During 2007, Group Management Team consisted of ten persons including the President. The President and six persons of other members of Group Management Team are employed by the Parent Company, whereof one member was employed by a subsidiary prior to October 1, 2007 and one member started his employment July 1, 2007. Three members of the Group Management Team are

employed by subsidiaries, whereof one member started his employment October 1, 2007. During 2006 the Group Management Team consisted of seven persons including the President. The President and three members were employed by the Parent Company and three members was employed by subsidiaries. Each respective subsidiary pays salary and other remuneration to the members of Group Management Team employed by that subsidiary.

NOTE 6 CONTINUE

- Variable salary pertains to accruals charged to the consolidated income statement based on the achieved results in 2007 and 2006 respectively. The variable salary accrued in 2006 is paid in 2007 and variable salary accrued in 2007 is paid in 2008.
- Options relate to the costs according to IFRS. Options accrued in 2006 are distributed in 2007 and options accrued in 2007 are distributed in 2008.
- Other benefits pertain to company cars and other benefits
- Reported pension costs are charges to income for defined contribution pension plans and the service costs component under IAS for defined benefit pension plans.

The defined benefit obligation is calculated according to IFRS with following discount rates: 3.75 percent in 2006 and 4.50 percent in 2007.

Variable salary

In 2007, 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 North America Division who is a member of Group Management Team also participated in a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome of this plan corresponds to a fixed annual salary every second year.

Options

The Group 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 certain established criteria relating to the total stock return of Swedish Match share in relation to a selection of other

companies in the industry and the improvement in the Group's profit for the year in relation to previous year and the options are fully vested at grant. In 2007 options were allotted to 59 senior executives, including the President and other members of Group Management Team, based on the results in 2006. In countries, such as Sweden, were the call options are taxed as income at allotment the participant receive a cash allotment that is equal to the maximum allotment and shall purchase options to a value between the net or gross allotment. Other participants receive options without payment.

931,702 options were allotted in 2007. These can be exercised between March 1, 2010 and February 29, 2012. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 145.50 SEK 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 19.90 SEK per option, corresponding to a total of 19 MSEK. The valuation was based on the following conditions: the average share price ten trading days starting with the day the annual results 2006 was published which was 121.29 SEK, expected volatility was 24.5 percent and the risk-free interest rate was 4.21 percent. 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 2007 options to a total maximum value of 41 MSEK will be allotted in 2008 to 67 participants. The exercise price will be 120 percent of the average share price ten trading days starting with the day the annual results 2007 was published.

During 2007, the consolidated income statement was charged with 41 MSEK (20), excluding social charges, and the Parent Company's income statement was charged with 15 MSEK (5), excluding social charges, pertaining to options vested during the year. All options vest 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

	2007		2006	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at beginning of period	87.93	4,027,327	77.93	4,896,514
Granted during period	145.50	931,702	127.10	523,817
Exercised during period	75.95	1,606,734	67.50	1,393,004
Expired during period	-	-	-	-
Outstanding at period-end	109.68	3,352,295	87.93	4,027,327
Exercisable at period-end	80.58	1,234,905	74.97	1,976,380

The average share price for share options exercised in 2007 was 123.47 SEK (106.21).

The options outstanding at December 31, 2007 and which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2006-03-01 – 2008-02-28	74.00	1,428,490	945,560	482,930
2007-03-01 – 2009-02-27	84.80	865,259	113,284	751,975
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
		4,411,139	1,058,844	3,352,295

NOTE 6 CONTINUE

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 60. 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. One Group Management Team member is covered by a defined benefit plan with the retirement age of 60. Two members of the Group Management Team are residents abroad. Of the two, one is covered by a defined benefit pension plan, with a retirement age of 65 and the other is covered by a defined contribution pension solution, with a retirement age of 62.

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.

7. Audit fees

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

	2007	2006
KPMG		
Audit*	15	26
Other services	7	2
Total	22	28

* Included in the expenses for auditor's fees in 2006 are fees related to compliance with the Sarbanes-Oxley Act of 2002 and review of the second quarter interim report.

8. Operating expenses classified by nature

	2007	2006
Personnel expenses	-2,302	-2,116
Depreciation/amortization	-430	-435
Impairment losses	-5	-10
Share of profit in equity accounted investees	1	11
Capital gain from sale of real estate	267	-
Pension curtailment gain	-	148
Other operating expenses	-7,084	-7,223
Total	-9,553	-9,626

9. Net finance cost

	2007	2006
Interest income relating to pension receivables	5	2
Interest income relating to financial instruments held for trading	56	46
Interest income relating to cash and bank	98	78
Net gain on financial assets at fair value through profit or loss	6	-
Net foreign exchange gains	-	1
Other financial income	-	111
Total financial income	165	239

	2007	2006
Interest expense relating to pension liabilities	-35	-46
Interest expense relating to financial liabilities measured at amortized cost	-413	-157
Interest expense relating to financial liabilities revalued to fair value	-36	-122
Net loss on financial liabilities at fair value through profit or loss	-	-9
Net foreign exchange losses	-7	-
Other financial expenses	-10	-17
Total financial expenses	-501	-351
Net finance cost	-336	-112

Net finance cost for 2006 has been restated to contain interest income and interest expenses relating to pension receivables and liabilities.

10. Income tax expense

Income taxes in 2007 and 2006 were distributed as follows:

	2007	2006
Current income taxes	-493	-878
Deferred income taxes	-108	-85
Deferred withholding tax on unremitted earnings of subsidiaries	-5	125
Total	-606	-838

NOTE 10 CONTINUE

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

	Current		Non-current		Total	
	2007	2006	2007	2006	2007	2006
Pension and medical benefits	0	–	89	115	89	115
Accelerated depreciation	6	4	556	466	562	470
Inventory reserves	44	40	–	12	44	51
Deferred withholding tax on unremitted earnings of subsidiaries	–	–	46	36	46	36
Other	12	7	41	79	53	86
Netting of assets and liabilities	–	–	–	–	–99	–132
Net deferred income tax liabilities					695	626

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

	Current		Non-current		Total	
	2007	2006	2007	2006	2007	2006
Tax-loss carryforwards	0	21	–	–	0	21
Provisions for bad debts	7	10	0	0	7	10
Restructuring provisions	8	2	–	0	8	2
Pension and medical benefits	1	2	320	412	321	414
Accelerated depreciation	6	1	3	4	9	5
Inventory reserves	8	8	1	1	9	9
Other	54	64	56	84	110	148
Netting of assets and liabilities	–	–	–	–	–99	–132
Net deferred income tax assets					365	477

During the year, the net of deferred tax liabilities and assets increased by 181 MSEK, whereof an increase of 108 MSEK originated from the income statement, an increase of 70 MSEK was due to deferred tax liabilities in acquired companies and an increase of 5 MSEK was reported against equity relating to –10 MSEK (0) net change in hedge reserves and 5 MSEK (–27) recognized actuarial gains and losses.

At December 31, 2007, the Group had deductible tax-loss carryforwards of 208 MSEK for which no deferred tax asset was recognized. These carryforwards expire as follows:

Year	Amount
2008	22
2009	15
2010	26
2011	43
2012	33
Thereafter	69
Total deductible tax-loss carryforwards for which no tax assets were recognized	208

In 2007 and 2006, the Group's effective tax rates were 22.8 percent and 26.4 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:

	2007		2006	
	%	MSEK	%	MSEK
Income before tax		2,662		3,173
Swedish tax rate	28.0	745	28.0	888
Effect of tax rates in foreign jurisdictions	–2.2	–57	3.3	104
Effect of unrecognized tax losses	0.0	–1	0.1	4
Tax exempt items	–6.7	–179	–2.6	–82
Non-deductible amortization of intangible assets	0.3	7	0.2	7
Adjustments of taxes for prior years	0.9	24	–0.5	–15
Non-deductible expenses	2.4	63	0.7	23
Other items	0.1	4	–2.9	–91
Reported effective tax	22.8	606	26.4	838

In 2006, other items mainly consist of the effect from the reversal of deferred tax liability reported on unremitted earnings from the US. The reversal followed the ratification of a new double taxation treaty between Sweden and the US.

11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Cost at beginning of year	2,039	2,933	2,295	2,138	116	134	4,450	5,205
Purchases/investments	-	-	-	339	1	0	1	339
Companies acquired	917	14	250	-	59	-	1,226	14
Divestments	-	-18	-	-	-	-15	-	-32
Sales/disposals	-	-	-	-	-1	-	-1	-
Reclassifications	-	-	-	-	0	-	0	-
Adjustments	-	-484	-	-	-	-	-	-484
Translation differences, etc.	-108	-407	-58	-182	-9	-3	-174	-592
Cost at end of year	2,848	2,039	2,487	2,295	167	116	5,503	4,450
Accumulated amortization and impairment losses at beginning of year	-49	-68	-840	-774	-93	-98	-981	-940
Amortization for the year	-	-	-121	-120	-14	-11	-135	-132
Impairment losses during the year	-	-	-	-	-	-	-	-
Divestments	-	18	-	-	-	14	-	31
Sales/disposals	-	-	-	-	1	-	1	-
Reclassifications	-	-	-	-	-	-	-	-
Translation differences, etc.	-1	1	26	55	6	3	31	59
Accumulated amortization and impairment losses at end of year	-50	-49	-934	-840	-100	-93	-1,084	-981
Net book value at end of year	2,799	1,991	1,553	1,455	67	23	4,419	3,469

The Group does not have any internally generated intangible assets recorded on the balance sheet.

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 and certain acquired trademarks.

In 2007 amortization of intangible assets were charged to the administrative expenses by 133 MSEK (130) and to the costs of sales by 2 MSEK (2). During 2007 and 2006 there were no impairment losses for intangible asset.

The Group's goodwill and trademarks with indefinite useful life are tested for impairment annually and when there is an impairment indication. When testing, the value in use is compared to the carrying value of the Group's cash generating units. If the value in use is less than the carrying value, an impairment exists equal to the amount of the difference. The value in use is based on discounted cash flows. The level at which management monitors the operations is the basis for identifying the groups of cash generating units. The cash flows used are projected considering market conditions and historical experience, and are based on what management consider reasonable assumptions. These assumptions may be subject to change if circumstances arise or facts become available that affect the assumptions. Calculations of value in use are also sensitive to changes in market interest rates, as these form the basis for discount rates. When goodwill was tested for impairment in 2007, the value in use exceeded the carrying values. When performing sensitivity analyses it was concluded that no negative change, of a size which at this moment is considered probable by management, would result in an intangible assets impairment loss for any of the cash generating units. Though, it should be noted that as previous year the sensitivity performed on the lighters product group came close to an impairment. If the competitive environment worsens by more than what is considered probable by management at this moment, part of the carrying value of goodwill relating to the lighters product group of 48 MSEK may be impaired.

Group goodwill largely relates to three main areas: the US cigar operations, the Continental European cigar operations and the pipe operations. The goodwill in the US cigar operations particularly relates to the acquisitions of General Cigar and Cigars International. The acquisition of Cigars International resulted in an increase in goodwill by 510 MSEK at December 31, 2007, whereby the goodwill attributable to General Cigar and Cigars International combined increased to 1,158 MSEK (805). The goodwill in the Continental European cigar operations particularly relates to the acquisition of Bogaert Cigars, which resulted in an increase in goodwill by 375 MSEK at December 31, 2007. The goodwill attributable to the Continental European cigar operations thereby increased to 504 MSEK (125). The goodwill attributable to the pipe operations amounted to 407 MSEK (421) at December 31, 2007. Goodwill amounts attributable to other units are not individually considered significant and total 729 MSEK (639).

The cash flows underlying the value in use calculation of cash generating units are explicitly forecasted for the coming five years, whereafter a growth factor has been applied to calculate the terminal value. The first year in the forecast in the 2007 testing is equal to budget for 2008. 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 General Cigar and Cigars International a growth factor of 2.0 percent has been applied to calculate the value of subsequent cash flows, and the pre-tax discount was 7.1 percent. For the Continental European cigar operations the growth factor was zero percent and the pre-tax discount rate used was 8.1 percent. For the pipe operations a decrease of 2.0 percent has been applied for the coming years after the projected five years, and a pre-tax discount rate of 16.9 percent.

Costs of 73 MSEK (76) for research and development are included in the Company's selling expenses and of 9 MSEK (19) in cost of sales.

12. Property, plant and equipment

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

	Buildings and land**		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total*	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Cost at beginning of year	1,120	1,255	3,160	3,502	607	584	144	221	5,030	5,562
Purchases/investments	89	10	93	98	84	68	192	99	459	275
Companies acquired	9	-	47	-	2	-	-	-	58	-
Divestments	-	-21	-	-47	-2	-4	-	-2	-2	-73
Sales/disposals	-28	-38	-122	-258	-19	-30	-	-2	-169	-326
Reclassifications***	36	2	54	149	-5	0	-115	-164	-30	-13
Translation differences, etc.	-13	-89	-5	-286	8	-12	-2	-8	-12	-394
Cost at end of year	1,212	1,120	3,227	3,160	676	607	219	144	5,334	5,030
Accumulated depreciation and impairment losses at beginning of year	-431	-490	-2,127	-2,376	-334	-303	-1	0	-2,893	-3,170
Depreciation for the year	-38	-36	-182	-192	-75	-73	-	-	-295	-302
Impairment losses during year	-	-4	-4	-6	-2	-	-	-	-5	-10
Divestments	-	21	-	44	2	6	-	-	2	71
Sales/disposals	14	30	116	193	17	28	-	-	147	251
Reclassifications***	-	-	20	-	-6	-	-	-	14	-
Translation differences, etc.	9	48	-11	209	-5	9	0	-1	-7	266
Accumulated depreciation and impairment losses at end of year	-445	-431	-2,187	-2,127	-404	-334	-1	-1	-3,037	-2,893
Net book value at end of year	767	689	1,040	1,032	272	273	219	143	2,297	2,138

* Total Property, plant and equipment excludes Biological assets and Assets held for sale.

** Buildings and land include land at a book value of 157 MSEK (143).

***Reclassifications include Property, plant and equipment of net 16 MSEK reclassified to assets held for sale during 2007.

Construction in progress primarily relates to investments in production facilities.

Depreciation for the year totaling 295 MSEK (302) was charged to cost of sales in the income statement in an amount of 208 MSEK (240), to administrative expenses in an amount of 6 MSEK (9), and to selling expenses in an amount of 82 MSEK (52). Impairment losses were charged to cost of sales in an amount of 5 MSEK and to cost of administration in an amount of 1 MSEK. The total impairment losses of 5 MSEK (10) affected the result of Cigars by 5 MSEK (1). During 2006 impairment losses also affected the result of Lights by 9 MSEK.

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

	2007	2006
Buildings	343	638
Land	27	236
Total tax assessment values	370	874

13. Biological assets

Biological assets at December 31 comprised the following:

	Biological assets	
	2007	2006
Balance at beginning of year	83	95
Purchases/investments/new planting	16	16
Sales/disposals during the year	-	-1
Change in fair value	-7	-9
Transfer to inventories	-12	-13
Translation differences, etc.	11	-6
Balance at end of year	91	83

The Group's biological assets comprise poplar and pine forests with a total area of 6,300 hectares at December 31, 2007. 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 12 MSEK at the time of felling, and made up 96,200 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area. Volume growth during 2007 had a negative effect of 4 MSEK on fair value, while lower market prices for timber had a negative effect of 3 MSEK on fair value.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2007, 220 hectares (180) 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

Group	2007	2006
Carrying value at beginning of year	90	93
Net profit of associated companies	3	10
Dividends from associated companies	-10	-9
Sale of shares in associated companies	-	0
Translation differences	5	-4
Carrying value at end of year	89	90

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

2007	Country	Revenue	Earnings	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
Total shares in associated companies		196	3	176	89	87		89

2006	Country	Revenue	Earnings	Assets	Liabilities	Equity interest	Ownership %	Book value
Arnold André GmbH & Co. KG	Germany	184	9	150	66	84	40	82
Malaysian Match Co. SDN. BHD.	Malaysia	14	1	12	6	6	32	8
Total shares in associated companies		198	10	162	72	90		90

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 12 MSEK (24). Total sales to associated companies amounted to 43 MSEK (108). Payables to these companies totaled 1 MSEK (5). Total purchases from associated companies amounted to 6 MSEK (20).

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 joint venture with Lorillard is in a start-up phase and did not have any sales in 2007. The Swedish Match share of the net loss during 2007 is 3 MSEK.

Group	2007	2006
Carrying value at beginning of year	-	-
Investment in joint venture	2	-
Net loss of joint venture	-3	-
Translation differences	0	-
Carrying value at end of year	-1	-

15. Non-current receivables and other receivables

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

	2007	2006
Non-current financial receivables	56	114
Finance lease*	5	-
Net assets in pension plans	176	120
Other non-current receivables	320	254
Total	558	487

Other current receivables at December 31 comprised the following items:

	2007	2006
Current financial receivables	182	342
VAT receivables	60	64
Other current receivables	145	129
Total	386	535

* The finance lease amount pertains to a sale-lease back agreement of a production line. This lease agreement will generate an income of less than 1 MSEK the following year and of 1 MSEK per year the following four years thereafter. According to the lease agreement, the initial 20 months of the leasing period are interestfree and thereafter a discount rate of 5.5 percent is used.

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:

	2007			2006		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	848	1	849	790	1	791
Work in progress	113	–	113	94	–	94
Leaf tobacco	1,079	268	1,347	974	416	1,391
Other input materials and consumables	209	2	210	196	1	197
Total	2,250	271	2,520	2,054	419	2,473

Felled timber constitutes an immaterial part of other input materials.

17. Allowance for bad debts and aging analysis of trade receivables

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

	2007	2006
Balance at beginning of year	-54	-96
Provision	-9	-17
Recovery	14	15
Write-off	4	24
Companies acquired	-1	–
Companies divested	–	14
Translation differences, other deductions or additions, etc.	-2	6
Balance at end of year	-47	-54

Trade receivables split in accordance with aging comprised the following:

	2007	2006
Current	1,868	1,758
Overdue < 31 days	119	106
Overdue 31–60 days	19	15
Overdue > 60 days	16	12
Net trade receivables	2,022	1,891
Allowance for bad debts	-47	-54
Gross trade receivables	2,069	1,945

The Company does not generally hold collateral against trade receivable.

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	2007	2006
Mortgage bonds	–	50
Other financial investments	5	5
	5	56
Cash and cash equivalents		
Cash and bank	631	1,759
Bank certificates	1,683	598
Mortgage certificates	496	200
Balance in cash pool accounts	629	486
	3,439	3,042
Total on balance sheet	3,444	3,098

19. Assets held for sale

On December 31, 2007, the Group had no assets held for sale. On December 31, 2006 the Group had assets held for sale at a book value of 747 MSEK. 736 MSEK refers to the Stockholm head office building. The remaining part refers to other property, plant and equipment. There were no corresponding liabilities to these assets.

The Stockholm head office building was sold during the fourth quarter in 2007 with a gain of 267 MSEK reflected in the income statement under administration expenses. During the year investments in assets held for sale amounted to 66 MSEK (13). The divestment was accounted for in the segment Other operations.

20. Equity

MSEK	Equity attributable to equity holders of the Parent				Minority interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
Equity at January 1, 2006	390	651	4,039	5,079	3	5,083
Changed accounting principle IAS 19, net after tax	–	–	–284	–284	–	–284
Adjusted equity at January 1, 2006	390	651	3,755	4,795	3	4,799
Translation differences for the year	–	–867	–	–867	–	–867
Net change in fair value of available-for-sale financial instruments	–	–40	–	–40	–	–40
Actuarial gains and losses attributable to pensions	–	–	44	44	–	44
Tax on items taken to/transferred from equity	–	–	–27	–27	–	–27
Total income (expense) recognized directly in equity, excluding transactions with equity holders of the Parent	390	–256	3,772	3,905	3	3,909
Profit for the year	–	–	2,335	2,335	1	2,335
Total recognized income and expense for the period, excluding transactions with equity holders of the Parent	390	–256	6,106	6,240	4	6,243
Dividends	–	–	–627	–627	–1	–627
Cancellation of shares	–56	–	56	–	–	–
Bonus issue	56	–	–56	–	–	–
Repurchase of own shares	–	–	–3,679	–3,679	–	–3,679
Stock options exercised	–	–	94	94	–	94
Share-based payments, IFRS 2	–	–	10	10	–	10
Equity at December 31, 2006	390	–256	1,903	2,037	3	2,041
Equity at January 1, 2007	390	–256	1,903	2,037	3	2,041
Translation differences for the year	–	–258	–	–258	–	–258
Net change in hedge reserve	–	38	–	38	–	38
Actuarial gains and losses	–	–	–57	–57	–	–57
Tax on items taken to/transferred from equity	–	–10	5	–5	–	–5
Total income (expense) recognized directly in equity, excluding transactions with equity holders of the Parent	390	–486	1,850	1,755	3	1,758
Profit for the year	–	–	2,055	2,055	1	2,056
Total recognized income and expense for the period, excluding transactions with equity holders of the Parent	390	–486	3,905	3,810	4	3,814
Dividends	–	–	–664	–664	0	–664
Cancellation of shares	–18	–	–	–18	–	–18
Bonus issue	18	–	–	18	–	18
Repurchase of own shares	–	–	–2,575	–2,575	–	–2,575
Stock options exercised	–	–	122	122	–	122
Share-based payments, IFRS 2	–	–	28	28	–	28
Equity at December 31, 2007	390	–486	816	720	4	724

Details of equity reserves

Translation reserve*	2007	2006
Translation reserve, January 1	–256	611
Translation difference for the year	–258	–864
Less translation differences attributable to divested companies	–	–3
Translation reserve, December 31	–514	–256
Reserve for fair value of available-for-sale financial instruments**	2007	2006
Reserve for fair value of available-for-sale financial instruments, January 1	–	40
Change in accounting principle, IAS 39	–	–
Changes in fair value reported directly in equity	–	–
Sold available-for-sales financial instruments	–	–40
Reserve for fair value of available-for-sale financial instruments, December 31	–	0

Hedge reserve***	2007	2006
Hedge reserve, January 1	–	–
Change in cash flow hedges reported directly in equity	38	–
Taxes attributable to change in hedge reserve	–10	–
Hedge reserve, December 31	28	–
Total reserves	2007	2006
Reserves, January 1	–256	651
Changes in reserves for the year		
Translation reserves	–258	–867
Reserve for fair value of available-for-sale financial instruments	–	–40
Hedge reserve	28	–
Total reserves, December 31	–486	–256

* 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).

** The reserve for fair value of available-for-sale financial instruments include changes in fair value, net after tax, of financial instruments designated as assets available for sale in accordance with IAS 39. These changes in fair value are reported directly in equity until realized when the earnings effect is recognized in the income statement.

*** The hedge reserve includes the accumulated changes in market value of cash flow hedges attributable to interest rate hedges.

NOTE 20 CONTINUE

Objectives, policies and processes for managing capital

The Board of Directors have during 2007 announced a change to the dividend and financial policy of the Company. The Company's policy for dividend is to pay out 40 to 60 percent of the earnings per share for the year, subject to adjustments for larger onetime items. The Board of Directors propose a dividend of 3.50 SEK (2.50) per share, equivalent to 45 percent (31) of the earnings per share for the year. The Board of Directors have further concluded that the financial policy should be that the Company will strive to maintain a net debt that does not exceed three times EBITA.

Repurchase of own shares included in the equity item retained earnings including the profit for the year

	2007	2006
Repurchase of own shares, January 1	-9,503	-5,918
Repurchase of own shares during the year	-2,575	-3,679
Stock options exercised during the year	122	94
Allocated to retained earnings by cancellation of shares	18	56
Bonus issue	-18	-56
Repurchase of own shares, December 31	-11,956	-9,503

The Annual General Meeting on April 23, 2007 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 13.0 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 267 million shares with a quotient value of 1.4589 SEK. During the year, the Company issued 931,702 call options to senior management and key employees for the stock option program for 2006. These call options can be exercised from March 1, 2010 to February 29, 2012. The exercise price is 145.50 SEK.

During the year 20.1 million shares were repurchased at an average price of 128.13 SEK. As at December 31, 2007 Swedish Match held 11.1 million shares in its treasury, corresponding to 4.2 percent of the total number of shares. During the year the Company has also sold 1.6 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and stock option exercised as per year end amounted to 255.9 million. In addition, the Company has call options outstanding at year end corresponding to 3.4 million shares exercisable in gradual stages from 2008–2012.

21. Earnings per share

	2007	2006
Profit for the year attributable to equity holders of the Parent	2,055	2,335
Weighted average number of shares outstanding, basic		
Number of shares	2007	2006
Weighted average number of shares outstanding, basic	262,604,644	287,062,345
Weighted average number of shares outstanding, diluted		
Number of shares	2007	2006
Weighted average number of shares outstanding, basic	262,604,644	287,062,345
Effect of outstanding options	800,993	1,098,902
Weighted average number of shares outstanding, diluted	263,405,637	288,161,247

Earnings per share, SEK	2007	2006
Basic	7.82	8.13
Diluted	7.80	8.10

The Company has issued 931,702 call options with an exercised price of 145.50 SEK which are potentially dilutive, but which have not impacted the calculation of dilution for 2007. The corresponding number for 2006 were 323,817 with an exercised price of 114 SEK.

22. Loans and borrowings

The maturity structure of the Group's non-current loans and borrowings are as follows:

Year	2007	2006
2008	-	1,255
2009	664	653
2010	1,566	1,592
2011	1,242	1,056
2012	2,018	415
2013 and later	3,278	2,844
Total	8,768	7,815

Current interest-bearing liabilities:

	2007	2006
Current portion of non-current loans	1,235	366
Bank overdraft facilities utilized	18	14
Other current loans	18	29
Total current interest-bearing liabilities	1,271	409

See further information on interest-bearing liabilities in Note 27. Financial instruments.

23. 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. Plans are also in place to provide post employment medical benefits to employees in the US.

In 2007, the Group changed accounting principle for pensions from the previously used 'corridor' principle for recognition of actuarial gains and losses to immediate recognition of full amount of actuarial gains and losses in equity, i.e. the net pension liability in the balance sheet includes all cumulative actuarial gains and losses. 2006 has been restated.

Obligations related to post-employment employee benefits as of December 31, 2007 reported in the balance sheet consist of the following:

Net liabilities	2007	2006
Defined benefit plans	84	144
Post-employment medical benefits	461	460
Other long-term benefits	11	48
Provisions for pensions and similar obligations	555	652

NOTE 23 CONTINUE

The table below specifies the net value of defined benefit pension obligations:

	Defined-benefit pension plans		Post-employment medical benefits	
	2007	2006	2007	2006
Present value of funded obligations	3,329	3,423	-	-
Fair value of plan assets	-3,506	-3,461	-	-
Deficit(+)/surplus(-), net	-176	-38	-	-
Present value of unfunded obligations	61	62	457	456
Unrecognized past service costs	0	0	3	3
Unrecognized assets due to recoverability limit	23	-	-	-
Net asset(-)/liability(+) in the balance sheet	-92	24	461	460
Amounts in the balance sheet:				
Liabilities	84	144	461	460
Assets*	-176	-120	-	-
Net asset(-)/liability(+) in the balance sheet	-92	24	461	460

* The assets are included in non-current receivables in the balance sheet.

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

Current service costs	72	82	22	23
Interest on obligation	163	161	25	26
Expected return on plan assets	-218	-209	-	-
Recognized past service costs	0	0	-1	-1
Gains on curtailments and settlements	-	-149	-	0
Net income(-)/expense(+) reported in the income statement	17	-115	46	48

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

Cost of goods sold	15	20	12	11
Administrative expenses*	-18	-162	-2	-7
Selling expenses	18	19	9	9
Interest income	-5	-2	-	-
Interest expense	7	10	27	36
Net income(-)/expense(+) reported in the income statement	17	-115	46	48

* Including a one-time effect of a curtailment gain of 148 MSEK in the UK in 2006.

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

	Defined-benefit pension plans		Post-employment medical benefits	
	2007	2006	2007	2006
Defined benefit obligation, January 1	3,486	3,785	456	499
Change of accounting principle*	-	2	-	4
Current service cost	72	82	22	23
Interest cost	163	161	25	26
Contributions by plan participants	3	7	2	3
Actuarial losses/(gains)	-58	20	3	-8
Benefits paid	-186	-212	-17	-20
Change in plan provision	0	-1	-	-
Liabilities acquired/disposed in a business combination	0	-	-	-
Curtailements	0	-149	-	-
Translation differences	-90	-209	-34	-70
Defined benefit obligation, December 31	3,390	3,486	457	456

* Reversal of amortization of actuarial losses.

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

Fair value of plan assets, January 1	3,461	3,313	0	0
Expected return on plan assets	218	209	-	-
Actuarial (losses)/gains	-38	85	-	-
Employer contributions	160	238	15	17
Employee contributions	3	7	2	3
Benefits paid	-186	-208	-17	-20
Translation differences	-90	-183	-	-
Fair value of plan assets, December 31	3,528	3,461	0	0

For the post-employment medical plans, a 1 percentage point increase in the medical cost trend rate would increase the aggregate of the current service and interest costs by 7 MSEK and the defined benefit obligation by 50 MSEK. A 1 percentage point decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 6 MSEK and the defined benefit obligation by 45 MSEK.

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

Plan assets are comprised as follows:

	2007	2006
Equity securities	-1,415	-1,521
Debt instruments	-1,462	-1,572
Real estate	-66	-81
Other	-563	-287
Total	-3,506	-3,461

NOTE 23 CONTINUE

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

	Defined-benefit pension plans		Post-employment medical benefits	
	2007	2006	2007	2006
Discount rate, %	5.3	4.8	6.3	5.5
Expected return on plan assets, %	6.3	6.3	–	–
Future salary increases, %	3.8	3.9	–	–
Future pension increases, %	3.2	2.3	–	–
Medical cost trend rate, %	–	–	9.5	9.7

Assumptions regarding future mortality experience 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, 2008 are 85 MSEK.

The actual return on plan assets in 2007 was 189 MSEK (293).

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.

Actuarial gains and losses, for the year, reported in Statement of recognized income and expense, are negative net and amount to 5 MSEK (positive 103). The accumulated gains and losses recognized in this manner amount to negative 310 MSEK (negative 304). Effect of recoverability limit, Paragraph 58(b) reported in Statement of recognized income and expense is 23 MSEK (0).

Obligations for retirement pension and family pension 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 plans funded with PSA are reported as defined contribution plans. At December 31, this plan reported a small surplus.

Defined contribution plans

The obligation under a defined contribution plan is determined by the amounts to be contributed for that period.

	2007	2006
Costs for defined contribution plans	36	43

24. Provisions

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

Non-current provisions	2007	2006
Income tax	286	297
Restructurings	22	9
Other operating provisions	190	158
Deferred compensation	99	103
Total non-current provision	597	566
Current provisions		
Restructurings	29	33
Operating provisions	31	12
Deferred compensation	–	17
Total current provision	60	61
Total provisions	657	628

NOTE 24 CONTINUE

Movements in provisions during the year were as follows:

	Total	Income tax provisions	Restructuring provisions	Operating provisions	Deferred compensation
Balance at January 1, 2007	628	297	41	171	120
Provisions made during the year	199	64	65	48	22
Provisions used during the year	–81	–2	–51	–11	–17
Provisions reversed during the year and changes in estimates	–52	–36	–3	–12	–1
Reclassifications	–23	–22	–1	17	–17
Translation differences, etc.	–14	–15	0	8	–8
Balance at December 31, 2007	657	286	51	220	99

Restructuring provisions

Provisions recognized for restructuring charges are reported as restructuring provisions. The provisions are usually expected to be settled in one year but may be settled 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.

Operating provisions

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

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

Deferred compensation

The deferred compensation provision represents obligations for earned remuneration (salaries and/or bonuses awarded), of certain employees who can elect 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.

25. Other liabilities

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

	2007	2006
Non-interest bearing non-current liabilities	12	4

Other current liabilities at December 31 comprised the following:

	2007	2006
Tobacco taxes	1,279	1,153
VAT liabilities	389	378
Other	339	293
Total	2,007	1,825

26. Accrued expenses and deferred income

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

	2007	2006
Accrued wage/salary-related expenses	159	128
Accrued vacation pay	62	64
Accrued social security charges	110	193
Other	451	441
Total	782	826

27. Financial instruments

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 ensure 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

	2007			2006		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	2,640	3	0	719	1	0
Interest-rate derivatives*	9,640	90	8	5,283	82	6
Total	12,280	93	8	6,002	83	6

* Of which hedge accounting.

Interest rate risk in financing

	2007	2006
Fair value hedges	775	53
Hedged item	775	0

* Of which hedge accounting.

Cash flow risk in financing

	2007	2006
Cash flow hedges	7,336	36

Currency risks

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

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

The consolidated income statement includes exchange rate gains of 2.9 MSEK (16.4 loss) in operating income and losses of 7.0 MSEK (1.0 gain) 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 of lighters and matches in USD.

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 457 MSEK on an annual basis. Swedish Match's policy for managing the Group's transaction exposure is to hedge within certain limits. The hedging transactions are, if any, mainly initiated via currency forward contracts with durations of up to 12 months, and relate to forecasted currency flows. At December 31, 2007, no transaction exposure for 2008 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 4.6 MSEK (5.2) for the year ending December 31, 2007.

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 79 MSEK, based on the exposure at December 31, 2007.

NOTE 27 CONTINUE

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. At December 31, 2007, the average interest maturity period for Group loans was 2.8 years (2.3 months), taking into account interest rate swaps. At December 31, 2007, a general rise of 1 percent (100 bp) in interest rates was estimated to reduce consolidated earnings before tax by approximately 6.2 MSEK (36.6) on an annual basis, and the net interest bearing debt (includes pensions and accrued interest) at the same date amounted to 7,127 MSEK (5,658). 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 (100 bp), the total effect on Equity due to Cash Flow Hedges would amount to 84.2 MSEK.

Refinancing risk and liquidity

Refinancing risk is defined as the risk of that funds become scarce and thus more expensive than expected, and liquidity risk is defined as not being able to make regular payments as a consequence of inadequate liquidity or difficulty in raising external loans. Swedish Match applies a centralized approach to the Group's financing, whereby as much external borrowing as possible is conducted centrally. Subsidiary borrowing can take place, however, in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and a certain length on its gross borrowing, and not to be dependent on individual sources of financing. Swedish Match has a syndicated bank credit facility of 250 MEUR, which matures in 2010. This was unutilized at year-end and contained no borrowing restrictions. In addition Swedish Match has two committed credit lines, both of the amount of 500 MSEK, both maturing in 2008 with an extension possibility. At year-end 2007, available cash funds and committed credit facilities amounted to 6,828 MSEK. Of this amount, confirmed credit lines amounted to 3,362 MSEK and cash and cash equivalents making up the remaining 3,466 MSEK (includes accrued interest). 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 1,000 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, 2007, a total of 2,898 MSEK of the Swedish program and 6,595 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, 2007, there was no outstanding debt under this program.

The average maturity of the Group's borrowing at December 31, 2007 was 3.7 years. Swedish Match's sources of loans and their maturity profiles are distributed as follows:

Year	Swedish MTN	Global MTN	Other loans	Total
2008	620	551	1,088*	2,259
2009	408	192	64	664
2010	500	684	382	1,566
2011	820	422	–	1,242
2012	550	1,468	–	2,018
2013–	–	3,278	–	3,278
Total	2,898	6,595	1,534	11,027

* Includes accounts payable 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, 2007 were as follows:

	2007	2006
Swedish MTN	4.9%	3.5%
Global MTN	5.0%	3.7%
Other loans*	5.9%	6.7%

* 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.

	2007			2006		
	Jan. 1	Equity	Dec. 31	Jan. 1	Equity	Dec. 31
Hedging instruments, derivatives	–	38	38	–	–	–
Total	–	38	38	–	–	–

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

	2008	2009	2010	2011	2012	2013–
Interest payment from loans	226	230	230	230	201	187
Market-value derivatives	7	7	6	6	6	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.

	2007			2006		
	Jan. 1	P&L	Dec. 31	Jan. 1	P&L	Dec. 31
Hedged item	–87	36	–51	–30	–57	–87
Hedging instruments, derivatives	76	–34	43	29	47	76
Total	–11	2	–9	–1	–10	–11

NOTE 27 CONTINUE

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, 2007, 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, 2007, credit exposure in derivative instruments amounted to 167 MSEK, and credit exposure due to current investments amounted to 2,184 MSEK. Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable, by dividing accounts receivable among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 2,022 MSEK.

Credit ratings

At December 31, 2007, 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, 2007. Trade receivables and trade liabilities have a short duration and are reported at nominal value without discounting and have been excluded from the table. 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.

	2007		2006	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets held for trading, carried at fair value	2,615	2,615	1,055	1,055
– of which, interest-related derivatives held for trading	48	48	17	17
– of which, interest-related derivatives fair value hedges	71	71	175	175
– of which, interest-related derivatives cash flow hedges	289	289	–	–
– of which, currency derivatives, no hedge accounting	12	12	8	8
– of which, other financial assets at initial recognition	2,195	2,195	855	855
Total	2,615	2,615	1,055	1,055
Financial liabilities held for trading, carried at fair value	-249	-249	-127	-127
– of which, interest-related derivatives held for trading	-25	-25	-51	-51
– of which, interest-related derivatives fair value hedges	-16	-16	-74	-74
– of which, interest-related derivatives cash flow hedges	-189	-189	–	–
– of which, currency derivatives, no hedge accounting	-19	-19	-2	-2
Other financial liabilities	-10,299	-10,304	-8,241	-8,246
– of which, hedge accounting is not applied	-4,728	-4,732	-4,283	-4,288
– of which, hedge accounting for fair value is applied	-785	-785	-3,958	-3,958
– of which, hedge accounting for cash flow hedges is applied	-4,786	-4,787	–	–
Total	-10,548	-10,553	-8,368	-8,373

28. 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:

	2007
Within one year	67
Between 1–5 years	153
Later than 5 years	72
Total minimum lease payments	292

The Group's leasing expenses for operating lease agreements amounted to 87 MSEK (70).

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

Future non-cancellable minimum lease income for properties sublet falls due as follows:

	2007
Within one year	4
Between 1–5 years	5
Later than 5 years	–
Total minimum lease income	9

29. Pledged assets

	2007	2006
Pledged assets		
Cash and cash equivalents	2	2
Total	2	2

30. Contingent liabilities and assets

Contingent liabilities	2007	2006
Guarantees to subsidiaries	343	256
Guarantees to external companies	12	26
Other guarantees and contingent liabilities	164	85
Total	519	367

Guarantees to subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other contingent liabilities pertain in part to guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes.

Leaf tobacco purchases

Some subsidiaries have made contractual commitments with tobacco growers for future purchases of leaf tobacco.

Legal disputes

The Company is involved in a number of legal proceedings of a routine character. Among other cases, Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US. 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. General Cigar is now seeking a final order of dismissal from the district court. The district court has held a hearing on the request for a final order of dismissal in September 2006, but denied such request. The matter is now on appeal to the United States Court of Appeals for the Second Circuit. 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. Although the outcomes of these proceedings cannot be predicted with any certainty, and accordingly, no guarantees can be made, management is of the opinion that obligations attributable to these disputes, if any, should not have any significant impact on the results of operations or the financial position of Swedish Match.

Swedish Match subsidiaries in the US are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (a subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have 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.

31. Group companies

Subsidiary holdings*	Subsidiary's domicile, country	Ownership share, %	
		2007	2006
SM Australia PTY Ltd	Australia	100	100
NV SM Belgium SA	Belgium	100	100
SM Cigars NV	Belgium	100	100
Humphrey Investments NV	Belgium	100	-
Bogaert Cigars NV	Belgium	100	-
SM Treasury SEK NV	Belgium	100	100
SM Treasury EUR NV	Belgium	100	-
SM Treasury USD NV	Belgium	100	-
SM Commerce Import/Export Ltd	Brazil	100	100
SM da Amazonia SA	Brazil	100	100
SM do Brazil SA	Brazil	99.4	99.4
Plam Bulgarski Kibrit Jisco	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 Tobacco, S.A. de C.V.	Honduras	100	100
SM Hungaria KFT	Hungary	100	100
P.T. SM Cigars Indonesia	Indonesia	100	100
P.T. Java Cigar Manufacturing	Indonesia	100	-
Maga T.E.A.M. SRL	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 Holding 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

Subsidiary holdings*	Subsidiary's domicile, country	Ownership share, %	
		2007	2006
SM Philippines Inc	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
SM Polska Sp. z o.o.	Poland	100	100
SM Fosforos Portugal SA	Portugal	97	97
CYAN d.o.o. Slovenia	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 SA	Spain	100	100
SM Tabaco Espana SL	Spain	100	100
SM Fireproducts Espana SL	Spain	100	100
Intermatch Sweden AB	Sweden	100	100
SM Distribution AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
SM United Brands AB	Sweden	100	100
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Fsg AB	Sweden	100	100
Tobak Fastighets AB	Sweden	100	100
Swedish Match US AB	Sweden	100	100
Svenska Tobaks AB	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri AS	Turkey	100	100
SM UK Ltd	United Kingdom	100	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
General Cigar Sweden	USA	100	100
DM Holding USA Inc.	USA	100	100
Cigars International Holding	USA	100	-
Cigars International	USA	100	-

* The designation includes both directly and indirectly owned companies.
Dormant companies are not included.

32. 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 dividends received

	2007	2006
Interest received	219	24
Interest paid	-377	-237
Total	-158	-212

Adjustments for non cash items and other

	2007	2006
Depreciation and amortization	430	435
Impairment losses	5	10
Share in profits of equity accounted investees	-4	-12
Capital gain from sale of non-current assets	-303	-
Gain on sale of securities	-	-111
Additional payment from divested subsidiaries	-5	-
Pension curtailment gain	-	-148
Expense for share-based payments	47	18
Change in fair value of biological assets	12	9
Change in provisions	-169	-249
Change in accrued interest	0	1
Change in market value revaluations and unrealized exchange rate differences	-8	78
Realized exchange rate differences	111	81
Other	4	-2
Total	120	110

NOTE 32 CONTINUE

Acquisitions of subsidiaries and other business units

	2007	2006
Acquired assets and liabilities		
Property, plant and equipment	-60	-724
Intangible assets	-1,247	-14
Inventories	-160	-4
Trade receivables	-31	0
Other receivables	-32	-2
Accounts payable	53	1
Other liabilities	110	12
Loans in acquired operations	113	703
Purchase consideration paid	-1,254	-29
Less cash and cash equivalents acquired	1	-
Purchase consideration not paid	44	-
Effect on cash and cash equivalents	-1,209	-29

The acquisitions of subsidiaries during 2007 pertain to the acquisitions of Bogaert Cigars, Cigars International and Havana Honeys. For further information about the acquisitions see note 4. Business combinations.

During 2006 the acquisitions of subsidiaries pertain to the acquisition of a limited partnership which owns the head office building and to the acquisition of a minor business combination. The acquisition of the limited partnership is classified as an asset purchase. This acquisition had a significant impact on the capital and asset structure of the Group but the cash flow effect was limited to 10 MSEK reported as cash flow from acquisition of subsidiaries. The limited cash flow effect is due to liabilities of an amount similar to the assets being assumed in the acquisition.

Divestments of subsidiaries and other business units

	2006
Divested assets and liabilities	
Inventories	62
Trade receivables	85
Other receivables	13
Accounts payable	-53
Other liabilities	-76
Purchase consideration received	31
Less cash and cash equivalents in divested operations	-
Effect on cash and cash equivalents	31

No subsidiaries were divested in 2007.

33. Critical estimates and judgements

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 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 on December 31, 2007 amounted to 4,419 MSEK and amortization amounted to 135 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 2,799 MSEK.

Deferred tax assets are recognized for temporary differences which arise between the tax and book value of assets and liabilities as well as for unutilized tax losses carry-forwards to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized. Deferred tax assets amounted to 365 MSEK in 2007. Uncertainty in the future outlook for the economy or other failure to estimate future profit accurately could result in lower taxable income in the Group companies where deferred tax assets have been recognized. As a consequence the actual utilization of deferred tax assets may differ from expected utilization and therefore may affect future earnings.

As explained in Note 30. 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 earning capacity.

Calculation of pension liability relating to defined-benefit plans requires management to make assumptions on the discount rate, expected return on plan assets and rate of compensation increase etc. Actual result could differ from the assumptions made. The benefit obligations of the Company's defined-benefit-pension plans and post employment medical benefit plans as of December 31, 2007 were estimated to exceed the fair value of plan assets by 379 MSEK.

34. 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 the OMX Nordic Exchange in Stockholm. The address of the head office is Rosenlundsgatan 36, SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2007 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	2007	2006
Net sales	1	6	13
Cost of sales		-3	-8
Gross profit		3	5
Selling expenses		-12	-13
Administrative expenses	2, 3	-376	-399
Other income	4	37	39
Operating loss		-348	-368
Income from participation in Group companies	5	17,714	7,370
Gain/loss on sale of shares		340	-4
Income from other investments and receivables carried as fixed assets	5	1	-224
Interest income and comparable items	5	311	566
Interest expense and comparable items	5	-1,020	-447
Profit after financial items		16,998	6,893
Appropriations	6	11	11
Profit before income tax		17,009	6,904
Income tax	7	30	-285
Profit for the year		17,039	6,619

Parent Company Balance Sheet

MSEK	Note	December 31, 2007	December 31, 2006
Assets			
Intangible assets	8	17	28
Property, plant and equipment	9	2	1
Financial fixed assets			
Participations in Group companies	20	52,001	15,641
Receivables from Group companies	10	70	76
Other non-current receivables		8	–
Deferred tax assets	7	3	2
Total financial fixed assets		52,082	15,719
Total fixed assets		52,101	15,748
Current receivables			
Receivables from Group companies		4,348	5,416
Receivables from associated companies		–	2
Income tax receivables	7	67	45
Other receivables	11	114	161
Prepaid expenses and accrued income	12	43	33
Total current receivables		4,572	5,657
Current investments		–	50
Cash and bank*		2,808	1,684
Total current assets		7,381	7,391
TOTAL ASSETS		59,482	23,139
Equity	13		
Restricted equity			
Share capital, 267,000,000 shares at 1:46 and 280,000,000 at 1:39 respectively		390	390
Unrestricted equity			
Hedge reserve		28	–
Retained earnings		4,725	1,244
Profit for the year		17,039	6,619
TOTAL EQUITY		22,182	8,253
Untaxed reserves	14	13	24
Income tax provision		11	–
Other provisions		9	–
Non-current liabilities			
Bond loans	15	8,321	7,271
Liabilities to Group companies	16	18,100	–
Total non-current liabilities		26,421	7,271
Current liabilities			
Liabilities to credit institutes	15	1,172	298
Accounts payable		16	11
Liabilities to Group companies		9,373	7,085
Current tax liabilities		8	–
Other liabilities		206	124
Accrued expenses and prepaid income	17	71	73
Total current liabilities		10,846	7,591
TOTAL EQUITY AND LIABILITIES		59,482	23,139
Pledged assets	18	2	2
Contingent liabilities	18	900	925

* Cash and bank include current investments with maturity of less than 90 days from acquisition.

Changes in Parent Company Equity

MSEK	Note	Restricted equity		Unrestricted equity			Total equity
		Share Capital	Restricted reserve	Repurchase of own shares	Hedge reserve	Retained earnings, incl. profit for the year	
	13						
Equity at January 1, 2006		390	80	-5,918	-	11,312	5,864
Group contributions paid		-	-	-	-	-26	-26
Tax effect of Group contribution		-	-	-	-	7	7
Total income (expense) recognized directly in equity, excluding transactions with equity holders		390	80	-5,918	-	11,293	5,845
Profit for the year						6,619	6,619
Total recognized income and expense for the period, excluding transactions with equity holders		390	80	-5,918	-	17,912	12,464
Reduction of statutory reserve		-	-80	-	-	80	-
Dividends		-	-	-	-	-627	-627
Cancellation of shares		-56	-	56	-	-	-
Bonus issue		56	-	-56	-	-	-
Repurchase of own shares		-	-	-3,679	-	-	-3,679
Stock options exercised		-	-	94	-	-	94
Share-based payments, IFRS 2		-	-	-	-	1	1
Equity at December 31, 2006		390	-	-9,503	-	17,366	8,253
Equity at January 1, 2007		390	-	-9,503	-	17,366	8,253
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
Total income (expense) recognized directly in equity, excluding transactions with equity holders		390	-	-9,503	28	17,340	8,254
Profit for the year		-	-	-	-	17,039	17,039
Total recognized income and expense for the period, excluding transactions with equity holders		390	-	-9,503	28	34,379	25,293
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
Equity at December 31, 2007		390	-	-11,956	28	33,720	22,182

Cash Flow Statement for the Parent Company

MSEK	Note	2007	2006
	21		
Operating activities			
Profit after financial items		16,998	6,893
Adjustments for non-cash items and other		-16,712	3
Income tax received /paid		25	-836
Cash flow from operating activities before changes in working capital		311	6,060
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		-12	1
Increase (+)/Decrease (-) in operating liabilities		-12	21
Cash flow from operating activities		287	6,082
Investing activities			
Purchase of property, plant and equipment		-2	-
Purchase of intangible assets		-1	-
Acquisition of subsidiaries		-413	-11
Proceeds from sale of subsidiaries		335	-
Shareholders contribution paid		-1,325	-4,646
Change in other investments		53	274
Cash flow used in investing activities		-1,353	-4,383
Financing activities			
Repurchase of own shares		-2,575	-3,674
Stock options exercised		122	94
Proceeds from long-term borrowings		2,248	5,457
Repayment of borrowings		-298	-1,549
Dividends paid		-664	-627
Group contributions paid		-36	-26
Changes in financial receivables/liabilities Group companies		3,504	-1,672
Other		-111	75
Net cash from/used in financing activities		2,190	-1,922
Net increase/decrease in cash and bank*		1,124	-223
Cash and bank at the beginning of the year*		1,684	1,907
Cash and bank at end of year*		2,808	1,684

* Cash and bank include current investments with maturity of less than 90 days from acquisition.

Notes for the Parent Company Financial Statements

All amounts referred in the notes to 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 62.

1. Revenue

The Parent Company's revenue consist exclusively of sales of nasal snuff in Europe, 6 MSEK (13).

2. Fees and compensation for incurred costs to auditors

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

	2007	2006
KPMG		
Audit assignments	6	7
Other assignments	5	1
Total	11	8

Audit assignments refer to the examination of the annual report and accounts, the Board of Director's and the President's management, 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	2007	2006
Total sick leave	0.97	0.84
of which long-term sick leave	-	-
Sick leave for men	1.20	0.37
Sick leave for women	0.68	1.36
Sick leave for employees under 29	*	*
Sick leave for employees age 30-49	0.88	0.83
Sick leave for employees age 50+	1.23	0.94

* No data provided if the group comprises less than 10 persons.

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

4. Other income

Other income mainly pertains to the portion of joint administration costs charged to Group companies 36 MSEK (34).

5. Financial items

Income from participations in Group companies	2007	2006
Dividends received	23,166	6,042
Liquidation Group companies	-91	-
Impairment losses	-6,552	-1
Group contribution	1,191	1,329
Total	17,714	7,370

	Income from other investments and receivables carried as fixed assets		Interest income and comparable items	
	2007	2006	2007	2006
Interest income, Group companies	6	171	211	113
Interest income, non-Group companies	-	0	91	53
Net foreign exchange gains/losses	-5	-395	9	400
Total	1	-224	311	566

	Interest expense and comparable items	
	2007	2006
Interest expense, Group companies	-631	-227
Interest expense, non-Group companies	-381	-211
Fees, banks and credit institutions	-4	-3
Loss from sale of current investments	-4	-6
Total	-1,020	-447

6. Appropriations

	2007	2006
Difference between reported amortization and amortization according to plan:		
Trademarks	11	11
Total	11	11

7. Taxes

Reported in Income Statement	2007	2006
Tax expense for the period	-18	-281
Adjustment of taxes attributable to prior years	48	-
Deferred tax due to temporary differences	1	-4
Total taxes	30	-285

Reconciliation of effective tax rate	2007		2006	
	(%)		(%)	
Income before tax		17,009		6,904
Swedish tax rate	28.0	-4,763	28.0	-1,933
Non-deductible expenses	10.8	-1,840	0.7	-50
Non-taxable revenue	-38.7	6,583	-24.6	1,696
Tax attributable to prior years	-0.3	48	-	-
Other	-0.0	2	-0.0	2
Reported effective tax	-0.2	30	4.1	-285

Tax items reported directly against equity	2007	2006
Current tax in paid Group contributions	10	7
Hedge reserve	-10	-
Total	-1	7

Tax receivable amounts to 67 MSEK (45). In 2007 67 MSEK (53) represents amount to be recovered on income for the year.

The deferred tax asset reported in the balance sheet of 3 MSEK is attributable to a provision. Previous year 2 MSEK was attributable to a restructuring reserve recognized in other liabilities. The change from the previous year is reported as a deferred tax income.

8. Intangible assets

	Trademarks		Licenses & Software		Total	
	2007	2006	2007	2006	2007	2006
Cost at beginning of year	114	114	6	5	120	119
Purchase	-	-	1	-	1	1
Cost at end of year	114	114	6	6	120	120
Accumulated amortization at beginning of year	-88	-77	-3	-2	-91	-79
Amortization for the year	-11	-11	-1	-1	-12	-12
Accumulated amortization at end of year	-100	-88	-4	-3	-104	-91
Net book value at end of year	14	25	3	3	17	28

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

	2007	2006
Administrative expenses	-1	-1
Selling expenses	-11	-11
Total	-12	-12

All intangible assets are acquired.

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

9. Property, plant and equipment

Equipment, tools and fixtures

	2007	2006
Cost at beginning of year	6	7
Purchase	2	1
Sales/disposals	-1	-2
Cost at end of year	7	6
Accumulated depreciation at beginning of year	-5	-4
Depreciation for the year	-1	-2
Sales/disposals	1	1
Accumulated depreciation at end of year	-5	-5
Net book value at end of year	2	1

Depreciation of property, plant and equipment is included in administrative expenses in the income statement in the amount of 1 MSEK (2). The acquisition value of assets does not include any interest expenses.

10. Receivables from Group companies

	2007	2006
Opening balance, January 1	76	2,812
Repayments	-1	-2,341
Foreign exchange loss	-5	-395
Closing balance, December 31	70	76

11. Other receivables

	2007	2006
Current financial receivables	107	155
VAT receivables	4	4
Other current receivables	3	2
Closing balance, December 31	114	161

12. Prepaid expenses and accrued income

	2007	2006
Accrued interest income, non-Group companies	21	23
Prepaid rent	3	-
Other prepaid expenses	19	10
Closing balance, December 31	43	33

13. Equity

For information regarding the change in Parent Company equity see Changes in Parent Company equity on page 82.

Number of registered shares in the Parent Company

	2007	2006
Issued, as of January 1	280,000,000	324,596,181
Cancellation	-13,000,000	-44,596,181
Issued, as of December 31	267,000,000	280,000,000

Buy-back of shares

Buy-back of shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2007, the Parent Company's holding of treasury shares amounted to 11,125,200 shares (5,632,019).

Dividend

After the Balance-sheet date, the Board proposed that the dividend for the year amount to 3.50 SEK (2.50) per share. The dividend then amounts to 896 MSEK based on the number of shares outstanding at the end of 2007.

Prior year total dividend amounted to 664 MSEK.

14. Untaxed reserves

	2007	2006
Excess amortization		
Intangible assets		
Opening balance January 1	24	35
Excess amortization for the year	-11	-11
Closing balance, December 31	13	24

15. Liabilities to credit institutions/bond loans

Liabilities due for payment later than five years after the balance-sheet date amount to 3,278 MSEK (3,259). Liabilities to credit institutions consist of the current portion of bond loans 1,172 MSEK (298).

16. Liabilities to Group companies

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

17. Accrued expenses and prepaid income

	2007	2006
Personnel expense	50	53
Accrued bonus incl. social security charges	13	9
Other accrued expenses	8	11
Closing balance, December 31	71	73

18. Pledged assets and contingent liabilities

	2007	2006
Cash and bank	2	2
Closing balance, December 31	2	2

	2007	2006
Guarantees for Group companies	888	900
Guarantees for external companies	12	25
Closing balance, December 31	900	925

19. Related parties

Summary of transactions with related parties

Nature of relations	Year	Sale of goods	Sale of services	Purchase of services	Net interest	Dividends and group contributions	Receivables	Liabilities	Contingent liabilities
Subsidiary	2007	0	45	23	-414	24,322	4,418	27,473	888
Subsidiary	2006	1	40	24	57	7,345	5,492	7,085	900
Associated company	2007	4					-		
Associated company	2006	11					2		

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

20. Group companies

	2007	2006
Cost at beginning of year	15,779	11,157
Acquisitions	18,513	11
Transferred from "Other non-current investments"	-	10
Acquisitions through distribution	23,165	-
Divestments	0	-45
Shareholder's contribution	1,325	4,646
Liquidation	-91	-
Cost at end of year	58,691	15,779

	2007	2006
Revaluations at beginning of year	3,045	3,045
Impairments	-1,400	-
Revaluations at end of year	1,645	3,045

	2007	2006
Impairments at beginning of year	-3,183	-3,228
Impairments	-5,152	-
Divestments	-	45
Impairments at end of year	-8,335	-3,183
Net book value at end of year	52,001	15,641

Impairments for the year are reported in the income from participations in Group companies in the income statement.

Shares in subsidiaries, directly owned

Subsidiary/Corp. Reg.no./Reg. Office	Number of shares	Ownership, %	Dec. 31, 2007 Net book value	Dec. 31, 2006 Net book value
Swedish Match North Europe AB, 556571-6924, Stockholm	1,000	100	15,750	-
Svenska Tändsticksbolaget försäljningsaktiebolag, 556012-2730, Stockholm	34,403,000	100	3,006	3,006
Swedish Match Distribution AB, 556571-7039, Stockholm	1,000	100	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	0	0
Tobaksmonopolet 1 KB, 969646-5187, Stockholm	-	-	-	20
Swedish Match Treasury SEK NV	9,999,999	99.99	18,101	-
Swedish Match Treasury USD NV	999,999	99.99	5,065	-
Swedish Match Treasury EUR NV	20,169	99.99	429	-
Swedish Match Group BV	20,900,000	100	3,931	5,331
General Cigar Holdings, Inc. ¹⁾	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	-
DM Holding USA Inc.	1,000	100	207	-
Swedish Match Sales.com B.V.	100	100	40	4,566
Honduras American Tabaco, S.A. de C.V.	226,972	99.77	18	-
Nitedals Taendstiker A/S	500	100	1	1
SA Allumettiére Causemille ²⁾	10,000	100	0	0
The Burma Match Co Ltd ³⁾	300,000	100	0	0
Vulcan Trading Co. Ltd ⁴⁾	4,000	100	0	0
Net book value at end of year			52,001	15,641

¹⁾ Remaining shares owned by subsidiary.

²⁾ Nationalized in 1963.

³⁾ Nationalized in 1968.

⁴⁾ Nationalized in 1969.

NOTE 20 CONTINUE

In addition, shares are owned in:

- Union Allumettière Marocaine S.A.

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

Other shares at December 31, 2007

The Parent Company holds shares in a company connected to operations.

Name	Currency	Par Value	Reported value	Ownership %
Yaka Feudor K.K.	JPY	100 000	0	15.4

21. Supplementary information to cash flow statement

Cash and bank

Other investments have been classified as cash and bank 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 bank:

	December 31, 2007	December 31, 2006
Cash and bank	627	884
Deposits	2	2
Other investments equivalent to cash	2,179	798
Total cash and bank	2,808	1,684

Interest paid and received and dividend received

	2007	2006
Dividend received*	23,166	6,042
Interest received, non-Group companies	83	60
Interest paid, non-Group companies	-251	-215
Interest received, Group companies	212	284
Interest paid, Group companies	-628	-228
Total	22,582	5,943

* Amount for 2007 includes 23,166 MSEK in the form of distributed subsidiaries.

Adjustments non cash items and other

	2007	2006
Depreciation and amortization	13	14
Impairment losses	6,552	-
Unrealized currency exchange rate differences	-130	95
Changes in the value of financial instruments	15	-19
Impairments of financial receivables	-	1
Share based payments, IFRS 2	20	4
Dividends received	-23,166	-
Change in accrued interest	127	1
Change in market value	-6	2
Realized exchange rate differences, transferred to financing activities	111	-80
Gain on sale of shares, non-Group companies	-340	-
Liquidation group company	91	-
Other	1	-15
Total	-16,712	3

22. Carrying value and fair value of interest-bearing financial instruments

The table below shows carrying value (incl. accrued interest) and fair value for each type of financial instruments as of December 31, 2007. Trade receivables and trade liabilities have a short duration and are reported at nominal value without discounting and have been excluded from the table. 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.

	2007		2006	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Financial assets held for trading, carried at fair value	2,610	2,610	1,050	1,050
– of which, interest-related derivatives held for trading	48	48	17	17
– of which, interest-related derivatives fair value hedges	71	71	175	175
– of which, interest-related derivatives cash flow hedges	289	289	-	-
– of which, currency derivatives, no hedge accounting	12	12	8	8
– of which, other financial assets at initial recognition	2,190	2,190	850	850
Total	2,610	2,610	1,050	1,050
Liabilities				
Financial liabilities held for trading, carried at fair value	-249	-249	-127	-127
– of which, interest-related derivatives held for trading	-25	-25	-51	-51
– of which, interest-related derivatives fair value hedges	-16	-16	-74	-74
– of which, interest-related derivatives cash flow hedges	-189	-189	-	-
– of which, currency derivatives, no hedge accounting	-19	-19	-2	-2
Other financial liabilities	-9,754	-9,759	-7,587	-7,591
– of which, hedge accounting is not applied	-4,183	-4,187	-3,629	-3,633
– of which, hedge accounting for fair value hedge is applied	-785	-785	-3,958	-3,958
– of which, hedge accounting for cash flow hedge is applied	-4,786	-4,787	-	-
Total	-10,003	-10,008	-7,714	-7,718

23. Employee benefits

Post-employment employee benefits

Certain pensions to employees outside Sweden and previously agreed pension commitments to management are covered by a Swedish pension trust. The table below specifies the net liability for defined benefit pension obligation.

	Defined-benefit pension plan	
	2007	2006
Present value of funded obligations	67	75
Fair value of separately held assets	-95	-94
Surplus, net	-28	-19
Unrecognized past service costs	-	0
Surplus in separately held assets	28	19
Net liability in the balance sheet	0	0

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

	2007	2006
Current service costs	1	1
Interest on obligation	3	3
Expected return on separately held assets	-5	-5
Net expense reported in the income statement	-1	0

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

	2007	2006
Defined benefit obligation, January 1	75	76
Current service cost	1	1
Interest cost	3	3
Actuarial gains	-8	-1
Benefits paid	-3	-4
Defined benefit obligation, December 31	67	75

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

	2007	2006
Fair value of separately held assets, January 1	94	91
Expected return on separately held assets	5	5
Actuarial losses	-4	-2
Fair value of separately held assets, December 31	95	94

The separately held assets of the trust consist entirely of debt instruments.

Historical information	2007	2006	2005
Present value of defined benefit obligation	67	75	76
Fair value of separately held assets	-95	-94	-91
Deficit/(surplus)	-28	-19	-15

Experience adjustment on plan liabilities for 2007 amounted to 0 MSEK (-1). Experience adjustment on plan assets for 2007 amounted to -4 MSEK (-2).

Significant actuarial assumptions at the balance sheet date	2007	2006
Discount rate, %	4.5	4.0
Expected return on separately held assets, %	3.0	5.0
Future salary increases, %	3.0	3.0
Future pension increases, %	2.0	2.0

The actuarial calculation is made in accordance with IAS 19.

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience. The mortality table used for the calculation was updated in 2007 to M90.

No contributions are expected to post-employment benefit plans for the year ending December 31, 2008.

The actual return on separately held assets in 2007 was 1 MSEK (3). Costs for defined contribution plans amounted to 4 MSEK (2).

Proposed distribution of earnings

According to the Parent Company's balance sheet, the funds available for distribution by the Annual General Meeting amounts to 21,792 MSEK, of which 17,039 MSEK is net profit for the year.

The Board of Directors and the President propose that the 21,792 MSEK, which is at the disposal of the Annual General Meeting, be distributed so that shareholders receive a dividend of 3.50 SEK per share, amounting to a total of 896 MSEK, based on the number of shares at end of year, and that the remaining earnings be carried forward.

The income statements and the balance sheets will be presented to the Annual General Meeting on April 22, 2008 for adoption. The Board of Directors also proposes April 25, 2008 as the record date for shareholders listed in the Swedish Securities Register Center (VPC).

The results of operations of the Parent Company, Swedish

Match AB, and of the Group during the 2007 fiscal year, and their respective positions at the close of 2007, are set forth in the income statements and balance sheets and accompanying notes.

The consolidated accounts and Annual Report were prepared in accordance with international 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 and generally accepted financial reporting standards and gives an accurate view of the position and earnings of the Group and the Parent Company.

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

Stockholm, February 19, 2008

Conny Karlsson
Chairman of the Board

Charles A. Blixt
Board member

John P. Bridendall
Board member

Andrew Cripps
Board member

Kenneth Ek
Board member

Arne Jurbrant
Board member

Eva Larsson
Board member

Joakim Lindström
Board member

Kersti Strandqvist
Board member

Meg Tivéus
Board member

Sven Hindrikes
President and CEO,
Board member

Our Auditors' report was submitted on March 10, 2008
KPMG Bohlins 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 2007. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 41–90. 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 high but not absolute 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, 10 March 2008
KPMG Bohlins AB

Thomas Thiel
Authorized Public Accountant

Corporate Governance report

Swedish Match AB (publ) is a public Swedish limited liability company. The objective of the Company's operations, as stated in the Company's Articles of Association, is to directly or indirectly conduct business relating to the development and manufacture of and trade in tobacco products, matches and lighters and to carry out other activities that are related to these businesses.

The Company and the Group are governed on the basis of the Company's Articles of Association, the Swedish Companies Act, the listing agreement pertaining to listing of the Company's shares on the OMX Nordic Exchange in Stockholm, the Swedish Code of Corporate Governance and other applicable laws and regulations. The Articles of Association, in its entirety, is available on the Company's website: www.swedishmatch.com.

Because of a prior listing on the American NASDAQ stock exchange, Swedish Match has been registered with the US Securities and Exchange Commission (SEC). During 2007, Swedish Match terminated its registration with SEC and is thus no longer under obligation to report to the SEC.

Swedish Match applies the Swedish Code of Corporate Governance. The Company is not reporting any deviations from the Code for 2007, except with regard to the Code's rule that the Company's half-year or nine-month report be reviewed by the Company's auditors. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, was of the opinion that the extra cost that would be incurred by such a review was not warranted.

This Corporate Governance Report, with the exception of the report on internal control, has been examined by the Company's auditors but does not represent part of the formal annual report.

General Meeting

The General Meeting constitutes the highest governing body in a limited liability company and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders have been informed of their legal rights to have issues dealt with at General Meetings through the Company's website at www.swedishmatch.com. Each share entitles the holder to one vote at a General Meeting. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be decided by a qualified majority.

The Annual General Meeting must be held within six months of the close of the fiscal year. At the Annual General Meeting, resolutions are adopted concerning such matters as dividends, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election of members of the Board of Directors and, wherever applicable, auditors, compensation to the Board of Directors and auditors, principles to be followed for determining compensation to senior executives and other matters of importance to the Company.

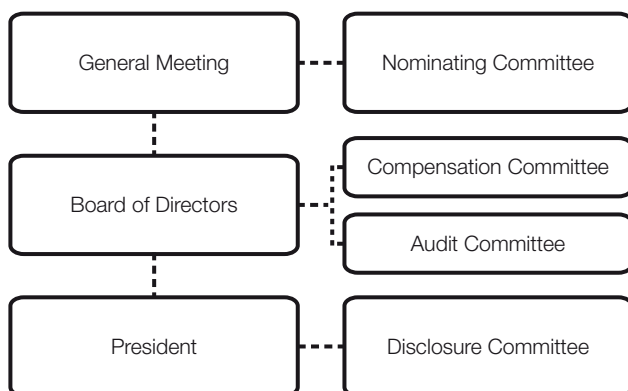
The Annual General Meeting for 2007 was held on April 23. The minutes of the meeting are available on the Company's website www.swedishmatch.com.

Nominating Committee

Up to the 2007 Annual General Meeting and, apart from the former Chairman of the Board, Bengt Magnusson (convener), the Nominating Committee consisted of William N. Booth (Wellington Management Company), Mads Eg Gensmann (Parvus Asset Management), Michael Allison (Morgan Stanley Investment Management) and Andy Brown (Cedar Rock Capital).

Pursuant to a resolution adopted at the 2007 Annual General Meeting, the Nominating Committee shall consist of five members. The Annual General Meeting resolved to empower the Chairman of the Board to contact the largest known shareholders of the Company in order of size and, until four representatives had been appointed, ask each of them to appoint a representative who, together with the

GOVERNANCE OF THE SWEDISH MATCH GROUP



Chairman of the Board, would constitute the Nominating Committee until the time of the appointment of a new Nominating Committee pursuant to the authorization received from the following year's Annual General Meeting. After the Chairman of the Board, Conny Karlsson, had contacted the Company's largest shareholders, the Nominating Committee was constituted on October 4, 2007 with William N. Booth (Wellington Management Company), Mads Eg Gensmann (Parvus Asset Management), Michael Allison (Morgan Stanley Investment Management) and Andy Brown (Cedar Rock Capital) as members, in addition to the Chairman of the Board, Conny Karlsson. Of the members of the Nominating Committee, only Conny Karlsson was also a member of the Board. Mads Eg Gensmann served as Chairman of the Nominating Committee. Fredrik Peyron, who was appointed Company's general counsel on February 1, 2007, served as secretary to the Nominating Committee.

Pursuant to instructions established by the General Meeting, the Nominating Committee's duties are to prepare and submit proposals to the General Meeting concerning the election of the Chairman of the Annual General Meeting, the election of the Chairman and other members of the Board, directors' fees divided between the Chairman of the Board and other Board members, and any fees for committee work, as well as, if applicable, the election of and fees to be paid to the auditors.

Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, Fredrik Peyron. As part of the process for nominating Board members prior to the 2007 Annual General Meeting, the Nominating Committee conducted an evaluation of the Board of Directors in the autumn of 2006. During the year the Nominating Committee also addressed the issue regarding auditors to be elected at the Annual General Meeting 2008.

The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. During 2007, the Nominating Committee held two meetings prior to the Annual General Meeting and three meetings thereafter. The 2007 Annual General Meeting decided that no fees be paid to the members of the Nominating Committee but that expenses of the Nominating Committee were to be borne by the Company.

Board of Directors

Composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who pursuant to law may be appointed according to other arrangements. At the end of 2007, Swedish Match's Board of Directors consisted of eight members elected by the General Meeting plus three employee representatives and their three deputies.

During the year, the Board of Directors consisted of the following directors elected by the General Meeting: Bernt Magnusson (until the Annual General Meeting), Conny Karlsson, Sven Hindrikes, Arne Jurbrant, Karsten Slotte (until the Annual General Meeting), Kersti Strandqvist, Meg Tivéus and Andrew Cripps, as well as Charles A. Blixt and John P. Bridendall, who were elected as members at the 2007 Annual General Meeting. During the year, employee representatives on the Board were Kenneth Ek, Eva Larsson and Joakim Lindström, with Håkan Johansson, Eeva Kazemi Vala and Gert-Inge Rang (as of the April 2007) as deputies.

Meetings

The Board of Directors is summoned to five scheduled and one statutory meeting per year. Three of the scheduled meetings are coordinated with the dates of the financial information for the first and third quarters and of the year-end report. In addition, the Board meets in August/September and in December to discuss the strategic plan and the operational budget.

The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors have also met with the Board without Company representatives. In addition to the scheduled Board meetings, the Board is called to additional meetings convened at the discretion of any director or of the President.

Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for Swedish Match's general and long-term strategies and goals, adopting the budget and business plans, reviewing and approving the financial accounts, establishing overall policies and making decisions regarding investments and divestments.

The Board of Directors appoints, and issues instructions for, the President and monitors his work. The Board also determines the President's salary and other compensation within the framework of the principles established at General Meetings.

The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose, and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of Company funds. The Board also safeguards the Company's financial accounting, internal control and the quality of its financial reporting through the system for internal control that is described in detail in the section entitled "Report on internal control" on page 97.

Working procedures for the Board of Directors

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and guidelines for financial reporting to the Board. The working procedures also stipulate that the Company must have an Audit Committee and a Compensation Committee.

Activities of the Board of Directors during 2007

The number of Board meetings during 2007 was eight, of which five were scheduled meetings and one statutory meeting. Six meetings were held in Stockholm, one in Richmond, Virginia, USA and one by telephone.

The Board of Directors elected at the 2007 Annual General Meeting held its 2007 statutory meeting on the same day as the Annual General Meeting, whereby decisions were made concerning the working procedures for the Board and instructions for the Compensation and Audit Committees. In addition, customary decisions were made concerning the

election of the secretary (General Counsel Fredrik Peyron) and authorized signatories, as well as the appointment of members of the Compensation and Audit Committees.

In addition to a financial review of the business and of the strategic plan, the Board devoted considerable time to the Company's strategic orientation, structural issues, external issues, follow-up of acquisitions, distribution of surplus funds and structures for incentives and benefits.

In conjunction with the Board's meeting in August, a visit was made to the Group's production facilities in Dothan, Alabama, USA.

All of the meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to every point on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February to present the audit report and observations from the audit.

Chairman of the Board

The Chairman of the Board is responsible, in all essential respects, for organizing and directing the Board's work and for ensuring that the Board fulfils its obligations. Through regular contact with the President, the Chairman of the Board monitors the Company's operations and development and ensures that the Board of Directors continuously receives the information required for upholding the quality of the Board's work and that this work is performed in compliance with the Swedish Companies Act.

The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors. The Chairman of the Board up to the 2007 Annual General Meeting was Bernt Magnusson, who, prior to the Annual General Meeting, announced that he would not stand for re-election. After the Annual General Meeting 2007, Conny Karlsson served as Chairman of the Board.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AND NUMBER OF MEETINGS AND ATTENDANCE DURING 2007

	Audit Committee	Compensation Committee	Board of Directors
Total number of meetings	5	5	8
Bernt Magnusson (resigned in April 2007)		2	2
Conny Karlsson		5	8
Sven Hindrikes			8
Charles A. Blixt (newly elected in April 2007)			5
John P. Bridendall (newly elected in April 2007)			6
Andrew Cripps	5		7
Arne Jurbrant		5	8
Karsten Slotte (resigned in April 2007)	1		2
Kersti Strandqvist	5		8
Meg Tivéus	5	3	8
Kenneth Ek			8
Eva Larsson			8
Joakim Lindström			7
Håkan Johansson			6
Eeva Kazemi Vala			8
Gert-Inge Rang (from April 2007)			6

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. During 2007, the members were Meg Tivéus, (Chairman), Andrew Cripps, Karsten Slotte (until April 23, 2007) and Kersti Strandqvist.

Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors may in special cases delegate decision-making authority to the Committee. The Committee is responsible for overseeing procedures for accounting and financial reporting, the organization of the internal control as well as overseeing auditing of the Group's accounting records. Its reviews focus on the quality and integrity of the Group's financial statements and related disclosure, the performance of the Company's internal control function and independent auditors, the independent auditors' qualifications and independence, the Group's compliance with applicable laws and regulations and, as required, transactions between the Group and related parties. In conjunction with the Audit Committee's review of the financial reports, the members of the Audit Committee also discuss accounting issues relating to the Company's financial reporting. The Audit Committee must also establish guidelines by which services other than auditing may be secured from the auditors by the Company. The Audit Committee also discusses other important issues relating to the Company financial reporting and reports its observations to the Board.

Decision-making powers have been delegated to the Committee by the Board pertaining to:

- (i) advance approval of non-audit services to be provided by the auditors;
- (ii) advance approval of transactions between the Company and related parties;
- (iii) matters pertaining to special review of interim reports by auditors, and
- (iv) the need for a separate review function (internal audit).

In addition to supervising the Company's accounting records, financial reporting and auditing, the Committee devoted special attention during 2007 to the Company's internal control over financial reporting. The Chairman of the Committee kept the Board of Directors informed on an ongoing basis of the work and decisions of the Committee throughout the year.

In consultation with Committee members, the Chairman of the Committee shall decide where and how frequently the Committee shall meet. The number of meetings during 2007 was five. The Company's auditors participated in all of the meetings of the Audit Committee during 2007 and, in connection with two of these meetings, also met with the Committee without the presence of Company representatives.

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members during 2007 were Bernt Magnusson (until April 23), Conny Karlsson, Chairman from April 23, Arne Jurbrant and Meg Tivéus. The Company's President, Sven Hindrikes, presented reports on certain issues but is not a member of the Committee and is not present when the Committee prepares decisions regarding compensation to the President.

The Committee's duties are to prepare and submit to the Board proposals for decisions on the following issues;

- (i) principles for determining salary and other compensation and other terms of employment for the Company's President and other members of Group Management Team;
- (ii) share-related incentive programs;
- (iii) salary and other compensation as well as other terms of employment for the Company's President, including annual salary review;
- (iv) salary and other compensation as well as other terms of employment involving matters of principle, or that are otherwise of major importance, or can affect a wider circle within the Group; for example, bonus programs, options programs and profit-sharing systems.

The Board of Directors has delegated decision-making authority to the Committee for the following issues:

- (i) payment of variable salary to the Company's President and other members of the Group Management Team;
- (ii) the allotment of options, within the framework for the call option program, as resolved by the Annual General Meeting;
- (iii) payment of funds to the Company's profit-sharing system in Sweden, pursuant to the rules stipulated by the Board for the Swedish profit-sharing system;
- (iv) salary and other compensation which, within the framework of the guidelines resolved by the Annual General Meeting, shall be paid to, and other terms of employment that shall apply for, members of Group Management Team other than the President;
- (v) approval of significant engagements outside the Company with respect to other members of the Group Management Team than the President, and
- (vi) study fees paid to the employee representatives on the Board.

The Committee's Chairman kept the Board of Directors informed on an ongoing basis about the Committee's work and decisions during the year.

The Committee shall meet as often as necessary but at least twice annually. The number of meetings held during 2007 was five, including one by telephone and one by means of correspondence.

During 2007, the Committee devoted special attention to variable compensation for 2006 to be paid in 2007, establishing the structure and target parameters for variable compensation to the President and other members of the Group Management Team for 2007, as well as principles for future variable compensation, proposals to the Board concerning adjustments to the President's salary and variable compensation for 2008 and determination of salaries for other members of the Group Management Team for 2008. In addition, the Committee submitted a proposal to the Board, prior to the 2007 Annual General Meeting, to have the Company issue call options in respect of the 2006 options program and a proposal for principles for the determination of salaries and other compensation paid to the President and other members of Group Management Team.

The Committee's work regarding levels and structures for compensation to Group Management Team was performed with the help of external expertise.

Evaluation of the work of the Board of Directors

The Board of Directors must ensure that its work is evaluated annually. During late 2007, the Board's work was evaluated by an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

Independence of Board members

All of the Board members are independent in relation to the Company's major shareholders. The President, Sven Hindrikes, in his capacity as a Company employee, is not independent in relation to the Company. All other Board members are independent in relation to the Company.

Compensation to the Board of Directors

The Nominating Committee submits proposals to the General Meeting regarding compensation to the Board of Directors, following which the Meeting votes on the matter.

Directors' fees were paid during 2007 pursuant to the resolutions of the Extraordinary General Meeting in 2006 and the Annual General Meeting in 2007. No compensation for Directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2007 Annual General Meeting, in accordance with the Nominating Committee's proposal, compensation to the Board for the period from the 2007 Annual General Meeting up to and including the 2008 Annual General Meeting amounted to 1,500,000 SEK to the Chairman of the Board and 600,000 SEK to each member of the Board elected by the General Meeting. In addition, a total of 875,000 SEK was granted for committee work, with the Chairman of the Compensation and Audit Committees to receive 210,000 SEK each and other members serving on these committees to receive 110,000 SEK each.

In December 2006, the Board established principles governing Board directors' ownership of shares in the

Company, from which it follows that all directors who received directors' fees during the period following the Extraordinary General Meeting in December 2006 must acquire shares in the Company for an amount corresponding to the fees received following the Extraordinary General Meeting less income tax. During 2007, the Board complied with these principles. For more information about Directors' fees for 2007, see Note 6. Personnel, page 61.

Management

President

The President is appointed by the Board of Directors, and manages the Company's operations within the framework established by the Board. The President's duties include responsibility for ensuring that the Board of Directors receives an information base that is as objective, comprehensive and relevant as possible prior to Board meetings and otherwise, enabling the Board to reach well-founded decisions. The President also reports to the Board and submits reasoned proposals for decisions by the Board. In addition, the President provides Board members, on a monthly basis, with the information required to monitor the position, liquidity and development of the Company and the Group while also providing the Chairman with ongoing information regarding the operations of the Company and the Group.

During 2007, Sven Hindrikes served as President and CEO.

Group Management Team

Swedish Match's Group Management Team consisted of Sven Hindrikes, President and CEO, Bo Aulin, Senior Vice President Corporate Affairs up to and including February 1, 2007 and thereafter Senior Executive Advisor, Mats Adamson, Senior Vice President Group Human Resources, Patrik Andersson, President of the North Europe Division (from October 1), Henrik Brehmer, Senior Vice President Corporate Communications (from July 1), Lars Dahlgren, Senior Vice President Group Finance and IS/IT, Lennart Freeman, Executive Vice President and President of the North America Division, Lars-Olof Löfman, Senior Vice President of Global Smokefree Products and up to and including September 30, 2007, President of the North Europe Division, Fredrik Peyron, Senior Vice President Legal Affairs as of February 1 and Jarl Ugglå, President of the International Division.

Remuneration to Group Management

The 2007 Annual General Meeting established certain principles for determining salary and other compensation to the President and other members of Group Management Team. For information on the guidelines established at the Annual General Meeting, see 6. Personnel, page 61.

For information concerning remuneration and other benefits to the Group Management Team and the Company's options program, see 6. Personnel, page 62.

Audit and auditors

The auditors are elected by the General Meeting. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of the same number of deputy auditors or one or two auditing firms.

The accounting firm KPMG Bohlins AB was elected by the General Meeting as the Company's external auditors for the period from 2004 up to and including the Annual General Meeting in 2008. Thomas Thiel served as auditor in charge.

The duties of the external auditors include reviewing the management of the Board and President and the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

During 2007, in addition to the auditing, KPMG provided consultancy services to the Group, primarily with

regard to acquisitions and taxes, as it did, to some extent, during 2004 to 2006. For information concerning compensation to Swedish Match's auditors during 2007, see Note 7. Audit fees, page 64.

Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports and press releases whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing routines. Members of the Committee during 2007 were the Company's Senior Executive Advisor, Bo Aulin, who also served as the Chairman of the Committee, and the heads of Investor Relations, Internal Control and Legal Affairs.

Report on internal control

The Board of Directors is responsible for internal control pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance. This report has been prepared in accordance with the Swedish Code of Corporate Governance and is thereby limited to internal control regarding financial reporting.

The basis for internal control with regard to financial reporting comprises a control environment with organization, decision making channels, powers and responsibilities that have been documented and communicated in governing documents such as internal policies, guidelines, manuals and codes (for example, the division of duties between the Board of Directors on the one hand and the President and the other entities that the Board establishes on the other), instructions with regard to attestation rights and auditing and reporting instructions.

The Company applies a risk-evaluation and risk-management method in order to ensure that the risks to which the Company is exposed are managed within the frameworks that have been established. Risks that have been identified in connection with financial reporting are managed via the Company's control structure.

The Company has defined a standardized system of controls to ensure that essential risks pertaining to financial reporting are handled properly.

The Company monitors compliance with governing documents in the form of internal policies, guidelines, manuals and codes, and evaluates the effectiveness of the control structures. The evaluation of the effectiveness of internal controls is conducted through tests performed by internal control resources, the central department for internal control, external consultants or, in certain instances, through self evaluation. The central department for internal control reports the results from the evaluation and other internal control issues to the Audit Committee and Company Management.

Monitoring of the Company's information and communication channels is also performed with the aim of ensuring that these are appropriate with regard to financial reporting. The Disclosure Committee follows up the sufficiency of the financial reports with regard to disclosure requirements.

The Board receives monthly reports and the financial status of the Company and the Group is discussed at every scheduled Board meeting. In addition, the Board's various committees fulfill important functions as part of the Board's follow-up activities.

The Board has evaluated the need for a special internal auditing function based on the Group's operations. As a result of the existence of a department for internal control within the Company, the task of which is to ensure internal control, the Board of Directors is satisfied that a need for a separate internal auditing function within the Company does not presently exist.

Stockholm, February 19, 2008

**The Board of Directors of
Swedish Match AB**



Conny Karlsson and Sven Hindrikes



Charles A. Blixt and John P. Bridendall



Andrew Cripps and Arne Jurbrant

Board of Directors

Conny Karlsson Born 1955, MBA. Chairman since 2007. Board member since 2006. Chairman of the Compensation Committee. *Other Board assignments:* Board Chairman of Zodiak Television AB, Board member of Carl Lamm AB and Telia Sonera 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:* 7,500.

Sven Hindrikes Born 1950, MBA. Board member since 2005. President and Chief Executive Officer of Swedish Match AB since 2004. Employed and member of Group management since 1998. *Previous positions:* Executive Vice President and Chief Financial Officer of Swedish Match AB; Executive Vice President of Linjebuss AB; Executive Vice President of ABB Canada; Vice President Finance of ABB Mexico. *Own and related parties' shares:* 23,000. *Call options:* 79,324.

Charles A. Blixt Born 1951. J.D. and B.A. Board member since 2007. *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:* 3,590.

John P. Bridendall Born 1950. MBA and B.S. Board member since 2007. Private investor, Financial Advisor to Jess S. Jackson, Founder, Chairman and CEO, Jackson Family Wines. *Previous positions:* Senior Vice President and Chief Financial Officer, Jack Daniel's Distillery Lem Motlow, Prop. Inc.; Senior Vice President Corporate Development and Investor Relations, Brown-Forman Corporation; Executive Vice President, Finance and Administration, Jackson Enterprises, Jackson Wine Estates International, Jackson Family Wines and Kendall-Jackson Wine Estates; President, Jackson Enterprises, Consulting & Business Development. *Own and related parties' shares:* 13,590.

Andrew Cripps Born 1957, B.A., University of Cambridge. Board member since 2006. Member of the Audit Committee. *Other Board assignments:* Non-executive director of Booker Group plc. Non-executive

director of Trifast Plc. *Previous positions:* 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 and member of the Institute of Chartered Accountants of England and Wales. *Own and related parties' shares:* 5,200.

Arne Jurbrant Born 1942, MBA. Board member since 2002. Member of the Compensation Committee. *Other Board assignments:* Member of the IFL/MTC Foundation. *Previous positions:* CEO, Kraft Foods Nordic Region; President Kraft Freia Marabou Nordic Region; President, General Foods Sweden/Denmark; President, General Foods Denmark; Sales Manager, General Foods; Marketing Manager, General Foods Sweden; Product Manager, Pripps Bryggerier; President's assistant, Pripps Bryggerier. *Own and related parties' shares:* 6,700.

Kersti Strandqvist Born 1963, M. Sci., Techn. Lic., Master of Strategic Marketing. Board member since 2005. Member of the Audit Committee. Business Area Manager for 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:* 3,430.

Meg Tivéus Born 1943, MBA. Board member since 1999. Chairman of the Audit Committee and member of the Compensation Committee. *Other Board assignments:* Chairman of Boss Media. Board member of Cloetta Fazer AB, Billerud AB, Danderyds Sjukhus AB, Nordea Fonder AB and Frösunda LSS AB. Prior Board assignments for Statens Provningsanstalt AB, Operan AB, Postgirot AB, Kommentus AB, SNS, SJ and Framfab. *Previous positions:* President 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 Modo AB; Project Manager at McCann Gunther & Bäck. *Own and related parties' shares:* 5,300.



Kersti Strandqvist and Meg Tivéus



Kenneth Ek, Eva Larsson and Joakim Lindström



Håkan Johansson, Eeva Kazemi Vala and Gert-Inge Rang

Employee representatives

Kenneth Ek Born 1953. Board member since 1999. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus plant in Gothenburg, Sweden. Works with strategic/ industrial projects at Swedish Match's plant in Gothenburg/ Kungälv. *Previous positions:* Technical Manager; Electrical Manager; Electrician, Swedish Match AB. *Own and related parties' shares:* 0.

Eva Larsson Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the trade union association at the match plant in Tidaholm, Sweden. Insurance Manager for insurance policies of persons employed under collective agreements at Swedish Match's match plant in Tidaholm. *Previous positions:* Line Operator, Swedish Match's match plant in Tidaholm. *Own and related parties' shares:* 0.

Joakim Lindström Born 1965. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman and member of the nomination body of the Swedish Food Workers' (Livs) trade union association in Solna, Stockholm, Sweden. Module technician at Swedish Match's distribution facility in Solna. *Previous positions:* Swedish Match's distribution facility in Solna. *Own and related parties' shares:* 0.

Employee representatives (deputies)

Håkan Johansson Born 1963. Deputy member since 2004. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Line Operator at Swedish Match's distribution facilities in Gothenburg. *Previous positions:* Swedish Match's distribution facilities in Malmö. *Own and related parties' shares:* 0.

Auditors

KPMG Bohlins AB *Senior Auditor:* Thomas Thiel. Born 1947. Authorized Public Accountant. Swedish Match Auditor since 2004. Thomas Thiel's other auditing assignments include Atlas Copco, Holmen, PEAB Industri, Ratos, SKF and Svenska Handelsbanken.



Eeva Kazemi Vala Born 1949. Deputy member since 2004. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Works with Market Analysis at Swedish Match North Europe Division. *Previous positions:* Market Coordinator Pipe tobacco, Market Research Manager, Marketing Assistant, Research Chemist, Bioanalyst, Swedish Match North Europe Division. Stockholm University, Casco AB and Karolinska Institute. *Own and related parties' shares:* 1,100.

Gert-Inge Rang Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chairman of the Swedish Association of Management and Professional Staff (Ledarna) at the factory in Vetlanda, Sweden. Foreman, Splint department at Swedish Match Industries in Vetlanda. *Previous positions:* Splint department at Swedish Match Industries in Vetlanda. *Own and related parties' shares:* 1,000.

Independence in relation to the 2007 Board of Directors

All Board members are independent in relation to major shareholders of the Company. The President and CEO, Sven Hindrikes, is employed by the Company and is thus not considered independent in relation to the Company. All other Board members are independent in relation to the Company.

Secretary to the Board of Directors

Fredrik Peyron General Counsel. Senior Vice President, Legal Affairs since 2007.

Changes in the Board of Directors during 2007

At the Annual General Meeting, Conny Karlsson was elected as Chairman of the Board, Charles A. Blixt and John P. Bridendall as Board members and Gert-Inge Rang as the employees' representative (deputy).

Holdings of own and related parties shares as of December 31, 2007.

WWW.SWEDISHMATCH.COM

For updated information on Board members and their shareholdings and options, please refer to the Group's website.



Sven Hindrikes



Mats Adamson and Patrik Andersson



Bo Aulin and Henrik Brehmer

Group Management

Sven Hindrikes President and CEO of Swedish Match AB since 2004. Employed and member of Group Management Team since 1998. Born 1950, MBA.
Own and related parties' shares: 23,000
Call options: 79,324

Mats Adamson Senior Vice President, Human Resources since 2007. Joined Swedish Match in 1994. Member of Group Management Team since 2007. Born 1959, educated at the Swedish Armed Forces Academies, rank of Major within the Swedish Armed Forces.
Own and related parties' shares: 650
Call options: 27,355

Patrik Andersson President of North Europe Division since 2007. Employed and member of Group Management Team since 2007. Born 1964, Bachelor of Business Administration.
Own and related parties' shares: 0
Call options: 0

Bo Aulin Senior Executive Advisor and Chairman of the Disclosure Committee. Joined Swedish Match in 1990. Member of Group Management Team since 1996. Born 1948, Bachelor of Laws (LLB).
Own and related parties' shares: 4,400
Call options: 54,712

Henrik Brehmer Senior Vice President, Corporate Communications since 2007. Employed and Member of Group Management Team since 2007. Born 1964, Bachelor Human Resources Management and Business Administration.
Own and related parties' shares: 0
Call options: 0

Lars Dahlgren Chief Financial Officer and Senior Vice President, Group Finance and IT since 2004. Joined Swedish Match in 1996. Member of Group Management Team since 2004. Born 1970, MBA.
Own and related parties' shares: 1,000
Call options: 43,365

Lennart Freeman Executive Vice President of Swedish Match AB since 2005. President of North America Division since 1999. Joined Swedish Match in 1975. Member of Group Management Team since 1999. Born 1951, MBA.
Own and related parties' shares: 300
Call options: 94,433

Lars Olof Löfman Senior Vice President, Global Smokefree Products since 2007. Joined Swedish Match in 1987. Member of Group Management Team since 2004. Born 1956, MSc Eng, Controller DIHM.
Own and related parties' shares: 1,400
Call options: 51,816



Lars Dahlgren, Lennart Freeman and Lars Olof Löfman



Fredrik Peyron and Jarl Ugglå

Fredrik Peyron General Counsel. Senior Vice President, Legal Affairs since 2007. Joined Swedish Match in 2000. Member of Group Management Team and Secretary to the Board since 2007. Born 1967, Bachelor of Laws (LLB).

Own and related parties' shares: 1,500

Call options: 27,355

Jarl Ugglå President of International Division since 2005. Joined Swedish Match in 2002. Member of Group Management Team since 2004. Born 1955, Mechanical Engineer.

Own and related parties' shares: 3,000

Call options: 103,229

WWW.SWEDISHMATCH.COM 

For updated information on members of the Group Management Team and their shareholdings and call options, refer to the Group's website.

Changes in the Group Management Team during 2007

Mats Adamson assumed the position of new Senior Vice President, Group Human Resources succeeding Göran Streiffert, who had retired. Bo Aulin left his function as Chief Legal Advisor and Senior Vice President, Corporate Communications and was elected Senior Executive Advisor and continued his work in Group Management Team. Bo Aulin was succeeded by Fredrik Peyron, as Senior Vice President, Legal Affairs and by Henrik Brehmer, as Senior Vice President, Corporate Communications. Lars Olof Löfman left his former position as President of North Europe Division and was succeeded by Patrik Andersson. Lars Olof Löfman assumed the position of Senior Vice President of Global Smokefree Products.

Holdings of own and related parties shares and call options as of December 31, 2007. For a detailed report of remuneration and benefits to senior executives, refer to Note 6, page 62.

Five-year summary

Condensed consolidated income statements, MSEK*

	2007	2006	2005	2004	2003
Net sales	12,551	12,911	13,311	13,007	13,036
Gross profit	5,973	6,237	6,033	5,761	5,933
Larger one time items	267	148	206	1,521	–
Operating profit	2,997	3,285	2,825	3,593	2,224
Net finance cost	–336	–112	–128	–164	–50
Profit before income tax	2,662	3,173	2,696	3,429	2,174
Profit for the year	2,056	2,335	1,777	2,084	1,558
EBITDA excluding larger one time items	3,166	3,583	3,206	2,916	2,889

Condensed consolidated balance sheets, MSEK*

	2007	2006	2005	2004	2003
Assets					
Intangible assets	4,419	3,469	4,265	3,452	3,648
Property, plant and equipment	2,388	2,221	2,488	2,712	2,862
Non-current financial assets	1,011	1,055	1,150	848	616
Inventories	2,520	2,473	2,770	2,476	2,676
Current receivables	2,685	3,354	2,475	2,408	2,634
Cash and cash equivalents including other current investments	3,444	3,098	3,657	3,002	2,666
Total assets	16,467	15,670	16,806	14,898	15,102
Equity and liabilities					
Equity, including minority interest	724	2,041	5,083	5,060	4,607
of which, minority interest	4	3	3	481	597
Non-current provisions	1,292	1,192	3,072	2,512	2,119
Non-current liabilities	9,335	8,472	2,884	2,580	4,601
Current provisions	60	61	293	647	–
Current liabilities	5,056	3,904	5,474	4,099	3,775
Total equity and liabilities	16,467	15,670	16,806	14,898	15,102

Condensed consolidated cash flow, MSEK*

	2007	2006	2005	2004	2003
Net cash from operating activities	2,327	1,335	2,718	3,626	2,638
Net cash used in investing activities	–490	–255	–140	–658	–701
Net cash used in financing activities	–1,426	–1,164	–1,441	–2,779	–1,469
Net increase/decrease in cash and cash equivalents	410	–85	1,137	189	468
Cash and cash equivalents at beginning of the year	3,042	3,325	2,058	1,909	1,477
Effect of exchange rate fluctuations on cash and cash equivalents	–13	–198	130	–40	–36
Cash and cash equivalents at end of year	3,439	3,042	3,325	2,058	1,909

* Data as of 2004 is based on reporting in accordance with IFRS. Data for 2003 is based on the then applicable Swedish GAAP.

Key figures¹⁾

	2007	2006	2005	2004	2003
Operating capital at year-end, MSEK ²⁾	8,439	8,059	7,765	7,314	8,377
Net debt, MSEK	7,127	5,658	674	527	2,715
Investments in property, plant and equipment, MSEK	541	304	328	486	551
Operating margin, % ³⁾	21.8	24.3	19.7	17.8	17.1
Return on operating capital, % ³⁾	33.1	38.1	34.7	29.4	24.9
EBITA interest cover	9.0	15.7	26.6	15.4	46.8
Net debt/EBITA	2.5	1.7	0.2	0.2	1.1
Equity/assets ratio, %	4.4	13.0	30.2	34.0	30.5
Share capital, MSEK	390	390	390	808	844
Dividends per share, SEK	3.50 ⁴⁾	2.50	2.10	1.90	1.70
Earnings per share basic, SEK	7.82	8.13	5.61	6.18	4.68

¹⁾ Data as of 2004 is based on reporting in accordance with IFRS. Data for 2003 is based on the then applicable Swedish GAAP.

²⁾ Due to changes of accounting principles governing pensions, the company decided to amend the internal definition of operating capital. As of 2006, pension liabilities and pension receivables are not included in operating capital. The comparative figures prior to 2006 have not been restated.

³⁾ Excluding the pension curtailment gain during 2006, capital gain from real estate sales during 2005 and 2007, the settlement income from UST, and impairment and reserves in match operations during 2004.

⁴⁾ Board proposal.

Net sales by product area, MSEK*

	2007	2006	2005	2004	2003
Snuff	3,289	3,363	3,131	3,081	2,995
Cigars	3,411	3,407	3,283	3,171	3,008
Chewing tobacco	956	1,063	1,079	1,058	1,146
Pipe tobacco and accessories	851	899	920	901	909
Lights	1,473	1,503	1,936	1,960	1,994
Other operations	2,571	2,677	2,962	2,836	2,984
Subtotal	12,551	12,911	13,311	13,007	13,036

Operating profit/loss by product area, MSEK*

	2007	2006	2005	2004	2003
Snuff	1,366	1,614	1,504	1,376	1,386
Cigars	737	770	613	567	393
Chewing tobacco	312	338	347	304	336
Pipe tobacco and accessories	201	265	237	254	201
Lights	252	249	58	1	97
Other operations	-137	-99	-140	-190	-189
Subtotal	2,730	3,137	2,618	2,312	2,224
Pension curtailment gain	-	148	-	-	-
Capital gain from sale of real estate	267	-	206	-	-
Settlement income, UST	-	-	-	1,521	-
Impairment and reserves in match operations	-	-	-	-150	-
Cost for acquisition of share in Wimco Ltd	-	-	-	-90	-
Total	2,997	3,285	2,825	3,593	2,224

Operating margin by product area, %*

	2007	2006	2005	2004	2003
Snuff	41.5	48.0	48.0	44.7	46.3
Cigars	21.6	22.6	18.7	17.9	13.1
Chewing tobacco	32.7	31.8	32.1	28.7	29.3
Pipe tobacco and accessories	23.6	29.5	25.8	28.2	22.1
Lights	17.1	16.6	3.0	0.0	4.9
Group**	21.8	24.3	19.7	17.8	17.1

* Data as of 2004 is based on reporting in accordance with IFRS. Data for 2003 is based on the then applicable Swedish GAAP.

** Excluding the pension curtailment gain during 2006, capital gain from real estate sales during 2005 and 2007, the settlement income from UST, and impairment and reserves in match operations during 2004.

Quarterly data

Condensed consolidated income statements, MSEK	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	2,951	3,242	3,261	3,457	2,663	3,090	3,272	3,527
Gross profit	1,495	1,584	1,586	1,581	1,295	1,461	1,570	1,647
Pension curtailment gain	-	148	-	-	-	-	-	-
Capital gain from sale of real estate	-	-	-	-	-	-	-	267
Operating profit	733	933	809	811	534	642	759	1,062
Net finance cost	-36	-51	-67	43	-66	-79	-105	-86
Profit before income tax	697	882	742	854	468	563	655	976
Profit for the year attributable to equity holders of the Parent	488	617	628	603	332	441	491	791
EBITDA excluding larger one time items	843	856	922	922	642	751	875	897

Key figures	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating margin, % ¹⁾	24.8	24.2	24.8	23.5	20.0	20.8	23.2	22.5
Equity/assets ratio, %	26.6	12.7	10.2	13.0	9.2	2.4	1.9	4.4
Investments in property, plant and equipment, MSEK	60	64	65	115	124	165	132	120
Earnings per share, basic, SEK	1.62	2.09	2.23	2.19	1.23	1.66	1.89	3.04

¹⁾ Excluding larger one time items.

Net sales by product area, MSEK	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	785	831	785	963	662	794	852	981
Cigars	759	888	903	857	735	847	902	928
Chewing Tobacco	273	277	273	240	238	253	243	222
Pipe Tobacco and accessories	238	218	217	226	205	203	220	223
Lights	387	368	360	388	340	354	374	405
Other operations	510	659	723	784	483	638	682	769
Total	2,951	3,242	3,261	3,457	2,663	3,090	3,272	3,527

Operating profit by product area, MSEK	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	383	383	385	462	231	311	383	441
Cigars	163	207	231	168	164	193	185	195
Chewing Tobacco	86	81	95	76	72	82	83	75
Pipe Tobacco & accessories	76	58	68	63	56	24	64	58
Lights	63	72	64	51	57	62	67	67
Other operations	-38	-17	-35	-9	-45	-29	-22	-41
Subtotal	733	784	808	811	534	642	759	795
Pension curtailment gain	-	148	-	-	-	-	-	-
Capital gain from sale of real estate	-	-	-	-	-	-	-	267
Total	733	932	808	811	534	642	759	1,062

Operating margin by product area, % ¹⁾	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Snuff	48.8	46.1	49.1	48.0	34.9	39.1	45.0	45.0
Cigars	21.5	23.4	25.6	19.6	22.3	22.7	20.5	21.0
Chewing Tobacco	31.5	29.3	34.7	31.7	30.1	32.3	34.3	34.1
Pipe Tobacco & accessories	31.8	26.5	31.5	28.0	27.1	11.7	28.9	25.9
Lights	16.2	19.5	17.7	13.1	16.8	17.5	17.8	16.4
Group	24.8	24.2	24.8	23.5	20.0	20.8	23.2	22.5

¹⁾ Excluding larger one time items.

Definitions

Average shareholders' equity		$\frac{\text{Opening + closing equity attributable to the equity holders of the Parent}}{2}$
Average operating capital		$\frac{\text{Opening + closing operating capital}}{2}$
Debt/equity ratio (%)	100 x	$\frac{\text{Net debt}}{\text{Total equity}}$
Dividend yield (%)	100 x	$\frac{\text{Dividend (paid/proposed after year-end)}}{\text{Year-end share price}}$
Dividend pay-out ratio (%)	100 x	$\frac{\text{Proposed dividend}}{\text{Earnings per share}}$
Earnings per share		$\frac{\text{Profit for the year attributable to equity holders of the Parent}}{\text{Average number of shares outstanding}^1)}$
EBIT multiple		$\frac{\text{Market value at year-end + net debt + minority interest}}{\text{Operating profit}}$
EBITA		Earnings excluding larger one time items, net finance cost, tax, amortization and impairments of intangible assets
EBITA interest coverage ratio		$\frac{\text{EBITA}}{\text{Net interest expense (Interest expense – interest income)}}$
EBITDA		Earnings excluding larger one time items, net finance cost, tax, depreciation, amortization and impairments of tangible and intangible assets
Equity/assets ratio (%)	100 x	$\frac{\text{Total equity}}{\text{Total assets}}$
Equity per share		$\frac{\text{Equity attributable to equity holders of the Parent}}{\text{Number of shares outstanding at year-end}^1)}$
Net debt		Interest-bearing liabilities, incl. net provisions for pensions and similar obligations, less cash and cash equivalents and other investments
Operating capital		Current operating assets + intangible assets, property, plant and equipment + other non-current operating assets less current and non-current operating liabilities
Operating margin (%)	100 x	$\frac{\text{Operating profit}}{\text{Net sales}}$
P/E ratio		$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$
Return on operating capital (%)	100 x	$\frac{\text{Operating profit}}{\text{Average operating capital}}$
Share turnover rate (%)	100 x	$\frac{\text{Annual turnover}}{\text{Total number of shares}}$
Total return (%)	100 x	$\frac{\text{Share price at year-end – share price at preceding year-end} + (\text{dividend paid} + \text{return on reinvested dividend})}{\text{Share price at preceding year-end}}$

¹⁾ Number of shares outstanding relates to shares outstanding excluding treasury shares.

The share

The Swedish Match share is listed on the OMX Nordic Exchange in Stockholm. Total share capital at the end of the year amounted to 390 MSEK, distributed among 267 million shares with a quotient value of 1.4589 SEK each. Each share carries one vote. A round lot was 200 shares during 2007.

Turnover

Total turnover in 2007 amounted to 683,973,976 Swedish Match shares on the OMX Nordic Exchange in Stockholm, with a daily average turnover of approximately 2.7 million shares. The turnover rate, or the liquidity of the share on the OMX Nordic Exchange in Stockholm, was 246 percent during the year, compared with the average of 139 percent for the OMX Nordic Exchange in Stockholm.

Price trend

The Company's market capitalization at year-end 2007 amounted to 41.3 billion SEK. The share price increased by 20.7 percent during the year, while the OMXS 30 Index decreased by 5.7 percent. The lowest price paid during the year was 115.50 SEK on March 14, and the highest price paid was 156.00 SEK on December 13.

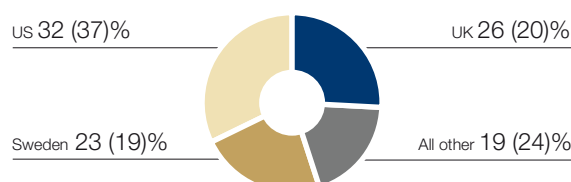
Ownership structure¹⁾

At year-end, foreign ownership interests corresponded to 78.0 percent of total share capital²⁾, a decrease of 2.8 percentage points compared with 2006. Swedish ownership interests, totalling 22.0 percent, were distributed among institutions, with 5.4 percent of the share capital, mutual funds, with 7.5 percent, and private individuals, with 9.1 percent. The 10 largest shareholders accounted for 35.8 percent of the share capital²⁾.

¹⁾ Source: SIS Ägarservice, according to VPC.

²⁾ Excluding shares held in treasury by Swedish Match AB, which corresponds to 4.2 percent of the total number of shares.

Summary of ownership: share capital by country as of December 31, 2007



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

Dividend

During the year's strategic review, the overall capital structure and dividend policy have been analyzed and revised. Accordingly, the earlier dividend policy stipulating a dividend within a range of 30 to 50 percent of net profit for the year has been amended and the policy now specifies that the dividend should be within the range of 40 to 60 percent of earnings per share, adjusted for larger one time items.

The Board of Directors intends to propose to the Annual General Meeting a dividend for 2007 of 3.50 SEK (2.50) per share, for a total of 896 MSEK (664), based on the 255.9 million of shares outstanding at the end of the year. The dividend corresponds to 45 percent (31) of EPS for the year.

Repurchase of shares

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

Largest shareholders as of December 31, 2007^{1) 2)}

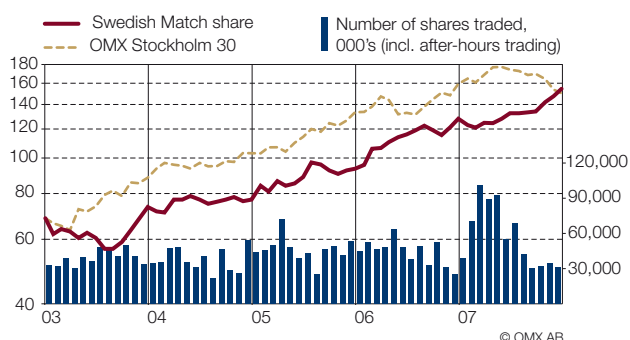
Source: SIS Ägarservice, according to VPC and data known by Swedish Match.

Owner	No. of shares	% of share capital
Parvus Asset Management	26,314,200	10.3
Wellington Management Company	24,962,273	9.8
Morgan Stanley Investment Management	14,117,937	5.5
Swedbank Robur Funds	11,125,200	2.3
SHB/SPP Funds	5,939,679	2.0
SEB Funds	5,086,662	1.6
Nordea Funds	4,021,694	1.3
Third Swedish National Pension Fund	3,267,167	1.0
The Children's Investment Fund	2,576,693	1.0
Govt of Singapore Inv Corp	2,487,400	1.0
Total of 10 largest shareholders	99,898,905	35.8
Others	155,975,895	64.2
TOTAL	255,874,800	100.0

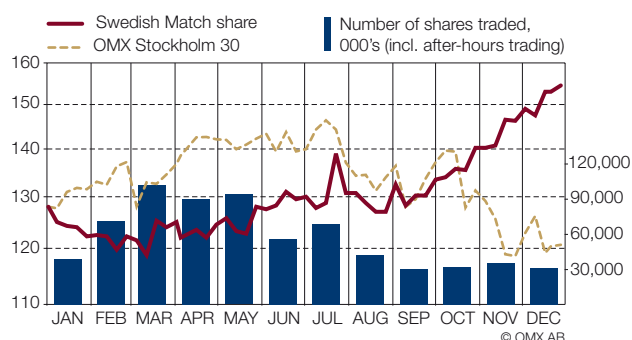
¹⁾ Certain shareholders may, through custodial accounts, have larger holding than what is apparent from the shareholders' register.

²⁾ Registered direct ownership and ownership through trustees. In addition the Company owns 11,125,200 shares acquired through buybacks.

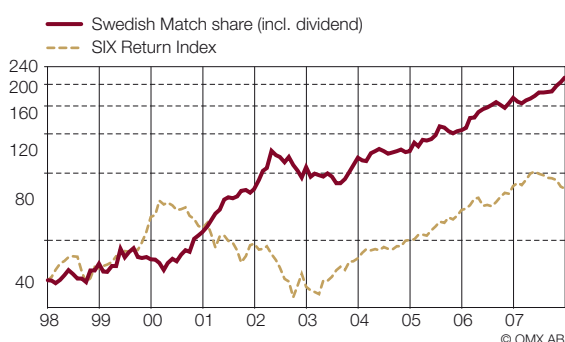
Share price 2003–2007



Share price 2007



Total return 1998–2007

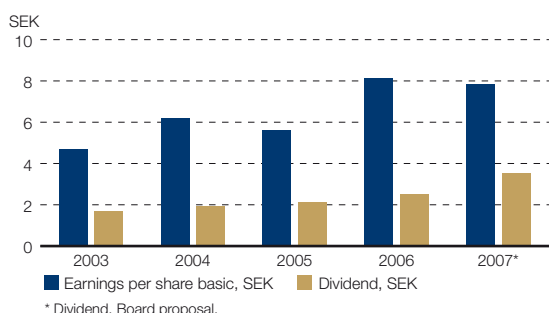


Transfer of capital to Swedish Match shareholders

MSEK	2003	2004	2005	2006	2007	Total
Dividends	558	612	627	664	896*	3,357
Repurchase of own shares, net	904	576	1,411	3,585	2,453	8,929
Total	1,462	1,188	2,038	4,249	3,349	12,286

* Dividend proposed for fiscal year 2007 based on number of shares outstanding at year end.

Earnings and dividend per share 2003–2007



* Dividend, Board proposal.

Share distribution at December 31, 2007

Size of holding	No. of owners	%	No. of shares	%
1 – 1,000	49,378	90.5	10,697,712	4.2
1,001 – 5,000	4,231	7.7	8,436,985	3.3
5,001 – 20,000	569	1.0	5,200,329	2.0
20,001 – 50,000	120	0.2	3,833,609	1.4
50,001 – 100,000	68	0.1	4,924,487	1.8
100,001 – 1,000,000	181	0.3	64,048,940	24.0
1,000,001 –	47	<0.2	158,732,738	63.3
Total*	54,594	100.0	255,874,800	100.0

* Excluding shares held by Swedish Match.
Source: SIS Ågarservice AB, based on VPC.

Share data¹⁾

	2003	2004	2005	2006	2007
Earnings per share, basic, SEK	4.68	6.18	5.61	8.13	7.82
Earnings per share, diluted, SEK	4.66	6.15	5.59	8.10	7.80
Dividend per share, SEK	1.70	1.90	2.10	2.50	3.50 ²⁾
Dividend yield at year-end, %	2.31	2.47	2.24	1.95	2.27
Dividend pay-out ratio, % ³⁾	36	30	35	31	45
Market price at year-end, SEK	73.50	77.00	93.50	128.00	154.50
Market capitalization at year-end, billion SEK	24.8	25.9	30.3	35.1	41.3
P/E ratio after tax	15.7	12.5	16.7	15.8	19.8
EBIT multiple	12.3	11.1	11.2	13.0	16.2
Total return, %	10.1	7.0	24.2	39.5	22.7
Average number of shares, basic	332,679,210	325,708,645	315,128,554	287,062,345	262,604,644
Average number of shares, diluted	334,162,492	327,013,542	316,226,392	288,161,247	263,405,637
Average daily turnover, million	1.9	1.8	2.2	2.1	2.7
Turnover rate, %	131	127	163	168	246
Number of shareholders	98,425	94,860	87,840	58,287	54,594

Where appropriate, figures have been adjusted for bonus issue element at redemption.

¹⁾ Data as of 2004 is based on IFRS accounting standards. Data for 2003 is based on the Swedish accounting principles then applicable.

²⁾ Board proposal.

³⁾ Dividend paid/prior year's earnings.

Information to our shareholders

Annual General Meeting

The Annual General Meeting of Swedish Match AB (publ) will be held on Tuesday April 22, 2008, at 16.30 at Hotel Rival, Mariatorget 3 in Stockholm. Registration to the Annual General Meeting will open at 15.30.

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More information about Annual General Meeting is available on our website www.swedishmatch.com/agn.

Dividend

The Board of Directors proposes that a dividend of 3.50 SEK per share be paid to the shareholders. Proposed record day for entitlement to receive a cash dividend is April 25, 2008. If the Annual General Meeting approves the Board's proposal, dividends will be paid through VPC on April 30, 2008.



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Financial information

Interim reports, annual reports and the Group's magazine, Inside, can be ordered via the Swedish Match website or from: Swedish Match AB, Investor Relations, SE-118 85 Stockholm, Tel: +46 (0)8-6580145, Fax: +46 (0)8-6580262, E-mail: investorrelations@swedishmatch.com

All new shareholders will receive a request regarding which

information they would like to receive from Swedish Match and in what manner. Changes regarding information from Swedish Match can be submitted directly to our subscription service on our website, or by e-mail to: investorrelations@swedishmatch.com.

WWW.SWEDISHMATCH.COM

Register with Swedish Match's subscription service on our website: www.swedishmatch.com/subscribe.



Our publications

Our publications are issued in both English and Swedish. In addition to the printed versions, all publications are also available in electronic format. The shareholders' magazine, Swedish Match Inside, publishes four issues annually and is distributed to our shareholders together with interim reports.

Calendar

Interim report	April 25, 2008
Half year report	July 18, 2008
Nine-month report	October 29, 2008
Full year report for 2008	February 2009
Annual report for 2008	March 2009

Change of address

Address changes occur automatically at VPC for physical persons registered in Sweden. Shareholders who do not choose automatic address change must themselves register their new addresses to the institute carrying their account. Trustee registered shareholders should promptly register the change of name, address or account number to their trustee.

Follow Swedish Match's development on www.swedishmatch.com

What is Swedish Match all about? Who sits on the Board of Directors? How were the key ratios developed? The Internet is becoming an increasingly important information channel. The objective of our website is to continuously provide shareholders, investors and other players in the capital market with current and relevant information on the Group's operations and activities. As of May, the website will have an updated look.

<h3>Our company</h3> <ul style="list-style-type: none"> » Organization » CEO's comments » Job opportunities » Company history 	<h3>Our business</h3> <ul style="list-style-type: none"> » Strategies » Business environment » Growth drivers » Description of the product areas 	<h3>Snus and health</h3> <ul style="list-style-type: none"> » Research on snus » Information on harm reduction » Regulations and snus in the EU 	<h3>Social responsibility</h3> <ul style="list-style-type: none"> » Work pertaining to Social responsibility » Environment » Humanitarian aid
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Contacts

Here you will find contact details and a search function with addresses to all offices and production units world-wide.

Subscription service

Through the Swedish Match subscription service, you can subscribe to the week's closing price, receive reminders on activities in the calendar, press releases, subscribe to interim reports, annual reports.



Corporate Governance

- » Information from Annual General Meetings
- » Board members, Group Management Team and committees
- » Policy documents

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- » Share price development and share holdings
- » Calendar
- » Financial reports
- » Presentations and web casts

Media

- » Press releases
- » Inside magazine
- » Image bank
- » Press room snus

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