MINUTES
kept at the Annual General Meeting of Shareholders of Swedish Match AB (publ), Swedish company reg. no. 556015-0756, on 22rd April 2008 in Stockholm

§ 1
Sven Unger was elected as Chairman of the Meeting.
It was noted that Fredrik Peyron was requested to keep the minutes at the Meeting.

§ 2
The list of shareholders present was approved as the list of those entitled to vote, Appendix 1.

§ 3
Patric Naeslud and Peter Lundkvist were appointed to check the minutes together with the Chairman of the Meeting.

§ 4
The Meeting was declared to have been duly convened.
The Notice to attend the Meeting was appended to the minutes, Appendix 2.

§ 5
The Agenda was approved as set out in Appendix 3.

§ 6
The Annual Report and the Audit Report as well as the Consolidated Accounts and the Consolidated Audit Report for the period 1st January – 31st December 2007 were submitted. In addition, the Board of Directors´ proposal regarding the allocation of profit and explanatory statement were submitted, Appendix 5 and 6, as well as the Auditor´s report regarding compliance with the principles for the compensation of senior executives, Appendix 7.

The President gave a presentation of the Company's operations, Appendix 4.

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

The Chairman of the Audit Committee, Meg Tivéus, reported on the work and function of the Audit Committee and presented the consulting costs and other expenses paid to Swedish Match's auditors in 2007.

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

Questions from the shareholders were answered by the president.

§ 7
It was resolved to adopt the income statement and balance sheet, along with the consolidated income statement and consolidated balance sheet, presented in the Annual Report, Appendix 8.

§ 8
Svenska Aktiespararnas Riksförbund and Aktiespararna Topp Sverige, (below jointly referred to as “Aktiespararna”) represented by Siv Berlin, submitted as an alternate motion on allocation of profit a dividend of SEK 1.25 per share.

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

Pursuant to the Board of Directors’ proposal according to Appendix 5, it was resolved

that the funds at the disposal of the Annual General Meeting, i.e. SEK 21,792,881,193.64 shall be appropriated as follows: a dividend of SEK 3.50 per share to be paid to the shareholders for each share in Swedish Match AB and the remaining profits to be carried forward to a new account;

and that the record date for determining who is entitled to receive a cash dividend shall be 25th April 2008.

It was noted that Aktiespararna registered a reservation against the decision.

§ 9
It was resolved to discharge the members of the Board of Directors and the President responsible during the relevant period from liability for the period 1st January – 31st December 2007.

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

§ 10
a) Pursuant to the Board of Directors’ proposal according to Appendix 9, it was resolved

that the Company’s share capital shall be reduced by SEK 17,506,310.89 by means of the withdrawal of 13,000,000 shares in the Company without any refund to the shareholders;

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

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

b) Pursuant to the Board of Directors’ proposal, Appendix 7, it was resolved that the Company’s share capital shall be increased by SEK 17,506,310.89 through a transfer from non-restricted shareholders' equity to the share capital (bonus issue), whereby the share capital shall be increased without issuing new shares.

§ 11
Pursuant to the Board of Directors' proposal according to Appendix 10, it was resolved

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

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

It was noted the resolution had been passed with the requisite majority and that Aktiespararna registered a reservation against the decision.

§ 12
Pursuant to the Board of Directors' proposal according to Appendix 11, it was resolved to adopt the principles for determination of salary and other remuneration payable to the President and other members of the Company management.

§ 13
Pursuant to the Board of Directors´ proposal according to Appendix 12, it was resolved to adopt the 2008 stock option program.

§ 14
Pursuant to the Board of Directors' proposal according to Appendix 13, it was resolved

that the Company shall issue 1,592,851 call options to cover the Company's stock option programme for 2007;

and that the Company, in a deviation from the preferential rights of shareholders, shall be permitted to transfer a maximum of 1,592,851 shares in the Company at a selling price of SEK 172.68 per share in conjunction with a demand for the redemption of the call options, whereby the number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or other similar measure, in accordance with the "Terms and conditions for call options 2008/2013", Appendix 14.

It was noted that the resolution had been passed unanimously.

§ 15
The Chairman of the Nominating Committee, Mads Eg Gensmann, reported on how the work of the Nominating Committee has been performed.

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

§ 16

Pursuant to the Nomination Committee´s proposal, it was resolved that the Board of Directors in total, for the period up to and including the date when the next Annual General Meeting is held, shall receive the following:

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

§ 17

Pursuant to the Nominating Committee's proposal according to <u>Appendix 15</u>, it was resolved

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

<u>that</u> Conny Carlsson shall be elected Chairman of the Board of Directors,

<u>and that</u> Andrew Cripps shall be elected Deputy Chairman of the Board of Directors.

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

§ 18

Pursuant to the Nominating Committee's proposal it was resolved to appoint as auditor an audit firm and no deputy auditors.

§ 19
Pursuant to the Nominating Committee's proposal it was resolved that fees to the auditors shall be paid on approved account.

§ 20
Pursuant to the Nominating Committee's proposal it was resolved to re-elect KPMG Bohlins AB as auditor, up to and including the annual general meeting to be held four years from election of the auditor.

§ 21
Pursuant to the Nominating Committee's proposal according to Appendix 16, it was resolved

that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2009 Annual General Meeting. The four largest shareholders are identified on the basis of their known numbers of votes immediately prior to publication;

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

§ 22
Pursuant to the Nominating Committee's proposal according to Appendix 17, it was resolved to adopt the Instructions for Swedish Match AB's Nominating Committee.

It was also noted that Conny Karlsson expressed the Board of Directors' and the Company's appreciation and acknowledgement to Sven Hindrikes for his effort as President and member of the Board.

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

Minutes checked by:	Minutes kept by:
Sven Unger Chairman	Fredrik Peyron

Patric Naeslund

Peter Lundkvist

Annual General Meeting of Swedish Match AB (publ)

The shareholders of Swedish Match AB are hereby notified of the Annual General Meeting of Shareholders to be held on Tuesday April 22, 2008 at 16:30 (CET) at Hotel Rival, Mariatorget 3, Stockholm, Sweden.

Agenda
1. Opening of the Meeting and election of the Chairman of the Meeting.
2. Preparation and approval of the voting list.
3. Election of one or two persons, who shall verify the Minutes.
4. Determination of whether the Meeting has been duly convened.
5. Approval of the Agenda.
6. Presentation of the Annual Report and the Auditors' Report, the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2007, the Auditors' Statement regarding compliance with the principles for the compensation of senior executives as well as the Board of Directors' motion regarding the allocation of profit and explanatory statements.
In connection therewith, the President's address and the Board of Directors' report regarding its work and the work and function of the Compensation Committee and the Audit Committee.
7. Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
8. Resolution in respect of allocation of the Company's profit in accordance with the adopted Balance Sheet and resolution on record day for dividend.
9. Resolution regarding discharge from liability for the Board members and the President.
10. a) Resolution regarding the reduction of the share capital by way of a recall of repurchased shares, and the transfer of the reduced amount to a fund for use in repurchasing the Company's own shares; and
b) Resolution regarding a bonus issue.
11. Resolution regarding the authorization of the Board of Directors to decide on the acquisition of shares in the Company.
12. Adoption of principles for determination of remuneration payable to senior executives.
13. Resolution regarding adoption of the 2008 stock option program.
14. Resolution regarding the issue by the Company of call options on treasury shares in the Company for the 2007 option program, as well as the right of the Company to transfer shares in the Company in conjunction with any exercise of the call options.
15. Determination of the number of Board members to be elected by the Meeting.
16. Determination of the remuneration to be paid to the Board of Directors.
17. Election of members of the Board, the Chairman of the Board and the deputy Chairman of the Board.
18. Determination of the number of auditors.
19. Determination of the remuneration to be paid to the auditors.
20. Election of auditors.
21. Resolution regarding the procedure for appointing members to the Nominating Committee and the matter of remuneration for the Nominating Committee, if any.

22. Adoption of Instructions for Swedish Match AB's Nominating Committee.

The proposals of the Nominating Committee appointed after the Annual General Meeting of Shareholders in 2007

Item 1: Sven Unger, attorney at law, is proposed as the Chairman of the Meeting.

Item 15: The Board of Directors shall comprise 7 members elected by the Annual General Meeting.

Item 16: It is proposed that the fees to the Board of Directors be paid as follows for the period until the close of the next Annual General Meeting: the Chairman shall receive 1.575 MSEK and the other Board members elected by the Meeting shall each receive 630,000 SEK. It is furthermore proposed that the Board, as remuneration for committee work carried out, be allotted 230,000 SEK to the Chairmen of the Compensation Committee and the Audit Committee respectively and 115,000 SEK respectively to the other members of these committees, although totaling no more than 920,000 SEK. It is proposed that members of the Board employed by the Swedish Match Group not receive any remuneration.

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

Item 18-20: The Nominating Committee proposes the re-election of KPMG Bohlins AB as auditor for four years and no deputy auditors. Remuneration to the auditor is proposed to be paid on approved account.

Item 21: The Nominating Committee proposes that the Chairman of the Board shall be given a mandate to contact the Company's four largest shareholders and ask them each to appoint one representative to form the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2009 Annual General Meeting. The four largest shareholders are identified on the basis of the known numbers of votes immediately prior to publication.

No remuneration shall be payable to the members of the Nominating Committee. Any expenses incurred in the course of the Nominating Committee's work shall be borne by the Company.

Item 22: The Nominating Committee proposes that the Meeting should adopt the Instructions for Swedish Match AB's Nominating Committee which are identical to those adopted by the 2007 Annual General Meeting.

The Board of Directors' motions

Item 8: The Board of Directors proposes that a dividend be paid to the shareholders in the amount of 3.50 SEK per share. The Board of Directors proposes that the remaining profits be carried forward, minus the funds that may be utilized for a bonus issue, provided that the 2008 Annual General Meeting passes a resolution in accordance with the Board of Directors' motion concerning a reduction of the share capital pursuant to item 10 a) below, as well as a resolution concerning a bonus issue in accordance with the Board of Directors' motion pursuant to item 10 b) below. The proposed record date for entitlement to receive a cash dividend is April 25, 2008. The dividend is expected to be paid through VPC AB (the Swedish Securities Register Center) on April 30, 2008.

Item 10 a): The Board of Directors proposes a reduction in the Company's share capital of 17,506,310.89 SEK by means of the withdrawal of 12 000 000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorization granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

Item 10 b): Provided that the Meeting passes a resolution in accordance with the Board's motions under item 10 a) above, the Board of Directors proposes an increase in the Company's share capital of 17,506,310.89 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's motions under item 10 a) above, the decision to reduce the share capital can be taken without obtaining the permission of the Swedish Companies Registration Office (Bolagsverket), or, in disputed cases, the permission of the court.

The effect of the Board of Directors' motion under item 10 a) entails a reduction in the Company's share capital of 17,506,310.89 SEK. The effect of the Board of Directors' motion under item 10 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

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

Item 11: The Board of Directors proposes that it be authorized to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding more than 10 percent of all shares in the Company, for a maximum amount of 3,000 MSEK. The shares shall be acquired on the OMX Nordic Exchange in Stockholm at a price within the price interval registered at any given time, i.e. the interval between the highest bid price and the lowest offer price. The purpose of the repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option program.

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

Item 12: The Board of Directors proposes that the 2008 Annual General Meeting adopt the following principles for determining remuneration and other terms of employment for the President and other members of the Group Management Team ("Principles").

The Board of Directors proposes that the Annual General Meeting adopt the following Principles for the determination of remuneration and other terms of employment for the President and other members of the Group Management Team, i.e. the President, the Divisional Managers and Senior Vice Presidents in charge of Group functions, who report directly to the President (hereinafter "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 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 adjusted 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 per cent of the fixed salary for the President and 40 per cent 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 per cent 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.

Item 13: The Board of Directors proposes that the Meeting approve the call option program for 2008. The call option program proposed by the Board for 2008 comprises a maximum of 75 employees (the President and other members of the Group Management Team included). Allotment of options in accordance with the program is based on the result of two mutually independent criteria:

- *firstly*, the average annual improvement in the Group's earnings per share during the period from 2006 to 2008 (i.e. 2006 in comparison with 2005, 2007 in comparison with 2006 and 2008 in comparison with 2007). Maximum allotment in accordance with this criterion shall occur if the average improvement during the three-year period is 20 percent or more. No allotment will be made if the average improvement is less than 5 percent;

- *secondly*, the result of the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2006 to 2008 in comparison with the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2005 to 2007. Of the maximum allotment in accordance with this criterion, 75 percent shall accrue if the return has remained unchanged and maximum allotment in accordance with this criterion shall accrue if the latest three-year average has increased by two percentage points or more in relation to the preceding three-year average. No allotment will be made in accordance with this criterion if the latest three-year average for the return is two percentage points lower than for the preceding period.

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

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

The market value of the options shall be determined by an independent valuation institute in accordance with a generally accepted valuation model (Black-Scholes). Employees domiciled in countries where the allotment of options constitutes a taxable benefit at the time of grant shall receive a cash payment from the Company equal to the maximum value of allotment and shall at a minimum purchase allotted options from the Company for an amount equal to such payment net after tax. For other employees the options shall be received without payment from the employees. The combined maximum value of the options allotted in accordance with the proposed option program for 2008 shall not exceed 51.7 MSEK. The options are freely transferable and are not conditioned on employment. The options can be exercised to acquire shares in the Company during the period March, 2012 up to and including February, 2014 and shall carry an exercise price corresponding to 120 percent of the average share price during a ten-day period after the published year-end report for 2008.

Commitments under the option program may be hedged by repurchasing shares in the Company and transferring such shares in conjunction with any demand for the redemption of the call options. Any resolution regarding the repurchase and transfer of shares in the Company and the issue of call options for the 2008 option program shall be taken by the 2009 Annual General Meeting. Ultimate allotment, based on the result for 2008, will be determined by the Compensation Committee at the time of the publication of the full-year report for 2008.

The Group Management Team (i.e. the President, Divisional Managers and Senior Vice Presidents in charge of Group functions reporting directly to the President) may be allotted call options with a value that corresponds to a maximum of 65 percent of the respective Group Management Team member’s fixed salary. This corresponds to a maximum allotment to the Group Management Team of call options with a value of approximately 19.2 MSEK, of which the President can be allotted options to a value corresponding to a maximum of approximately 4.2 MSEK. The other participants may collectively be allotted options with a maximum value of 32.5 MSEK.

It is estimated that maximum allotment of options, at a total value of 51.7 MSEK, will give rise to social security contributions of approximately 9.5 MSEK for the Swedish participants in the program. Taken as a whole, this may mean a charge of 61.2 MSEK against operating profit during the year the options are vested, provided that the options are issued by the Company.

The Board of Directors’ motion regarding the 2008 employee stock option program has been prepared by the Compensation Committee.

Item 14: According to the call option program for 2007, which was adopted by the Extraordinary General Meeting of December 2006, certain senior executives shall be allotted a minimum of 5,971 options and a maximum of 136 751 options per person. The options may be exercised for the purchase of shares during the period from March 2011 to February 2013 inclusive, at an exercise price of 172.68 SEK. The terms and conditions applying to the options were established on the basis of the average price of the Swedish Match share on the OMX Nordic Exchange in Stockholm during the period from February 20 to March 4, 2008 inclusive, which was 143.90 SEK. The market value of the options, calculated on the basis of conditions prevailing at the time when the terms and conditions applying to the options were established, has been established by an independent valuation institute to be 17.10 SEK per option, corresponding to a total maximum value of 27,237,752 SEK. The Board of Directors proposes that the Meeting resolve that the Company issue 1,592,851 call options to execute the option program for 2007. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer of 1,592,851 shares in the Company at a selling price of 172.68 SEK per share in conjunction with a potential exercise of the call options. The number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or another similar measure.

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

Documents

The Annual Report, the Auditors' Report, full details of the resolutions proposed under items 8, 10 a), 10 b), 11, 12, 13 and 14 as well as statements by the Board of Directors, pursuant to Chapter 18 Section 4 and Chapter 19 Section 22 of the Swedish Companies Act, and the statement by the auditors, pursuant to Chapter 8 Section 54 and Chapter 20 Section 14 of the Swedish Companies Act, will be made available at Swedish Match AB's headquarters (Legal Department) at Rosenlundsgatan 36 in Stockholm, Sweden, as of April 8, 2008. They will also be available on the Company's website, www.swedishmatch.com, on the same date. They can also be ordered from the Company.

Number of shares and votes in the Company

The total number of shares and votes in Swedish Match AB on the issue date of this notice amounted to 267,000,000. As per March 11, 2008 Swedish Match owns 12,313,000 repurchased shares and these shares can consequently not be represented at the Meeting.

Right to participate in the Meeting

Participation in the Meeting is limited to shareholders who both are registered in the register of shareholders maintained by VPC AB (the Swedish Securities Register Center) on April 16, 2008, and notify Swedish Match of their intention to participate no later than at 16:00 (CET) on April 16, 2008, at which time notifications to participate must have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also advise Swedish Match thereof within the appointed period of time.

Proxy form

Proxy forms are available upon request and on the Company's website www.swedishmatch.com.

Notice of participation

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

Proxy

Shareholders who are represented by proxy shall issue a power of attorney for the proxy. If the power of attorney is issued by a legal entity, a copy of the corporate registration certificate for the legal entity shall be enclosed (or if no such document is available, an equivalent authorization document). These documents may not be older than one year. To facilitate entry at the Meeting, the power of attorney in the original as well as the corporate registration certificate and other authorization documents should be received by the Company at the address provided above no later than Friday, April 18, 2008.

Share registration

Shareholders whose shares are nominee registered and who wish to participate in the Meeting must temporarily re-register the shares in their own name, known as voting right registration. Requests for re-registration should be submitted to the bank or broker who administers the shares in sufficient time to allow re-registration to take place no later than Wednesday, April 16, 2008.

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

Stockholm, March 2008

The Board of Directors

AGENDA
OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF SWEDISH MATCH AB
TUESDAY, 22 APRIL 2008, AT 4:30 PM

1. Election of Chairman of the Meeting.

2. Preparation and approval of the list of shareholders entitled to vote at the Meeting.

3. Election of one or two persons who, in addition to the Chariman, shall verify the minutes.

4. Determination of whether the Meeting has been duly convened and issues relating to attendance of the Meeting.

    Notice to attend the Meeting has been published in Post- och Inrikes Tidningar, Svenska Dagbladet and Dagens Industri on 18 March 2008 and on the Company's web site.

5. Approval of the Agenda.

6. Presentation of the Annual Report and the Auditors' Report and of the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2007, the Auditors' Statement regarding compliance with the principles for the compensation of senior executives as well as the Board of Directors' motion regarding the allocation of profit and explanatory statements.

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

7. Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.

8. Allocation of the Company's profit as shown in the Balance Sheet adopted by the Meeting.

9. The question of discharging the Members of the Board and of the President from liability.

10. a) The Board of Directors' proposal that the Company's share capital shall be reduced by way of a recall of repurchased shares, and that the reduced amount shall be transferred to a fund for use in repurchasing the Company's own shares; and

    b) the Board of Directors' proposed decision on a bonus issue.

11. The Board of Directors' proposal to authorise the Board of Directors to decide on the acquisition of shares in the Company.

12. Adoption of principles for determination of remuneration payable to senior executives.

13. Resolution regarding adoption of the 2008 stock option program.

14. The Board of Director's proposal regarding the issue by the Company of call options on treasury shares in the Company for the 2007 stock option programme, and the right of the Company to transfer shares in the Company in conjunction with any exercise of the call options.

15. Determination of the number of Board Members to be elected by the Meeting.

16. Determination of the remuneration to be paid to the Board of Directors, specifying the distribution between the Chairman and other Board Members and compensation for committee work.

17. Election of Members of the Board, the Chairman of the Board and the deputy Chairman of the Board.

18. Determination of the numbers of auditors.

19. Determination of the remuneration to be paid to the auditors.

20. Election of auditors.

21. The question of how members of the Nominating Committee shall be appointed and the question of remuneration to the Nominating Committee, if any.

22. Adoption of Instructions for Swedish Match AB's Nominating Committee.

Annual General Meeting 2008

Dear shareholders and honoured guests

2007 was yet another strong year for Swedish Match. The Group's sales increased in local currencies and, during the year, we have defended our strong position on the Scandinavian snuff market. In the United States, we have demonstrated strong growth for our snuff and gained further market shares, while we have advanced our positions on the cigar markets in the United States and Europe.

The investments made in recent years to strengthen Swedish Match as a leading company within the tobacco industry's niche products have resulted in a positive growth for you, the shareholders. The Board proposes a 40% increase in the dividend to SEK 3.50, equal to 45% of earnings per share.

During the past five years, the share price has performed well and in line with Affärsvärlden's general index. In 2007, we have seen the share price increase by 20%, clearly outperforming the index for the same period.

During the year, we have continued with our buy-back programme and, in total, shares have been bought back for SEK 2,453 million. The diagram shows the amounts in the form of dividends and buy-back which have been transferred to you, the shareholders, over a five-year period.

For a number of years we have been able to witness consolidation in the tobacco industry. In 2007, two major transactions were announced. The British company, Imperial Tobacco, purchased the Franco-Spanish company, Altadis, while Japan Tobacco bought the British company, Gallaher. In 2008, Altria, which is best known as Philip Morris, was split up into two companies: Altria, which operates on the American market, and Philip Morris International which conducts all tobacco operations outside the United States.

Seen in this context, we are a relatively small player participating in the consolidation of companies within the cigar product area.

The tobacco industry is increasingly characterised by various forms of regulation and restriction. We are meeting this challenge by ensuring that we are always at the forefront as regards product development and adaptation to consumer wishes. We are witnessing changing consumption patterns, and it becoming increasingly important to offer the customer the right product for the right occasion.

The prevailing prohibition on the sale of snuff within the EU remains in force. In February 2008, the EU's scientific committee presented an evaluation which clearly indicates the relative health advantages of snuff over cigarettes. There is presently no scientific basis for maintaining the prohibition on the sale of snuff.

In Sweden, the Government announced further tax increases on snuff and cigarettes during the year. Once again, the tax on snuff was increased more than that on cigarettes, which is entirely illogical from a public health perspective. Sweden has for a long time served as a model country as regards reductions in tobacco-related illnesses, with a switch over from cigarettes to snuff having played an important role. Today, the percentage of smokers in Sweden is among the lowest in the world.

Allow me now to comment briefly on the Group's results.

Last year was a good year for Swedish Match, despite the weak start to the year due to stockpiling pending the increase in tax on snuff in Sweden at the turn of last year.

Sales amounted to SEK 12,551 million, a decrease of 3% but unchanged in local currencies. Operating profit was SEK 2,997 million, which was 9% lower than last year. Earnings per share were SEK 7.82.

Contributory factors to the weaker result included, primarily, the effects of stockpiling in Sweden at the end of 2006, increased market investments and weaker US dollar. Some 40% of the Group's operating profit is generated in North America and we thus the ever-weaker dollar has had a strong negative impact on our results. As the effects of the stockpiling wore off during the year, the Group's earnings per quarter have improved gradually.

Allow me now to comment in brief on the various product segments.

Within the snuff product area, we enjoy a strong position in Scandinavia with growing markets in both Norway and within Tax Free. As you can see, volumes in Norway and also Tax Free are growing by 15-20% per year. We foresee continued positive volume growth on these markets in the coming years.

In Sweden, we are maintaining our strong position within the important premium segment, with a market share in excess of 97%. Our classic, strong brands such as General, Grovsnus, Ettan and Göteborgs Rapé continue to be the self-evident product of choice for most Swedish snuff users.

In the low-price segment we have strengthened our position through our Kronan brand. Our market share is almost 60%. The Swedish market declined in 2007 as a consequence of stockpiling and tax increases. In order to offset the volume reduction in Sweden, last year we carried out price increases during the second-half of the year. The full impact on earnings of these price adjustments will be felt during the current year.

We are continuing to engage in intensive product development for our Scandinavian markets, with the most recent additions being General Sterk and Vertigo. General Sterk is a stronger snuff for which there is demand in Norway, while Vertigo is primarily aimed at women.

In the United States, we are well-positioned on a strong growth market. During the year, our Longhorn brand was the fastest growing brand in the category. Our share of the American market increased in 2007 to 11.8%.

At the end of last year we began an extensive launch of Red Man Moist Snuff. This is a priceworthy snuff with a premium feel. The product has been well received by both the retail trade and consumers and we anticipate positive growth in the coming years.

Sales through the year amounted to SEK 3,289 million, a decline of 2.2%, and operating profit was SEK 1,366 million. The operating margin was 41.5%. Both sales and earnings were affected by the stockpiling at the beginning of the year and increased investment in product development and marketing. Earnings and margins improved significantly towards the end of the year.

A few words about cigars

During the year we have worked purposefully to strengthen our European and North American cigar operations. We carried out two strategic acquisitions: Bogaert Cigars in Belgium and Cigars International in the United States. Both of these companies fit in well with our strategy and position us in a growth sector.

With the acquisition of Bogaert, we have strengthened our position on the European market, primarily in the Benelux countries, France and Germany. Bogaert is a rapidly expanding cigar producer with cost-efficient manufacturing in Indonesia. Production and sales take place under its own brands, Bogart and Hollandia, as well as private label cigars.

On the North American market, we have strengthened our position through the acquisition of Cigars International, a rapidly growing distributor and retailer of premium cigars, with Internet and mail order sales.

On the European market, a number of new products were introduced to secure organic growth. Products introduced during the year include Moments, Heeren van Ruysdal Limited Edition and Hajenius de Dam and others.

The American market demonstrated stable growth as regards premium cigars, where we have been a market leader for many years, while machine-made cigars demonstrated somewhat weaker volume growth. In the premium segment, among other products we launched the exclusive Stradivarius cigar. As regards machine-made cigars, we introduced a new concept, Foil Fresh, which guarantees the freshness of the cigar for many months.

Sales last year reached SEK 3,411 million, which was an improvement of 6% in local currencies, but in Swedish kronor was in line with the preceding year. Operating profit fell somewhat to SEK 737 million, but increased by 2% in local currencies. The operating margin was 21.6%.

Swedish Match is the largest player on the American chewing tobacco market and we have retained our 45% market share. Volumes within the category are declining each year but, thanks to price adjustments, new products and strong brands such as Red Man and Southern Pride, chewing tobacco generated strong earnings also in 2007. Sales were down 10% to SEK 956 million, but up 2% in local currency. Earnings closed at SEK 312 million, with an operating margin of 32.7%.

Pipe tobacco

This is a category in which Swedish March is a leading global player. Thanks to the strong Borkum Riff brand and local brands such as Best Blend and Boxer in South Africa, Swedish Match has retained sound earnings and cash flow from this business.

Sales in 2007 amounted to SEK 851 million, with an operating profit of SEK 201 million. The weaker earnings are largely due to the costs of closing one of our plants in South Africa and weakness of the local currency, the rand.

A few words about lights

Within this category, too, Swedish Match is one of the world's leading producers and owns a number of strong brands throughout the world. Solstickan is the example best known to us Swedes, but Redheads in Australia, Fiat Lux in Brazil and Bryant & May in England are also well known and strong brands. Cricket is our global brand for quality lighters. Profitability has improved significantly since the restructurings carried out in recent years.

Sales amounted to SEK 1,473 million and operating profit to SEK 252 million. The operating margin was 17.1%.

If we look back over the past year for the Group as a whole, we can conclude that our strategic focus on organic growth, complementary acquisitions, productivity and efficient employment of capital has resulted in a continued positive development of the company. The Group's sales during the fourth quarter were at an all time high, which confirms that our growth enhancement measures and investments are generating positive results.

Allow me to conclude with a few words about the future.

We will continue to focus on the categories which have the greatest growth potential, namely snuff and cigars, and will do so primarily through product development, new products and a more consumer-oriented product portfolio.

As a result of this, we believe that the Group's underlying sales and operating profit are expected to increase compared with 2007.

On the Scandinavian market, the measures carried out are expected to result in improved margins and increased operating profit compared with the preceding year.

Within the snuff product area, we are planning for continued volume growth and an increased market share in the United States.

As regards the cigar product area, the acquisitions carried out in the United States and Europe last year will make a positive contribution to earnings.

Swedish Match is today a global group within the tobacco industry's niche segments, with high profitability, a strong product portfolio, sound governance and, first and foremost, skilled and loyal employees. It has been a real pleasure to take part in this ten-year journey and Swedish Match today stands well equipped for the future.

Thank you!

The Board of Directors' proposal under item 8 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

The Board of Directors proposes that a dividend be paid to the shareholders in the amount of 3.50 SEK per share. The Board of Directors proposes that the remaining profits be carried forward, minus the funds that may be utilised for a bonus issue, provided that the 2008 Annual General Meeting passes a resolution in accordance with the Board of Directors' proposal concerning a reduction of the share capital pursuant to item 10 a) below, as well as a resolution concerning a bonus issue in accordance with the Board of Directors' proposal pursuant to item 10 b) below.

The proposed record date for entitlement to receive a cash dividend is 25 April 2008. The dividend is expected to be paid through VPC AB (the Swedish Securities Register Center) on 30 April 2008.

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

Appendix 6

Statement by the Board of Directors pursuant to chapt. 18, §4 and chapt. 19, §22 of the Swedish Companies Act with regard to the dividend proposal submitted to the 2008 Annual General Meeting in respect of the 2007 financial year, and the Board's proposal regarding a mandate to buy back the Company's own shares.

Background

The Board of Directors has analyzed and evaluated the proposed dividend payment in respect of the 2007 financial year, and the proposed mandate in respect of the buy-back of the Company's own shares. The analysis has been based, among other things, on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis. The proposed dividend and exercise of share repurchases under the proposed mandate to buy back the Company's own shares have been assessed in view of the financial policy, including dividend policy, adopted for the Group by the Board of Directors. Please see the Directors' Report for a description of the financial policy and the dividend policy.

The nature, scope and inherent risks of the operations

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

The financial position of the Company and the Group

The financial position of the Company and the Group on 31st December 2007 are shown in the most recently published Annual Report. The consolidated shareholders' equity has been calculated in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and in accordance with Swedish law by applying the Swedish Financial Accounting Standards Council's recommendation, RR 30:06, Complementary accounting regulations for corporate groups. On 31st December 2007, the consolidated shareholders' equity amounted to SEK 724 million, SEK 40 million of which are attributable to the market valuation of assets and liabilities on the closing date. The Parent Company's shareholders' equity has been calculated in accordance with the same principles as for the Group, with exemptions and supplements by applying the Swedish Financial Accounting Standards Council's recommendation, RR 32:06, Reporting for legal entities. On 31st December 2007, it amounted to SEK 22,184 million. The amount includes market valuation of certain subsidiaries of SEK 18,294 million.

The Group's actual financial position differs from the financial position reported in the most recently published Annual Report in that the companies that make up the corporate Group own a number of assets with market values which exceed the reported values. Based on the closing price of the Swedish Match share on 31st December 2007, the market value of the Group's shareholders' equity was SEK 39,533 million.

As can be seen from the proposed allocation of profits, the Board proposes a dividend of SEK 3:50 per share. Given the number of outstanding shares on 31st December 2007, the total dividend payment is therefore SEK 896 million, corresponding to 4 per cent of the Parent Company's shareholders' equity and SEK 172 million higher than the Group's reported shareholders' equity. The ratio of the dividend to the market value of shareholders' equity of the Group on 31st December 2007 is 2 per cent.

The Board also proposes that the Annual General Meeting renew the Board's mandate to buy back shares in the Company for a maximum amount of SEK 3 billion, such that the Company holds a maximum of 10 per cent of its own shares. This amount corresponds to 14 per cent of the Parent Company's reported shareholders' equity after dividend payments and exceeds the Group's reported shareholders' equity after dividend payments by SEK 3.2 billion. If exercised in full, the buy-back program would correspond to just below 8 per cent of the market value of the Group's shareholders' equity on 31st December 2007.

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

The Group's interest coverage ratio, based on EBITA (earnings before financial items, adjusted for large non-recurring items, tax and amortization of intangible assets/net interest items) was 9.0 on 31st December 2007, and the net debt in relation to EBITA was 2.5.

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

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

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

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

Stockholm 19th February 2008

Conny Karlsson Chairman	Charles A. Blixt	John P. Bridendall	Andrew Cripps
Kenneth Ek	Arne Jurbrant	Eva Larsson	Joakim Lindström
Kersti Strandqvist	Meg Tiveus	Sven Hindrikes President	

Appendix 7

Unauthorized translation of Swedish original

Auditors´ report in accordance with Chapter 8 of the Swedish Companies Act (2005:551)

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

Corporate identity number 556015-0756

Introduction

We have audited whether the Board of Directors and the President of Swedish Match AB (publ) have complied with the guidelines for remuneration to Group Management during the period April 23 – December 31, 2007 which were approved by the annual general meeting of shareholders held on April 23, 2007. During the period January 1 – April 23, 2007 the same guidelines, adopted by the extraordinary general meeting of shareholders held on December 4, 2006, have applied. The Board of Directors and the President are responsible for compliance with these guidelines. Based on our audit, our responsibility is to express an opinion to the annual general meeting of shareholders as to whether the guidelines adopted by this meeting have been complied with.

The focus and scope of our audit

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

Opinion

In our opinion, the Board of Directors and the President of Swedish Match AB (publ) have, during the period April 23- December 31, 2007, in all material aspects, complied with the guidelines for remuneration to Group Management which were approved by the annual meeting of shareholders held on April 23, 2007.

Stockholm, March 10, 2008

KPMG Bohlins AB

Signature on Swedish original

Thomas Thiel
Authorized Public Accountant

Report of the Board of Directors

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

Swedish Match 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

	Net sales		Operating profit/loss	
MSEK	**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
Larger one time items:				
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**
Attributable to:		
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 Groups 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**
Attributable to:		
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:

		Average exchange rate January–December		Exchange rate on December 31	
Country	**Currency**	**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.

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.

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.

	External sales	
Revenue	**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		Share of profits of equity accounted investees		Total operating profit/loss	
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		Share of equity in associated companies		Total assets	
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.

Liabilities	2007	2006
	Liabilities and equity	
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 headquarted 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.

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.

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.

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 gender[1]):

	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:

	2007			2006		
MSEK	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:

	2007			2006		
MSEK	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

	2007			
TSEK	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
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**

	2006			
TSEK	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
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:

- 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: 3.75percent 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 alloted in 2008 to 67 participants. The exersice 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**

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	**2007**	**2006**	**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 indefinit 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 ownerships share.

2007	Country	Revenue	Earnings	Assets	Liabilities	Equity interest	Owner-ship %	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								
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 divestement was accounted for in the segment Other operations.

20. Equity

MSEK	Equity attributable to equity holders of the Parent: Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
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**

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	–	–	–
Curtailments	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

Fair value hedges	775	53	11	3,787	82	6
Hedged item	775	0	51	3,777	6	93

* Of which hedge accounting.

Cash flow risk in financing

Cash flow hedges	7,336	36	3	–	–	–

Currency risks

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

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

The consolidated income statement includes exchange rate 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 payble 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**

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 committments 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 theses 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	Ownership share, % 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	Ownership share, % 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 subsidaries	–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	Share Capital	Restricted reserve	Repurchase of own shares	Hedge reserve	Retained earnings, incl. profit for the year	Total equity
		Restricted equity		Unrestricted equity			
	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 activites			
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 renumeration 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 continious 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 (%)	2007	2006 (%)	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
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.

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

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.

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 liabilites	–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

The Board of Directors' proposal under items 10 a) and 10 b) on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

Item 10 a)
The Board of Directors proposes a reduction in the Company's share capital of 17,506,310.89 SEK means of the withdrawal of 12 000 000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorisation granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

Item 10 b)
Provided that the Meeting passes a resolution in accordance with the Board's proposals under item 10 a) above, the Board of Directors proposes an increase in the Company's share capital of 17,506,310.89 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's proposals under item 10 a) above, the decision to reduce the share capital can be taken without obtaining the permission of the Swedish Companies' Registration Office (Bolagsverket), or, in disputed cases, the permission of the court.

The effect of the Board of Directors' proposal under item 10 a) entails a reduction in the Company's share capital of 17,506,310.89 SEK. The effect of the Board of Directors' proposal under item 10 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

The Auditor's opinion, in accordance with Chapter 20, § 14 of the Swedish Companies Act, concerning this statement by the Board of Directors is enclosed in Appendix 2 A.

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

The Board of Directors' proposal under item 11 on the agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

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

The Board of Director's statement concerning the justification of the proposed mandate concerning a buy-back of the Company's own shares pursuant to chapter 19, § 22 of the Swedish Companies Act is enclosed in Appendix 3 A.

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

Previous buy-backs*

Year	2001	2002	2003	2004	2005	2006	2007
Number of repurchased shares	25 146 710	7 995 000	13 672 000	6 816 288	15 615 612	31 533 300	18 493 181
Holding at year-end	21 596 000	19 591 000	23 263 000	15 079 288	18 694 900	5 632 019	11 125 200
Holding at year-end as a percentage of total share capital	5.8%	5.4%	6.6%	4.5%	5.8 %	2.0 %	4,2%

* net after shares sold in conjunction with stock option programmes

The Board of Directors' proposal under item 12 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

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 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 per cent of the fixed salary for the President and 40 per cent 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 SEK 29,355. 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 per cent 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 undertakings not yet due besides what is evident from the Annual Report 2007.

The Board of Directors' proposal under item 13 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on April 22, 2008

Background

In 1999, the Board of Directors adopted a stock option programme in Swedish Match. The purpose of the option programme is to further increase the involvement of employees in the Company and their ownership of it, to attract and motivate employees within the Company, and to generate incentives for employees that coincide with the interests of the shareholders. Details of the options programmes have been provided in the Annual Reports for all of the years in question and at the General Meetings held between 2002 and 2007 and at the Extraordinary General Meeting in December 2006 where the 2007 programme was approved.

The allocation of options in the 2007 programme is based on two criteria, namely the improvement in earnings per share and the average return after tax on adjusted operating capital. The Board proposes, with regard to the 2008 programme, and as specified below, that the allocation of options be based on the same criteria as the 2007 programme.

Proposals by the Board of Directors:

The Board of Directors proposes that the Meeting approve the call option program for 2008. The call option program proposed by the Board for 2008 comprises a maximum of 75 employees (the President and other members of the Group Management Team included). Allotment of options in accordance with the program is based on the result of two mutually independent criteria:

- **firstly**, the average annual improvement in the Group's earnings per share during the period from 2006 to 2008 (i.e. 2006 in comparison with 2005, 2007 in comparison with 2006 and 2008 in comparison with 2007). Maximum allotment in accordance with this criterion shall occur if the average improvement during the three-year period is 20 percent or more. No allotment will be made if the average improvement is less than 5 percent;

- **secondly**, the result of the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2006 to 2008 in comparison with the average return after tax on operating capital, adjusted for accumulated amortization of intangible assets, during the years from 2005 to 2007. Of the maximum allotment in accordance with this criterion, 75 percent shall accrue if the return has remained unchanged and maximum allotment in accordance with this criterion shall accrue if the latest three-year average has increased by two percentage points or more in relation to the preceding three-year average. No allotment will be made in accordance with this criterion if the latest three-year average for the return is two percentage points lower than for the preceding period.

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

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

The market value of the options shall be determined by an independent valuation institute in accordance with a generally accepted valuation model (Black-Scholes). Employees domiciled in countries where the allotment of options constitutes a taxable benefit at the time of grant shall receive a cash payment from the Company equal to the maximum value of allotment and shall at a minimum purchase allotted options from the Company for an amount equal to such payment net after tax. For other employees the options shall be received without payment from the employees. The combined maximum value of the options allotted in accordance with the proposed option program for 2008 shall not exceed 51.7 MSEK. The options are freely transferable and are not conditioned on employment. The options can be exercised to acquire shares in the Company during the period March, 2012 up to and including February, 2014 and shall carry an exercise price corresponding to 120 percent of the average share price during a ten-day period after the published year-end report for 2008.

Commitments under the option program may be hedged by repurchasing shares in the Company and transferring such shares in conjunction with any demand for the redemption of the call options. Any resolution regarding the repurchase and transfer of shares in the Company and the issue of call options for the 2008 option program shall be taken by the 2009 Annual General Meeting. Ultimate allotment, based on the result for 2008, will be determined by the Compensation Committee at the time of the publication of the full-year report for 2008.

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

19.2 MSEK, of which the President can be allotted options to a value corresponding to a maximum of approximately 4.2 MSEK. The other participants may collectively be allotted options with a maximum value of 32.5 MSEK.

Costs

It is estimated that maximum allotment of options, at a total value of 51.7 MSEK, will give rise to social security contributions of approximately 9.5 MSEK for the Swedish participants in the program. Taken as a whole, this may mean a charge of 61.2 MSEK against operating profit during the year the options are vested, provided that the options are issued by the Company.

Preparation of the Board's decision

The Board of Directors' proposal regarding the 2008 employee stock option program has been prepared by the Compensation Committee.

Majority requirement

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

Previous options programmes

The options programmes for 2003-2006:

Year Earned/Allocated	No. company officials included	Options issued, expressed as the number of underlying shares	Outstanding options, expressed as the number of underlying shares, 10th March 2008	Redemption price[1)]	Value per option when issued[2)]	Value per option, 10th March 2008[3)]	Redemption period
2003/2004	57	865 259	751 975	84:80 SEK	10:00 SEK	55:45 SEK	01-03-2007-27-02-2009
2004/2005	47	661 871	661 871	99:75 SEK	10:80 SEK	40:50 SEK	03-03-2008-01-03-2010
2005/2006	52	523 817	523 817	127:10 SEK	13:20 SEK	13:15 SEK	02-03-2009-28-02-2011
2006/2007	59	931 702	931 702	145:50 SEK	19:90 SEK	-	01-03-2010-29-02-2012
Total		2 982 649	2 869 365				

Notes

1. Calculated as 120 per cent of the average most recent price paid for the company's share on the OMX Nordic Exchange in Stockholm over a period of ten banking days in conjunction with the announcement of the annual accounts.
2. Value calculated by an independent valuation institution in accordance with the Black-Scholes valuation model for options.

3. The value has been calculated as the difference between the redemption price and the most recent price paid for the company's share as of 10 March 2008, which was 140:25 SEK. No account has been taken of whether the options can currently be redeemed.

In addition to the options specified in the table above, the Board of Directors proposes under item 14 that the Annual General Meeting shall pass a resolution to the effect that the Company shall issue 1 592 851 stock options in accordance with the 2007 option programme. If these options are issued by the Company, the Company has a total of 4 462 216 outstanding options according to the stock option programmes for 2003 to 2007. Under item 14 the Board of Directors also proposes that the Company should deviate from the preferential rights of shareholders and be allowed to transfer 1 592 851 shares in the Company at a selling price of 172:68 SEK per share in the event of redemption of the call options being requested. The number of shares and the selling price of these shares may be recalculated due to a bonus issue, a consolidation or split of shares, a new share issue, a reduction in the share capital or other similar measures.

Allocation to the President[1] in accordance with the options programmes for 2003-2006:

Options programme	**2003**	**2004**	**2005**	**2006**	**Total**
No. options allocated	30 100	27 222	19 600	32 502	219 424

Notes

1 The options allocations for 2003 refer to options allocated to Lennart Sundén. Those from 2004 onwards refer to options allocated to Sven Hindrikes.

Allocation to other Group management officials in accordance with the options programmes for 2003-2006:

Options programme	**2003**	**2004**	**2005**	**2006**	**Total**
No. options allocated	252 000	127 590	132 532	142 390	1 231 243

Swedish Match's share capital is divided into 267 000 000 shares with a nominal value of 1:46 SEK per share. All shares carry one vote each. Repurchases have meant that as of March 10, 2008 the company held a total of 12,013,000 of its own shares, and the net number of outstanding shares is hence 254,987,000. Options issued relate, in the event of the options being exercised, to ring-fenced repurchased shares. The company has, between 2000 (incl.) and the present day, and in accordance with resolutions by the Annual General Meetings of the Shareholders of the Company, repurchased shares in the company in order, *inter alia*, to cover the allocation of options as part of the company's rolling options programme. The Board proposes, in item 11, that the 2008 Annual General

Meeting authorise the Board of Directors to acquire the company's own shares to a corresponding degree.

Dilution, etc.

On full exercise of options not redeemed on March 10, 2008 of all options issued in accordance with resolutions passed at the Annual General Meetings in 2003-2007, the number of outstanding shares, net after buy-backs, will increase as follows. The percentage change is based on the number of outstanding shares, as of March 10, 2008.

Options programme	2003	2004	2005	2006	Total
Increase in no. shares	751 975	661 871	523 817	931 702	2 869 365
Percentage increase	0.3%	0.3 %	0.2%	0.4%	1.1%

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

Option programme	2003-2006	2007	Total
Increase in number of shares	2 869 365	1 592 851	4 462 216
Percentage increase	1.1%	0.6%	1.7%

If all options issued in accordance with resolutions at the Annual General Meetings from 2003 until 2008 (and provided that the 2008 Annual General Meeting passes a resolution in accordance with the Board of directors´ motion in item 14 concerning issuing 1 592 851 call options to execute the option programme for 2007) are exercised, the number of outstanding shares (net after repurchases) will increase by 1.7 per cent. It is estimated that the above options programme in which the options will be earned in 2008 and allocated in 2009 will, if the maximum number of options are allocated and given an option price of 17:10 SEK in conjunction with the allocation, increase the number of outstanding shares (net after repurchases) by a further 1.4 per cent (provided that hedging is effected through the transfer of repurchased shares).

Calculated in accordance with the accounting standard of the International Financial Reporting Standards (IFRS) applying to earnings per share, options issued by the Company but not redeemed on December 31, 2007 a total dilution effect on earnings per share of 0:02 SEK per share (from 7:82 to 7:80 SEK), which is equivalent to 0.3 per cent. The options that may be issued in accordance with the 2008 programme also have a dilution effect on earnings per share to the extent that they are secured by repurchased shares.

The Board of Directors' proposal under <u>item 14</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

Over the period from 1999 to 2007, Swedish Match has implemented a rolling stock option programme whereby it has been possible to allocate call options on shares in the Company on an annual basis to a number of key Company employees if certain terms and conditons are met. The Board of Directors has resolved on allocation of the stock options and the Company's shareholders have, at each respective general meeting, resolved to issue call options relating to the Company's own shares to secure the Company's obligations. The general meeting has, provided that the meeting passed a resolution in accordance with item 13, also a resolution resolved on a corresponding programme for the year 2008.

The resolution under item 14 on the agenda concerns the question of whether the Company shall, in order to be in a position to honour the existing stock option programme for 2007, be entitled to issue the relevant call options itself and to transfer shares in connection with requests for the exercise of these call options. The alternative to such a procedure is to purchase options on the open market.

For the sake of order, it must be emphasised here that the shareholders' meeting shall not, under this item, adopt a position with regard to the stock option programme per se as the Company is bound by the general meeting's decision on the stock options programme for the year 2007.

According to the call option program for 2007, which was adopted by the Extraordinary General Meeting of December 2006, certain senior executives shall be allotted a minimum of 5 971 options and a maximum of 136 751 options per person. The options may be exercised for the purchase of shares during the period from March 2011 to February 2013 inclusive, at an exercise price of 172,68 SEK. The terms and conditions applying to the options were established on the basis of the average price of the Swedish Match share on the OMX Nordic Exchange in Stockholm during the period from February 20 to March 4, 2008 inclusive, which was 143,90 SEK. The market value of the options, calculated on the basis of conditions prevailing at the time when the terms and conditions applying to the options were established, has been established by an independent valuation institute to be 17,10 SEK per option, corresponding to a total maximum value of 27 237 752 SEK.

The stock option programme for 2007 covers 67 senior executives. The allocation of options was approved by the Compensation Committee in February 2008.

The Board of Directors proposes

The Board of Directors proposes that the Meeting resolve that the Company issue 1 592 851 call options to execute the option program for 2007. The Board of Directors further proposes that the Company, in a deviation from the preferential rights of shareholders, be permitted to transfer 1 592 851 shares in the Company at a selling price of 172,68 SEK per share in conjunction with a potential exercise of the call options. The number of shares and the selling price of the shares covered by the transfer resolution in accordance with this item may be recalculated as a consequence of a bonus issue of shares, a consolidation or split of shares, a new share issue, a reduction in the share capital, or another similar measure, in accordance with "Terms and conditions for call options, 2008/2013", Appendix 6 A.

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

Dilution etc.

Swedish Match's share capital breaks down into 267 000 000 shares with a quota value of 1,46 SEK per share. All shares carry one vote each. Via buy-backs, the Company has a holding on 10th March 2008 of a total of 12,013,000 of its own shares and the net number of outstanding shares therefore totals 254,987,000 shares. The intention is that the options issued will, when exercised, lead to the acquisition of these repurchased shares. Over the period starting in 2000 and lasting until now, the Company has, in accordance with decisions by the Company's shareholders' meetings, bought back shares in the Company with a view, among other things, to covering the allocation of options in the Company's rolling stock option programme. The Board of Directors proposes in item 11 that the 2008 Annual General Meeting should, with a corresponding purpose in mind, authorise the Board to decide on the acquisition of the Company's own shares.

If the stock options proposed for issue in connection with this item 14, following a resolution passed at the 2008 Annual General Meeting, are exercised, the net number of shares after repurchases will increase by 1 592 851, or 0,6 per cent calculated on the basis of the net number of outstanding shares.

The stock options issued have a potential dilution effect. Calculated in accordance with the recommendation of the International Financial Reporting Standards (IFRS) concerning earnings per share, the options issued by the Company and still not redeemed on 31 December 2007 had a combined dilution effect on earnings per share of 0.2 SEK per share (from 7.82 SEK to 7.80 SEK), which is equivalent to 0.6 per cent.

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

TERMS AND CONDITIONS FOR CALL OPTIONS 2008/2013 PERTAINING TO PURCHASE OF SHARES IN SWEDISH MATCH AB

§1

DEFINITIONS

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

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

§ 2

ACCOUNT-OPERATING INSTITUTE AND REGISTRATION

The maximum number of Call options is 1 592 851.

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

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

§ 3

RIGHT TO PURCHASE SHARES

The Holder shall have the right, but not the obligation, to purchase from the Company one share of the Company for each Call option at an exercise price of SEK 172.68 per share. The exercise price and the number of shares that may be purchased with each Call option may be adjusted in the cases described in § 7 below. Only the full number of shares to which the full number of Call options, which are registered via a given account-operating institute and which one and the same Holder wishes to exercise at the same time, carry rights, may be purchased. Such purchase shall exclude the excess portion of a Call option that cannot be exercised.

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

§ 4

PURCHASE OF SHARES

If the Holder wishes to exercise the Call option, the application to purchase shares must be made during the period from March 1, 2011 through February 28, 2013, or at a later final date or prior to an earlier final date for application to purchase that may be established in the cases described in § 7, Subsections C, D, E, L and M below. When such application is made, an application form duly filled out as prescribed shall, for purposes of registrations, be presented to the Bank. As soon as possible following receipt of such application, the Bank will prepare a settlement note between the Company and the Holder pertaining to the purchase of the shares specified in the application. An application to purchase is not possible to make and the Company is not obliged to transfer shares during such period when trading with shares in the Company is prohibited according to § 15 of the Act concerning reporting obligations for certain holdings of financial instruments (or other at each time prevailing legislation).

The application to purchase is binding and may not be withdrawn.

If the application to purchase is not made within the time period stated in the first paragraph above, all rights accruing to the Call options shall cease to be valid.

§ 5

PAYMENT IN CONNECTION WITH PURCHASE OF SHARES

Payment for shares that are purchased shall be made not later than the payment date set forth in the settlement note, but not later than five (5) Banking days after filing of application to purchase shares. The payment shall be remitted in cash to an account designated by the Bank. After full payment has been made and the Bank is in receipt of shares from the Company, the Bank shall ensure that the Holder is duly registered in the specified VP-account as the owner of the shares acquired through exercise of the Call options. The Holder shall pay any tax or fee that may be due in accordance with Swedish or foreign legislation, or the decisions of Swedish or foreign authorities as a consequence of the sale, holding or exercise of Call options.

§ 6

POSITION OF CALL OPTION HOLDERS

These terms and conditions do not give the Holders any rights that accrue to shareholders of the Company, such as voting rights or rights to dividends.

Holders are entitled to receive dividends on the shares they acquire in accordance with these terms and conditions, if the record date for payment of a dividend occurs not earlier than 10 Banking days after payment for the shares has been made.

§ 7

ADJUSTMENTS, ETC.

The following shall apply with respect to the rights that shall accrue to Holders in the situations described in this paragraph.

A. If the Company effects a bonus issue, effective on the date when the Company's shares are quoted without rights of participation in the bonus issue, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustments will be made by the Bank in accordance with the following formulas:

$$\text{adjusted number of shares that each Call option carries entitle to purchase} = \frac{\text{preceding number of shares that each Call option carries entitlement to x number of shares after bonus issue}}{\text{number of shares before bonus}}$$

$$\text{adjusted exercise price} \quad \frac{\text{preceding exercise price x number of shares prior to the bonus issue}}{\text{number of shares following the bonus issue}}$$

If the bonus issue consists of shares of a class other than the class to which the Call options applied when issued, the new shares and the original class of shares shall constitute valid and indivisible delivery in connection with exercise of the Call option.

B. If the Company effects a consolidation or a share split, a corresponding adjustment of the number of shares covered by the Call options, and of the exercise price, shall be made by the Bank in accordance with the same principles applied in adjustments for a bonus issue, as described in Subsection A.

C. If the Company issues new shares, with the shareholders having preferential rights to subscribe for the new shares to be paid for in cash, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustment will be made by the Bank in accordance with the following formula:

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the theoretical value of the subscription right calculated on the basis of this)}}{\text{Average price of the share}}$$

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share during the subscription period specified in the resolution authorizing the issue (average share price)}}{\text{Average share price increased by the calculated theoretical value of the subscription right}}$$

The average price shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the subscription period. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

The theoretical value of the subscription rights shall be calculated as follows:

Maximum number of new shares that may be issued as specified in the resolution authorizing the issue x the (average price of the share - the issue price of the new shares) value of subscription right = Number of shares prior to the resolution authorizing new shares

When calculating, using the formula above, shares held by the Company shall be disregarded. If the formula above results in a negative value, the calculated value of subscription rights shall be fixed at zero (0).

The adjusted number of shares and exercise price as calculated above is determined by the Bank two Banking days after expiration of the subscription period and shall be applied in purchases effected after such determination is made.

During the period from and including the day the shares are quoted ex-rights to participate in the new issue to and including the day the adjustment is determined, shares may not be purchased. If the final day for application to purchase falls during the subscription period, the final day is extended to the second trading day after expiration of the subscription period.

D. If the Company effects an issue in accordance with Chapter 14 or 15 of the Swedish Companies Act, with the shareholders having preferential rights to subscribe for in cash, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustment will be made by the Bank in accordance with the following formula:

Adjusted number of shares that each Call option carries entitlement to purchase	=	Preceding number of shares that each Call option carries entitlement to purchase x (the average price of the share increased by the theoretical value of the subscription right) ——— average price of the share

Preceding exercise price x average market price of the share during the subscription period specified in the resolution authorizing the issue

Adjusted exercise price = (average share price) / Average share price increased by the calculated theoretical value of the subscription right

$$\text{Adjusted exercise price} = \frac{\text{(average share price)}}{\text{Average share price increased by the calculated theoretical value of the subscription right}}$$

The average price is calculated in accordance with that stated in Subsection C.

The value of the subscription right shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the subscription period. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

The adjusted number of shares and exercise price as calculated above is determined by the Bank two Banking days after the expiration of the subscription period and shall be applied in purchases effected after such determination is made.

If application of purchase is made until the adjustment is made the last paragraph of Subsection C shall apply.

E. Should the Company, in cases other than those specified in Subsections A-C, make <u>an offering to the shareholders</u> giving the shareholders preferential rights, in accordance with Chapter 13, § 1 of the Swedish Companies Act, to acquire securities or rights of another type from the Company, or should the Company decide, in accordance with the above principles, to distribute such securities or rights without charge, an adjusted number of shares that may be purchased with a Call option and an adjusted exercise price shall be applied.

The adjustment will be made by the Bank in accordance with the following formula:

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share during the subscription period specified in the resolution authorizing the issue (average share price)}}{\text{Average share price increased by the}}$$

calculated theoretical value of the subscription right

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (the average price of the share increased by the theoretical value of the subscription right}}{\text{average price of the share}}$$

The average price of the share is calculated in accordance with that stated in Subsection C.

In the event that shareholders received purchase rights and trading with these has occurred, the value of the right to participate in the offering shall be considered to correspond to the value of the purchase right. In this respect, the value of the purchase right shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the application period. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

In the case that shareholders have not received purchase rights and/or such trading in purchase rights as referred to in the preceding paragraph has not occurred, adjustment of the exercise price shall be made by applying to the extent possible the principles stated above in Subsection E, whereby the following shall apply. If there is a listing of the securities or rights offered to shareholders, the value of the right to participate in the offering shall be considered to correspond to the average of the highest and lowest paid prices in transactions involving these securities or rights according to the official list of the Stockholmsbörsen each trading day during 25 days from and including the first day of the listing, in appropriate cases reduced by the consideration paid for these in conjunction with the offering. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation. In adjustment of the exercise price in accordance with this paragraph, the application period specified in the offering shall be considered to correspond to the 25 trading days stated in this paragraph. If such a listing does not occur, the value of rights to participate in the offering to the greatest extent possible shall be determined based on the change in market value regarding the Company's share which can be assessed to have arisen as a result of the offering.

The adjusted number of shares and exercise price calculated in accordance with the above by the Bank shall be determined as soon as possible after expiration of the offering and applied in all purchases effected after such determination is made.

During the application period specified in the offering, no shares may be purchased. Should the final day for application to purchase fall during the subscription period, the final day is extended to the first Banking Day after expiration of the subscription period.

F. Should the Company decide on a cash dividend to shareholders whereby they would receive dividends that, combined with other dividends paid during the same fiscal year, exceed three (3) percent of the average price of the share during a period of 25 trading days immediately preceding the day the Board of the Company announces its intention to submit a proposal to the General Meeting for such a dividend, an adjusted exercise price and an adjusted number of shares that may be purchased with a Call option shall be applied. The adjustment shall be based on that portion of total dividends that exceed three (3) percent of the average price of the share during the aforementioned period (Extraordinary dividend).

The adjustment will be made by the Bank in accordance with the following formula:

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share over a period of 25 trading days, calculated from and including the day the share is listed ex-rights to the extraordinary dividend (average share price)}}{\text{Average share price increased by the extraordinary dividend payment per share.}}$$

$$\text{Adjusted number of shares that each Call option carries entitlement to purchase} = \frac{\text{Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the extraordinary dividend per share)}}{\text{Average price of the share}}$$

The average price shall be considered to correspond to the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the aforementioned period of 25 trading days. In the absence of a quoted paid price, the final bid price shall be included in the calculation. Days during which neither paid prices nor bid prices are quoted shall not be included in the calculation.

The adjusted exercise price and adjusted number of shares as calculated above is determined by the Bank two Banking days after the expiration of the aforementioned 25 trading days and shall be applied in purchases effected after such determination is made.

G. Should the Company decide upon a partial demerger according to Chapter 24 of the Swedish Companies Act through which part of the assets and debts of the Company is taken over by one or more other companies without the dissolution of the Company, an adjusted exercise price and an adjusted number of shares that may be purchased with a Call option is applied. The adjustments shall be made by the Bank according to the following formulas:

$$\text{Adjusted exercise price} = \frac{\text{Preceding exercise price x average market price of the share over a period of 25 trading days, calculated from and including the day the share is listed ex-rights to the demerger payment (average share price)}}{\text{Average share price increased by the demerger payment per share}}$$

Preceding number of shares that each Call option carries entitlement to

$$\text{Adjusted number of shares each Call option carries entitlement to purchase} = \frac{\text{purchase x (average price of the share increased by the value of the demerger payment per share)}}{\text{Average price of the share}}$$

The average price shall be considered to correspond to the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the aforementioned period of 25 trading days. In the absence of a quoted paid price, the final bid price shall be included in the calculation.

In the event that shareholders received demerger payment is paid in the form of shares or other securities and trading with these has occurred, the value of the demerger payment shall be considered to correspond to the value of the demerger payment right. In this respect, the value of the demerger payment shall be the average of the highest and lowest paid prices according to the official list of the Stockholmsbörsen each trading day during the aforementioned period of 25 trading days. In the absence of a quoted paid price, the final bid price shall be included in the calculation.

In the event that shareholders received demerger payment is paid in the form of shares or other securities and trading in such rights as referred to in the preceding paragraph has not occurred, adjustment of the exercise price shall be made by applying to the extent possible the value of the demerger payment shall be established guided by the change in marker price for the share which can be judged as a consequence according to the demerger payment.

The adjusted exercise price and adjusted number of shares as calculated above is determined by the Bank two Banking days after the expiration of the aforementioned 25 trading days and shall be applied in purchases effected after such determination is made.

If application of purchase is made until the adjustment is made the last paragraph of Subsection C shall apply.

The Holders shall not be able to waive any right according to these terms to that or those companies taking over the assets and debts from the Company following a partial demerger.

H. Should the share capital of the Company be reduced through obligatory repayments to shareholders, an adjusted exercise price shall be applied, as well as adjustments of the number of shares to which each Call option is entitled to subscribe.

The adjustments will be made by the Bank in accordance with the following formula:

Adjusted exercise price	=	Preceding exercise price x average market price of the share over a period of 25 trading days, effective from the date of the reduction decision without entitlement to reduced value (average share price) ―――――――― Average share price increased by the repaid amount per share

Adjusted number of shares each Call option carries entitlement to purchase =	Preceding number of shares that each Call option carries entitlement to purchase x (average price of the share increased by the repaid amount per share) ―――――――― Average price of the share

The average price is calculated in accordance with that stated in Subsection C.

Adjustments as described above, and in which share value is reduced through redemption of shares, an estimated repayment amount, rather than the actual amount to be repaid per share, will be applied based on the following calculation:

Estimated repayment	Actual amount to be repaid per purchased share, less average trading price for shares over a period of 25 trading days, effective from the date of the issue decision without entitlement

amount per share = to reduced value (average share price) / total number of shares in the Company used as basis for purchase of one share, less the value of 1

The average price is calculated in accordance with that stated in Subsection C.

In accordance with the above, the adjusted exercise price and the adjusted number of shares will be established by the Bank two Banking days after the expiration of the aforementioned period of 25 trading days and shall be applied to purchases effected thereafter.

If the Company's share capital is reduced by a redemption of shares with repayment to shareholders, which is not obligatory and whereby, in the judgment of the Bank, as a result of the technical formulation and financial effects, is equivalent to an obligatory reduction of share capital, the Company shall adjust the exercise price and the number of shares to which every Call option is entitled to purchase so that, such adjustments shall correspond to the maximum extent possible with the principles in Subsection H above.

I. Should the Company repurchase shares through an offer to all shareholders in the Company and whereby, in the opinion of the Bank, such measure, taking into account its technical framework and economic effects, is comparable to a mandatory reduction of the share capital, the exercise price and the number of shares to which each Call option carries entitlement shall be adjusted corresponding to the maximum extent possible with the principles in Subsection H above.

J. Should the above stated adjustment rules for the exercise price and number of shares not give reasonable economic effects for the Holder in relation to the shareholder - as a result of the technical formulation of the measures adopted by the Company, according to Subsections A-I above, or for other reasons, the Bank shall - provided that the Board of Directors of the Company agrees - revise the adjustment rules so that a reasonable economic effect arises.

K. Adjustment shall not be such that it results in an increase of the exercise price or a reduction of the number of shares which the Call options entitle to purchase of in cases other than those described in Subsection B. In effecting the adjustment as described above, the exercise price shall be rounded off to the nearest ten öre, with five öre being rounded upward, and the number of shares being rounded off to two decimals.

L. Should the shares covered by the Call options become the object of compulsory redemption proceedings in accordance with Chapter 22 of the Swedish Companies Act, the Bank, in cases where the final day for application to purchase would occur later than 30 days following public announcement of the compulsory redemption, shall set a new final day for application to purchase that occurs prior to expiration of said period.

M. The provisions pertaining to compulsory redemption proceedings in Subsection L shall apply correspondingly if the Company approves an agreement for a merger, whereby the Company would become part of another company, or a demerger whereby all of the assets and debts of the Company is taken over by one or more other companies and the Company is then dissolved without a liquidation, or if a decision is made to liquidate the Company or declare the Company in bankruptcy. In such cases, the time period is calculated from the date of announcement of the decision to merge, demerge, liquidate or enter into bankruptcy.

§8

SPECIAL OBLIGATIONS OF THE COMPANY

Within a reasonable period of time, the Company is obliged to consult with the Bank before implementing such measures as specified in §7 above.

§9

REPURCHASE

The Company is obliged to repurchase the Call options if a formal offer to acquire all shares in the Company is to be completed.

The repurchase price for every Call option will correspond to the higher of

(i) the number of underlying shares per Call option, multiplied by the value of the payment offered in the formal acquisition offer per share, less the exercise price; and

(ii) average market value of the Call options, based on calculations performed by independent financial institutions appointed by the Company (and based on generally accepted calculation models) during a period of five trading days immediately prior to the announcement of the acquisition offer, using the same percentage of the offer premium in the formal acquisition offer regarding shares and calculation of their market value during the aforementioned period. The repurchase price shall be rounded off to the nearest 10 öre, with 5 öre rounded upward.

Repurchase is requested by sending a written request with a signed application on preprinted forms, which will be provided to all Holders following formal announcement of the offer to acquire all shares in the Company. The forms shall be submitted to the Company before the acceptance period for offer expires (including any extensions). Repurchase is effected on the date when it is announced that the acquisition offer will be completed, but not earlier than the first Banking day after the acceptance period expires (including any extensions). The Company shall prepare a settlement note as soon as possible after the effective date and remit cash payment for repurchase of the Call options.

§ 10

TRUSTEES

For Call options registered with trustees in accordance with legislation governing accounts for financial instruments, the trustee shall be considered the Holder in all applications of these terms and conditions.

§ 11

LIMITS OF LIABILITY OF THE BANK AND VPC

With respect to the actions incumbent on the Bank and VPC – and in the case of VPC, taking into account the provisions of the Share Accounts Act – the Bank and VPC cannot be held liable for loss due to Swedish or foreign legal decrees, actions by Swedish or foreign authorities, acts of war, strikes, blockades, boycotts, lockouts or other similar circumstances. The reservations with respect to strikes, blockades, boycotts or lockouts also apply if the Bank or VPC undertake, or are the objects of, such hostile measures.

Neither the Bank nor VPC is under obligation to provide compensation for loss arising in other situations, if the Bank and VPC has exercised normal prudence. In no case is the Bank liable for indirect damages.

If the Bank or VPC is hindered from taking action by circumstances such as those described in the first paragraph, the action may be deferred until the hindrance has ceased to exist.

§ 12

NOTICES

Notices pertaining to the Call options shall be provided to every registered Holder and other entitled holders registered in a VP-account.

§ 13

CONFIDENTIALITY

The Bank or VPC may not, without prior authorization, provide information on the Holder to a third party. The Company reserves the right to receive the following information from VPC about the Holder's account in the Company's register:

1. Holder's name, personal or organization number and postal address,
2. Number of Call options held.

§ 14

CHANGES IN TERMS AND CONDITIONS

The Company reserves the right to change these terms and conditions to clarify, revise or supplement regulations governing these terms and conditions in whatever manner is deemed necessary by the Company provided that such changes do not cause significant financial harm to the Holders. Furthermore, the Company reserves the right, without regard for eventual financial harm to the Holder, to change the terms and conditions if such changes are required by legislation, court decision or the decision of a public authority.

§ 15

APPLICABLE LAW

Swedish law is applicable to these terms and conditions and to related legal matters. Claims pertaining to the terms and conditions shall be filed with the Stockholm district court or such other forum whose authority is accepted by the Company.

The Nominating Committee's proposal under <u>item 17</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

The Nominating Committee proposes election of the Board of Directors according to the following:

Re-election of: Charles A. Blixt
Andrew Cripps
Arne Jurbrandt
Conny Karlsson
Kersti Strandqvist
Meg Tiveus

New election of Karen Guearra

The Nominating Committee further proposes that Conny Karlsson is elected as Chariman of the Board of Directors and Andrew Cripps is elected as deputy Chairman of the Board of Directors.

All proposed Board Members to be elected by the Annual General Meeting are considered to be independent in relation to the Company, the senior management and major shareholders of the Company.

<u>Presentation of proposed Board Members</u>

Conny Karlsson
Born 1955, Master of economics and business administration.
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.

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.

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.

Karen Guerra
Born1956. BSc.
Proposed Board member 2008.
Other Board assignments: Non Executive Director position of Inchcape PLC a leading independent, international automotive retailer and Non Executive advisor for RAC UK and France.
Previous positions: President of Colgate Palmolive SAS and General Manager of the French Branch of CPI LLC, Chairman and Managing Director of Colgate Palmolive UK Ltd., Pepsi-Cola International as Marketing Manager for Holland and Ireland.

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; Product Manager, Pripps Bryggerier; President's assistant, Pripps Bryggerier.

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).

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.

Additionally, the shareholders are informed that the employees' associations have, through special elections, appointed:

As members of the Board:	As deputy members of the Board:
Kenneth Ek, PTK	Eeva Kazemi-Vala, PTK
Eva Larsson, LO	Håkan Johansson, LO
Joakim Lindström, LO	Gert-Inge Rang, PTK

The Nominating Committee’s proposal under item 21 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 22 April 2008

The Nominating Committee proposes that the Chairman of the Board shall be given a mandate to contact the Company’s four largest shareholders and ask them each to appoint one representative to make up the Nominating Committee, together with the Chairman of the Board, for the period until a new Nominating Committee has been appointed in accordance with a mandate from the next Annual General Meeting. If any of these shareholders waives his or her right to appoint a representative, the next largest shareholder in terms of the number of votes shall be asked to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months prior to the 2009 Annual General Meeting. The four largest shareholders are identified on the basis of the known numbers of votes immediately prior to publication.

No remuneration shall be payable to the members of the Nominating Committee. Any expenses incurred in the course of the Nominating Committee’s work shall be borne by the Company.

INSTRUCTIONS FOR SWEDISH MATCH AB'S NOMINATING COMMITTEE ADOPTED AT THE ANNUAL GENERAL MEETING HELD ON 22 APRIL 2008

1. DUTIES

The Nominating Committee shall prepare and submit to the General Meeting proposals regarding:

(i) the election of the Chairman and other Members of the Board, and determination of the Directors' fees to be divided between the Chairman and other Members, and any remuneration for committee work,

(ii) the election of and payment of fees to auditors, when applicable, and

(iii) the election of a Chairman of the Annual General Meeting; and

The Nominating Committee shall prepare their proposals and present and explain them to the General Meeting, and shall give an account of the way in which this work has been carried out in accordance with the provisions of the Swedish Corporate Governance Code.

The Nominating Committee shall supply the company with information on the Nominating Committee, its work and proposals. The information shall be submitted in sufficient time and in such a way that the company is able to comply with its duty to provide information in accordance with the provisions of the Articles of Association, legislation, stock market regulations, the Swedish Corporate Governance Code, and other recommendations that may be deemed to constitute good practice in the Swedish stock market.

The Nominating Committee shall obtain information on the way in which the work of the Board of Directors has been evaluated and the results of such evaluations.

2. MEMBERS AND CHAIRMAN

The Nominating Committee shall comprise five members. The appointment of the Nominating Committee shall entail the Chairman of the Board of Directors, in line with the mandate from the Annual General Meeting, contacting the four largest shareholders in the company and asking them each to appoint a representative, to constitute, together with the Chairman of the Board, the Nominating Committee for the period until a new Nominating Committee is appointed in accordance with a mandate from the next Annual General Meeting. If any shareholder waives their right to appoint a representative, the shareholder who is the next largest owner, in terms of number of votes held, shall be offered the opportunity to appoint a representative. The names of the members of the Nominating Committee shall be published no later than six months before the subsequent Annual General Meeting. The determination of the identity of the four largest shareholders shall be based on the known number of votes held immediately before publication.

If one or more of the shareholders who have appointed members to the Nominating Committee ceases to be one of the four largest shareholders during the mandate period, the Nominating Committee shall decide whether it is necessary to replace the representative appointed by this shareholder. If this is to be done, the Chairman of the Board shall contact the shareholder or shareholders who are now among the four biggest shareholders and offer him/her/them the chance to appoint a representative to the Nominating Committee.

Members who cease to be employed by the shareholder by whom he/she has been appointed shall resign from the Nominating Committee if the shareholder deems it necessary and a replacement shall be appointed by the shareholder.

The Nominating Committee shall be entitled to co-opt members if deemed appropriate.

The Nominating Committee shall appoint a Chairman from their ranks. The Chairman shall not be a Member of the Board of Directors of the company.

3. **MEETINGS**

The Nominating Committee shall meet as often as is necessary to enable the Nominating Committee to carry out its duties, but shall meet a minimum of once a year. The first notice of a meeting, once the Nominating Committee has been appointed, shall be issued by the Chairman of the Board, and thereafter, by the Chairman of the Nominating Committee. If a member requests that the Nominating Committee be convened, the request shall be met.

The Nominating Committee is quorate if not less than three members are present. The decision of the Nominating Committee shall be the opinion that is supported by more than half of the members of the Nominating Committee.

Minutes shall be kept at the Nominating Committee’s meetings, the Minutes are to be signed or checked by the Chairman and the member designated by the Nominating Committee. The Minutes shall be kept and stored in the same way as the Minutes of the company’s Board Meetings.

4. **AMENDMENTS TO THESE INSTRUCTIONS**

The Nominating Committee shall evaluate these instructions, and the work of the Nominating Committee, on an ongoing basis, and shall submit to the General Meeting proposals regarding any changes to these instructions that the Nominating Committee has deemed appropriate.