

**MINUTES**

kept at the Annual General Meeting of Swedish Match AB (publ), Reg. No. 556015-0756, on May 4, 2017 in Stockholm

**§ 1**

The Chairman of the Board, Conny Karlsson, opened the Meeting.

Björn Kristiansson was elected as the Chairman of the Meeting.

It was noted that the secretary of the Board, Marie-Louise Heiman, was assigned to keep the minutes at the Meeting.

The Meeting resolved to not permit any audio and video recording, other than on behalf of the Company for internal use.

**§ 2**

The list of shareholders present was approved as the voting list, Appendix 1.

**§ 3**

Tomas Risbecker and Ossian Ekdahl were appointed to verify the minutes along with the Chairman of the Meeting.

**§ 4**

The secretary announced that the notice to the Annual General Meeting was published in Post- och Inrikes Tidningar on March 30, 2017, that the notice has been provided on the Company's website as from March 29, 2017 and that information in respect of the notice was published in Svenska Dagbladet on March 30, 2017.

The Meeting declared itself to have been duly convened.

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

**§ 5**

The Agenda, as set out in Appendix 3, was approved.

**§ 6**

The annual report and the auditors' report, the consolidated financial statements and the auditors' report on the consolidated financial statements for 2016, the auditors' opinion regarding compliance with the previously adopted principles for remuneration to the members of the executive management, Appendix 4, as well as the Board of Directors' proposal regarding the allocation of profit and motivated statement were presented, Appendices 5 and 6.

The President and the Chief Financial Officer gave accounts of the Company's operations and result during 2016.

The Chairman of the Board reported on the work of the Board of Directors and on the work and function of the Compensation Committee. The Chairman of the Audit Committee, Meg Tivéus, reported on the work and function of the Audit Committee,

the audit tender process and on remuneration for auditing and other work paid to Swedish Match's auditors in 2016.

The auditor in charge, Cronie Wallquist, KPMG AB, reported on the auditing work.

The shareholders were given the opportunity to ask questions. The questions 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, as presented in the annual report, Appendix 7.

**§ 8**

The Board of Directors' proposal according to Appendix 5 was presented.

It was resolved that the funds at the disposal of the Annual General Meeting shall be allocated by way of a dividend of 16:00 SEK per share to be paid to the shareholders, that the remaining profits be carried forward, and that the record day for the right to receive a cash dividend shall be May 8, 2017.

**§ 9**

It was resolved to discharge the members of the Board of Directors and the President from liability for the period January 1 – December 31, 2016.

It was noted that the decision was unanimous with the exception of 128 678 votes against which had been submitted in advance.

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

**§ 10**

Daniel Ovin, the Chairman of the Nominating Committee, reported on how the work of the Nominating Committee has been conducted.

Pursuant to the Nominating Committee's proposal, it was resolved that the Board of Directors, for the period until the next Annual General Meeting, shall consist of seven ordinary Board members and no deputies.

**§ 11**

The Nominating Committee's proposal as set out in Appendix 8 was presented.

Pursuant to the Nominating Committee's proposal, it was resolved that the Board of Directors, for the period up until the end of next Annual General Meeting, shall receive the following remuneration:

the Chairman shall receive 1,840,000 SEK, the Deputy Chairman shall receive 870,000 SEK and the other Board members shall each receive 735,000 SEK; and that

the Chairmen of the Compensation Committee and the Audit Committee shall each receive 260,000 SEK and the other members of these committees shall each receive 130,000 SEK. It was further resolved in accordance with the Nominating Committee's proposal.

**§ 12**

The Nominating Committees' proposal according to Appendix 9 was presented.

Pursuant to the Nominating Committee's proposal, it was, for the period up until the end of the next Annual General Meeting, resolved to re-elect Charles A. Blixt, Andrew Cripps, Jacqueline Hogerbrugge, Conny Karlsson, Wenche Rolfsen, and Joakim Westh as ordinary Board members, to elect Pauline Lindwall as new member of the Board, to re-elect Conny Karlsson as Chairman of the Board of Directors, and Andrew Cripps as Deputy Chairman of the Board of Directors.

It was noted that the employees' associations have, through special elections, appointed Eva Larsson (the Swedish Trade Union Confederation, LO), Patrik Engelbrektsson (the Swedish Trade Union Confederation, LO) and Dragan Popovic (the Swedish Federation of Salaried Employees in Industry and Services, PTK) as ordinary Board members, as well as Joakim Andersson (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.

**§ 13**

Pursuant to the Nominating Committee's proposal according to Appendix 10, it was resolved that the number of auditors shall be one with no deputy auditor.

**§ 14**

Pursuant to the Nominating Committee's proposal according to Appendix 10, it was resolved that the remuneration to the auditor is to be paid according to approved accounts.

**§ 15**

Pursuant to the Nominating Committee's proposal according to Appendix 10, it was resolved to elect the auditor company Deloitte AB as auditor for the period as of the end of the Annual General Meeting 2017 until the end of the Annual General Meeting 2019.

It was noted that Deloitte AB has informed the Company that Peter Ekberg will be the auditor in charge.

**§ 16**

The Board of Directors' proposal according to Appendix 11 was presented.

Pursuant to the Board of Directors' proposal according to Appendix 11, it was resolved to adopt the principles for remuneration to members of the executive management.

**§ 17 a)**

The Board of Directors' proposal according to Appendix 12 was presented.

Pursuant to the Board of Directors' proposal, it was resolved that the Company's share capital shall be reduced by 14,342, 422 SEK by means of withdrawal of 6,950,000 shares in the Company; and that the reduced amount shall be allocated to a fund to be used pursuant to a resolution adopted by the General Meeting.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

**§ 17 b)**

Pursuant to the Board of Directors' proposal, Appendix 12, it was resolved that the Company's share capital shall be increased by 14,342, 422 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue), whereby the share capital will be increased without issuing any new shares.

**§ 18**

The Board of Directors' proposal according to Appendix 13 was presented.

Pursuant to the Board of Directors' proposal, it was resolved to authorize the Board of Directors to resolve on acquisitions of the Company's own shares, on one or several occasions prior to the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company; and that the shares shall be acquired on Nasdaq 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 selling price).

The Board of Directors shall be able to resolve that purchase of own shares shall be made within a repurchase program in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"), if the purpose of the purchase only is to decrease the Company's equity.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

**§19**

The Board of Directors' proposal according to Appendix 14 was presented.

Pursuant to the Board of Directors' proposal, it was resolved to authorize the Board of Directors to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting. The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time.

Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner. In conjunction with the acquisition of companies or operations, transfer of own shares may be made with deviation from the shareholders' preferential rights and at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest selling price) at the time of the decision regarding the transfer and in accordance with the rules of Nasdaq Stockholm. Payment for shares transferred in this manner may be made in cash or through a non-cash issue or offsetting of claims against the Company, or on other specific terms.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

**§ 20**

The Board of Directors' proposal according to Appendix 15 was presented.

Pursuant to the Board of Directors' proposal, it was resolved to authorize the Board of Directors to resolve, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off.

The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2017. The subscription price shall be determined according to prevailing market conditions at the time the shares are issued.

It was noted that the resolution was supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting, and that the resolution thereby had been passed with requisite majority.

Aktiespararna expressed its reservation against the resolution.

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Minutes checked by:

Minutes kept by:

Björn Kristiansson  
Chairman

Marie-Louise Heiman

Tomas Risbecker

Ossian Ekdahl

### **Notice to the Annual General Meeting in Swedish Match AB (publ)**

The shareholders of Swedish Match AB (publ), Reg. No. 556015-0756, are hereby notified of the Annual General Meeting to be held on Thursday, May 4, 2017, at 15.30 CET at the cinema Skandia, Drottninggatan 82, Stockholm, Sweden.

#### **Agenda**

1. Opening of the Meeting and election of the Chairman of the Meeting.
2. Preparation and approval of the voting list.
3. Election of one or two persons to verify the minutes.
4. Determination of whether the Meeting has been duly convened.
5. Approval of the Agenda.
6. Presentation of the annual report and the auditor's report, the consolidated financial statements and the auditor's report on the consolidated financial statements for 2016, the auditor's opinion regarding compliance with the principles for remuneration to members of the executive management as well as the Board of Directors' proposal regarding the allocation of profit and motivated statement. In connection thereto, the President's and the Chief Financial Officer's speeches and the Board of Directors' report on its work and the work and function of the Compensation Committee and the Audit Committee.
7. Resolution on adoption of the income statement and balance sheet and of the consolidated income statement and consolidated balance sheet.
8. Resolution regarding allocation of the Company's profit in accordance with the adopted balance sheet and resolution on a record day for dividend.
9. Resolution regarding discharge from liability in respect of the Board members and the President.
10. Resolution regarding the number of members of the Board of Directors to be elected by the Meeting.
11. Resolution regarding remuneration to the members of the Board of Directors.
12. Election of members of the Board, the Chairman of the Board and the deputy Chairman of the Board.
13. Resolution regarding the number of auditors.
14. Resolution regarding remuneration to the auditor.
15. Election of auditor.
16. Resolution regarding principles for remuneration to members of the executive management.
17. Resolution regarding:
  - a. the reduction of the share capital by means of withdrawal of repurchased shares; and
  - b. bonus issue.
18. Resolution regarding authorization of the Board of Directors to resolve on acquisitions of shares in the Company.
19. Resolution regarding authorization of the Board of Directors to resolve on transfer of shares in the Company
20. Resolution regarding authorization of the Board of Directors to issue new shares.

#### **The Proposals of the Nominating Committee**

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

**Item 10:** The Board of Directors is proposed to consist of seven members and no deputies.

**Item 11:** Remuneration to the members of the Board of Directors is proposed to be paid as follows for the period until the next Annual General Meeting (2016 resolved remuneration within

brackets). The Chairman of the Board shall receive 1,840,000 SEK (1,750,000 SEK), the deputy Chairman shall receive 870,000 SEK (830,000 SEK) and the other Board members elected by the Meeting shall each receive 735,000 SEK (700,000 SEK). It is further proposed that the Board, as remuneration for committee work, be allotted 260,000 SEK (250,000 SEK) to each of the Chairmen of the Compensation Committee and the Audit Committee, and 130,000 SEK (125,000 SEK) to each of the other members of these committees.

**Item 12:** The following members of the Board of Directors are proposed for re-election for the period until the end of the Annual General Meeting 2018: Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Wenche Rolfsen and Joakim Westh. Meg Tivéus has declined re-election. Pauline Lindwall is proposed to be elected as a new member of the Board of Directors. Conny Karlsson is proposed to be re-elected as Chairman of the Board and Andrew Cripps is proposed to be re-elected as deputy Chairman of the Board.

**Item 13:** The number of auditors is proposed to be one and no deputy auditor.

**Item 14:** Remuneration to the auditor is proposed to be paid according to approved accounts.

**Item 15:** The auditor company Deloitte AB is proposed to be elected as auditor for the period until the end of the Annual General Meeting 2019.

### **The Proposals of the Board of Directors**

**Item 8:** The Board of Directors proposes an ordinary dividend of 8.50 SEK per share, and a special dividend of 7.50 SEK per share, in total 16.00 SEK per share, and that the remaining profits are carried forward. The proposed record day for the right to receive the dividend is May 8, 2017. Payment through Euroclear Sweden AB is expected to be made on May 11, 2017.

**Item 16:** The Board of Directors proposes that the 2017 Annual General Meeting adopts principles for remuneration and other terms of employment for members of executive management according to the following. Remuneration and other terms of employment shall correspond to market practice. In addition to the fixed salary, the members of the executive management may be entitled to variable remuneration. The variable remuneration may include an annual short term program to be paid out in the beginning of the following year, depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable remuneration, which shall be capped in relation to the fixed salary, shall primarily be based on specific, clear, predetermined and measurable financial or operational objectives. The variable remuneration may include an obligation to purchase and hold shares in the Company. The proposed principles are unchanged compared to the principles adopted by the 2016 Annual General Meeting. Full details on the proposed principles for remuneration and other terms of employment for the executive management and its application in 2017 are available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

**Item 17 a):** The Board proposes that the Annual General Meeting resolves to reduce the share capital by way of cancellation of own shares. The purpose of the reduction is allocation to unrestricted equity to be used as resolved by the Annual General Meeting in accordance with item b) below. The reduction of the share capital shall be made by cancellation of such own shares that are held by the Company three weeks prior to the Annual General Meeting. The reduction of the share capital may be made with no more than 16,509,262 SEK by way of cancellation of no more than 8,000,000 shares. The exact reduction amount and the exact number of shares proposed to be cancelled will be presented in the complete proposal, which will be held available no later than three weeks prior to the Annual General Meeting. The resolution to reduce the share capital under this item a) may be effectuated without obtaining an authorization from the Swedish Companies Registration Office or, in disputed cases, a court of general jurisdiction, as the Company simultaneously effectuates a bonus issue, as set out under item b) below, with an amount corresponding to no less than the amount the share capital is being

reduced with, as set out above. Combined, these measures entail that neither the Company's restricted equity nor its share capital is reduced.

**Item 17 b):** With the purpose of restoring the share capital after the proposed reduction of the share capital, as set out under item a) above, the Board proposes that the Annual General Meeting simultaneously resolves to increase the share capital by way of a bonus issue with an amount corresponding to no less than the amount the share capital is reduced with by way of cancellation of shares, as set out under item a) above. The bonus issue shall be carried out with the amount being transferred from equity without the issuance of new shares. The exact amount of the increase will be presented in the complete proposal, which will be held available no later than three weeks prior to the Annual General Meeting.

Resolutions by the Annual General Meeting in accordance with items 17 a)-b) above shall be adopted as a joint resolution and require approval by shareholders representing no less than two thirds of the votes cast as well as the shares represented at the Annual General Meeting. The Board further proposes that the Annual General Meeting authorizes the Board to make such minor adjustments to the above resolutions as may be required to file the resolutions with the Swedish Companies Registration Office or Euroclear Sweden AB and to take such other measures required to execute the resolutions.

**Item 18:** The Board of Directors proposes that it be authorized to resolve on acquisition of the Company's own shares, on one or several occasions prior to the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company. The shares shall be acquired on Nasdaq 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 selling price. The purpose of the repurchasing right is primarily to enable the Company to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 18 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

**Item 19:** The Board of Directors proposes that it be authorized to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting. The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time. Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner. In conjunction with the acquisition of companies or operations, transfer of own shares may be made with deviation from the shareholders' preferential rights and at a price within the price interval registered at any given time (*i.e.* the interval between the highest bid price and the lowest selling price) at the time of the decision regarding the transfer and in accordance with the rules of Nasdaq Stockholm. Payment for shares transferred in this manner may be made in cash or through a non-cash issue or offsetting of claims against the Company, or on other specific terms. The reason for the authorization and deviation from the shareholders' preferential rights is, where appropriate, to be able to transfer shares in conjunction with the financing of any company acquisitions and other types of strategic investments and acquisitions in a cost-efficient manner.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 19 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

**Item 20:** The Board of Directors proposes it be authorized to, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by



set-off. The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2017.. The reasons for the authorization and deviation from shareholders' preferential rights are that the Board wishes to increase the Company's financial flexibility and to allow the Company to issue common shares as payment in connection with acquisitions the Company might make. The subscription price shall be determined according to prevailing market conditions at the time the shares are issued.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 20 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.

### **Documents**

The annual report, the auditor's report, the auditor's opinion according to item 6 and full details of the proposals and statements regarding items 8, 16, 17 a) - b), 18, 19, and 20, will be made available at Swedish Match headquarters (Legal Department) at Sveavägen 44, in Stockholm, Sweden, no later than April 13, 2017. The documents will be sent to shareholders upon request, provided that such shareholder states its address. All the above documents will be available on the Company's website, [www.swedishmatch.com](http://www.swedishmatch.com) and be presented at the Annual General Meeting.

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

The total number of shares and votes in Swedish Match AB (publ) as per March 27, 2017 amounts to 188,750,000 of which 6,357,190 shares are repurchased own shares which may not be represented at the Meeting.

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

In order to participate in the Meeting you need to be registered as a shareholder in the share register kept by Euroclear Sweden AB on April 27, 2017. In addition, you need to notify Swedish Match of your intention to participate in the Meeting no later than April 27, 2017, at which time the notification shall have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also inform Swedish Match thereof within the appointed period of time.

### **Notice of participation**

Notice of participation may be submitted in writing to Swedish Match AB (publ), "Årsstämman", P.O Box 7842, SE-103 98 Stockholm, Sweden, by telephone at +46 (0)8 402 90 42 (09:00 – 16:00 CET), or via the Internet at [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm). Upon giving notice of participation, the shareholder shall state his or her name/company name, civic ID/corporate registration number, address, telephone number (daytime) and the name(s) of assistant(s), if any. Receipt of notification will be confirmed by Swedish Match, which will issue an attendance card prior to the Meeting to be presented at the entrance to the venue where the Meeting is held.

### **Proxy form**

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

### **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 such legal entity shall be enclosed (or if no such document is available, an equivalent authorization document). The proxy is valid for one year from the date of issuance or the longer period of validity stated in the proxy, however not longer than five years from the date of issuance. To facilitate entry at the Meeting, the power of attorney in original as well as the corporate registration certificate and other authorization documents, if any, should be provided to the Company at the address stated above no later than Tuesday May 2, 2017.

**Voting right registration**

Shareholders whose shares are nominee registered and who wish to participate in the Meeting must temporarily re-register such shares in their own name (i.e. voting right registration). Request for re-registration shall be submitted to the nominee in sufficient time to allow the re-registration to be effective at Euroclear Sweden AB no later than Thursday, April 27, 2017.

**Information at the Annual General Meeting**

The Board of Directors and the President shall, if any shareholder so requests and the Board of Directors considers that it may be done without significant harm to the Company, provide information regarding circumstances that may affect the assessment of an item on the Agenda, and circumstances that may affect the assessment of the Company's or its subsidiaries' financial position and the Company's relation to other companies within the Group.

The entrance to the venue for the Meeting will open at 14:30 (CET). Coffee will be served before the Meeting.

Stockholm, March 2017

SWEDISH MATCH AB (publ)  
*The Board of Directors*

**AGENDA**  
**OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF**  
**SWEDISH MATCH AB**  
**THURSDAY, 4 MAY 2017, AT 3:30 PM**

1. Election of Chairman of the Meeting.
2. Preparation and approval of voting list.
3. Election of one or two persons to verify the minutes.
4. Determination of whether the Meeting has been duly convened and issues relating to attendance of the Meeting.
5. Approval of the Agenda.
6. Presentation of the Annual Report and the Auditor's Report and of the Consolidated Financial Statements and the Auditor's Report on the Consolidated Financial Statements for 2016, the Auditor's Statement regarding compliance with the principles for remuneration to members of the executive management as well as the Board of Directors' motion regarding the allocation of profit and motivated statement.

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

7. Resolution on adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
8. Resolution regarding allocation of the Company's profit in accordance with the adopted Balance Sheet and resolution on a record day for dividend.
9. Resolution regarding discharge from liability in respect of the Board members and the President.
10. Resolution regarding the number of members of the Board of Directors to be elected by the Meeting.
11. Resolution regarding remuneration to the members of the Board of Directors, specifying the distribution between the Chairman and other Board Members and remuneration for committee work.
12. Election of members of the Board, the Chairman of the Board and the deputy Chairman of the Board.
13. Resolution regarding the number of Auditors.
14. Resolution regarding remuneration to the auditor.
15. Election of auditors.

16. Resolution regarding principles for remuneration to members of the executive management.
17. a) Resolution regarding the reduction of the share capital by way of a recall of repurchased shares, and that the transfer of the reduced amount to a fund to be used pursuant to a resolution adopted by the General Meeting; and  
b) Resolution regarding a bonus issue.
18. Resolution regarding authorization of the Board of Directors to resolve on acquisition of shares in the Company.
19. Resolution regarding authorization of the Board of Directors to resolve on transfer of the Company's own shares.
20. Resolution regarding authorization of the Board of Directors to resolve on issuing new ordinary shares



## **Auditor's opinion under Chapter 8 Section 54 of the Swedish Companies Act (2005:551) as to whether the guidelines of the annual general meeting on the remuneration of senior executives have been followed**

To the annual general meeting of Swedish Match AB (publ.), Corporate identity No 556015-0756

### **Introduction**

We have audited whether the Board of Directors and the Chief Executive Officer of Swedish Match AB (publ.) during the year 2016 have followed the guidelines on remuneration of senior executives adopted at the annual general meeting on 23 April 2015 and the annual general meeting on 28 April 2016.

### **Responsibility of the Board of Directors and the Chief Executive Officer**

The Board of Directors and the Chief Executive Officer are responsible for the guidelines being followed and for the internal control that the Board of Directors and the Chief Executive Officer deem necessary to ensure that the guidelines are followed.

### **Responsibility of the auditor**

Our responsibility is to issue an opinion, based on our audit, to the annual general meeting as to whether the guidelines have been followed. We have conducted the audit in accordance with FAR recommendation RevR 8 *Audit of remuneration of senior executives of listed companies*. This recommendation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the guidelines adopted by the annual general meeting are followed in all material aspects. The audit firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of Swedish Match AB accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The audit has covered the company's organization for and documentation of remuneration issues for senior executives, the new decisions on remuneration that have been taken and a selection of the payments made during the financial year to the senior executives. The auditor chooses what procedures are to be performed, in part by assessing the risk of the guidelines not being followed in all material aspects. In making those risk assessments, the auditor considers internal control relevant to compliance with the guidelines in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We believe that our audit provides a reasonable basis for our opinion set out below.

### **Opinion**

We consider that the Board of Directors and Chief Executive Officer of Swedish Match AB (publ.) during 2016 have followed the guidelines on remuneration of senior executives adopted at the annual general meeting on 23 April 2015 and the annual general meeting on 28 April 2016.

Stockholm 16 March 2017

KPMG AB

Cronie Wallquist

Authorized Public Accountant

**The Board of Directors' proposal under item 8 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

The Board of Directors proposes an ordinary dividend of SEK 8.50 per share, and a special dividend of SEK 7.50 per share, in total SEK 16 per share, and that the remaining profits are carried forward.

The proposed record day for the right to receive the dividend is May 8, 2017. Payment through Euroclear Sweden AB is expected to be made on May 11, 2017.

The Board of Directors' motivated statement concerning the justification of the proposed profit allocation in accordance with Chapter 18, § 4 of the Swedish Company Act, is enclosed in 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 2017 Annual General Meeting in respect of the 2016 financial year, and the Board's proposal regarding a mandate to repurchase the Company's own shares.**

### **Background**

The Board of Directors has analyzed and evaluated the proposed dividend payment, both the ordinary and the special dividend, in respect of the 2016 financial year, and the proposed mandate in respect of the repurchase 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 strategy, adopted for the Group by the Board of Directors. Please see the Directors' Report for a description of the financial strategy 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 as well as the notes to the financial statements. 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 December 31, 2016 is shown in the most recently published Annual Report. The consolidated shareholders' equity has been calculated in accordance with International Financial Reporting Standards (IFRS) adopted by the EU, and by applying RFR 1.2 Supplementary Accounting Rules for Groups issued by the Swedish Financial Reporting Board. The Parent Company's shareholders' equity has been calculated in accordance with the same principles as for the Group, with exemptions and supplements by applying the Swedish Financial Reporting Board's recommendation, RFR 2.1, Accounting for Legal Entities.

On December 31, 2016, the reported consolidated shareholders' equity was negative 1,366 MSEK, negative 110 MSEK of which is attributable to a hedge reserve. The consolidated unrestricted equity amount includes market valuations of certain financial investments of 1,062 MSEK. On December 31, 2016, the equity of the Parent company amounted to 18,434 MSEK whereof the unrestricted equity amounted to 18,044 MSEK. The amount includes market valuation of certain subsidiaries of 19,600 MSEK.

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, the market value of the Group's shareholders' equity was 53.5 bn SEK on December 30, 2016.

On December 31, 2016, 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 10.1x and the net debt in relation to EBITA excluding STG was 2.0x.

*The proposed dividend in relation to the financial position*

As can be seen from the proposed allocation of profits, the Board proposes an ordinary dividend of 8.50 SEK per share and a special dividend of 7.50 SEK. Given the number of outstanding shares on December 31, 2016 the total ordinary dividend payment is 1,570 MSEK and the special dividend 1,385 MSEK. As the Company is repurchasing shares, the total amount will be lower at the AGM.

The total dividend of 2,955 MSEK correspond to 16.0 percent of the Parent Company's shareholders' equity and lowers the Group's reported shareholders' equity by 2,955 MSEK. The ratio of the dividend to the market value of shareholders' equity of the Group on December 31, 2016 is 5.5 percent.

The Board also proposes that the Annual General Meeting gives the Board a mandate to buy back shares in the Company to the extent that the Company at any time holds a maximum of 10 percent of its registered shares. Assuming 18.000 million shares bought back at a price of 285 SEK total buy backs would amount to 5,130 MSEK. This amount corresponds to 33 percent of the Parent Company's reported shareholders' equity after proposed dividend payments and lowers the Group's reported shareholders' equity by 5,130 MSEK. If exercised in full, the buy-back program would correspond to about 10 percent of the market value of the Group's shareholders' equity on December 31, 2016.

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

*The proposed dividend in relation to liquidity*

Based on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis, the Board of Directors is of the view that the proposed dividend (special and ordinary) in combination with the mandate to repurchase shares 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 accompanying note to the Group's financial statements regarding financial instruments in the most recently published Annual Report.

Based on the same review, the Board is of the opinion that the proposed dividend and the buy-back do not jeopardize fulfillment of the investments deemed necessary.

*Summary*

The Board of Directors' is of the opinion that 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, February 16, 2017



Conny Karlsson  
Chairman of the Board



Andrew Cripps  
Deputy Chairman



Charles A Blixt  
Board Member



Patrik Engelbrektsson  
Board Member



Jacqueline Hoogerbrugge  
Board Member



Eva Larsson  
Board Member



Eva Norlén-Moritz  
Board Member



Wenche Rolfsen  
Board Member



Meg Tivéus  
Board Member



Joakim Westh  
Board Member

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# REPORT OF THE BOARD OF DIRECTORS

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

## Sales

Sales for the year were 15,551 MSEK (14,486). In local currencies, sales increased by 7 percent.

For the year, sales of *Snus and moist snuff* increased to 5,277 MSEK (5,090). In Scandinavia, shipment volumes increased by 2 percent. Swedish Match estimates that its underlying volumes (adjusted for trade destocking and hoarding) on the Scandinavian market increased by more than 1 percent and that the total market grew by approximately 4 percent on an underlying basis. In the US, sales revenues in local currency for moist snuff increased from improved pricing, despite marginally lower volumes. Snus and nicotine pouches in the US continued to deliver double digit growth.

For *Other tobacco products* (cigars and chewing tobacco), total sales for the year amounted to 4,283 MSEK (3,829). In local currency, sales for the year increased by 10 percent compared to the previous year, attributable to the strong performance for US cigars. Cigar volumes in the US increased by 17 percent and sales in local currency increased nearly in line with volumes. The volume growth was primarily attributable to natural leaf cigars but HTL cigars also experienced volume growth. For chewing tobacco, sales in local currency declined on lower volumes which were only partly com-

pensated by higher prices. Volumes (excluding contract manufacturing volumes) were down more than in recent years following some market share declines and a weak fourth quarter.

For *Lights* (matches, lighters and complementary products) sales for the year amounted to 1,314 MSEK (1,295). Sales increased, despite some volume declines for both matches and lighters, on good improvement for complementary products and some positive mix and price effects.

Sales in *Other operations* amounted to 4,676 MSEK (4,272). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

## Operating profit

Operating profit from product areas for the full year increased by 8 percent to 3,990 MSEK (3,690). In local currencies the operating profit from product areas also increased by 8 percent.

Operating profit for *Snus and moist snuff* amounted to 2,197 MSEK (2,071), with increased market related costs in Scandinavia partially offsetting the sales increase. Operating profit for moist snuff in the US increased in local currencies from improved pricing despite marginally lower volumes. Gross profit for snus and nicotine pouches without tobacco outside Scandinavia increased. The total net operating loss for snus and nicotine pouches outside Scandinavia decreased to 233 MSEK (337). The reduced net operating loss was partly due to the absence of costs for a dissolved joint venture.

Operating profit for *Other tobacco products* increased to 1,705 MSEK (1,554). In local currency, operating profit increased by 8 percent, also attributable to strong performance for US cigars. Operating profit for chewing tobacco in local currency was down

## Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2016	2015	2016	2015
Snus and moist snuff	5,277	5,090	2,197	2,071
Other tobacco products	4,283	3,829	1,705	1,554
Lights	1,314	1,295	219	190
Other operations	4,676	4,272	-132	-124
<b>Sales and operating profit from product areas</b>	<b>15,551</b>	<b>14,486</b>	<b>3,990</b>	<b>3,690</b>
Share of net profit in STG	-	-	176	360
<b>Total</b>	<b>15,551</b>	<b>14,486</b>	<b>4,166</b>	<b>4,050</b>
<i>Larger one-time items:</i>				
Sale of STG shares			1,208	-
Gain on fair value of STG shares			902	-
Sale of distribution facility			145	-
Costs for relocation of distribution facilities			-	-42
<b>Total larger one-time items</b>			<b>2,254</b>	<b>-42</b>
<b>Total</b>			<b>6,420</b>	<b>4,008</b>

## Summary of consolidated income statement

MSEK	2016	2015
Sales	15,551	14,486
Operating profit	6,420	4,008
Net finance cost	-431	-463
Taxes	-865	-742
<b>Profit for the year</b>	<b>5,123</b>	<b>2,803</b>
<i>Attributable to:</i>		
Equity holders of the Parent	5,123	2,803
Non-controlling interest	0	0
<b>Profit for the year</b>	<b>5,123</b>	<b>2,803</b>
Earnings per share, basic (SEK)	27.38	14.48

on lower volumes and also negatively impacted by investments related to chew bags outside of the US.

Operating profit for *Lights* for the year amounted to 219 MSEK (190). Operating profit increased by 15 percent, due to a much stronger performance for lighters from lower production and market support costs as well as a good performance for complementary products. Lower operating profit for matches partially offset the stronger performance in the other categories.

Operating loss for *Other operations* for the year was 132 MSEK (124).

The share of net profit in STG, after interest and tax, for the full year amounted to 176 MSEK (360). The decrease in Swedish Match's reported share of net profit in STG is affected by the decreased ownership and the comparison period being affected by a positive adjustment in the first quarter 2015. The fourth quarters for both 2016 and 2015 do not include any share of net profit in STG. The holding was reclassified to a financial asset following the partial divestment in September 2016, and the fourth quarter 2015 reflected the transition to a one quarter lag in Swedish Match's reporting for STG.

Operating profit for the full year included larger one-time items of 2,109 MSEK relating to capital gains from the partial divestments of STG and an unrealized gain from revaluing Swedish Match's remaining holding in STG to market value as well as 145 MSEK related to the sale of a distribution center. Operating profit for the full year 2015 included a larger one-time charge of 42 MSEK relating to the relocation of distribution facilities in Sweden. Operating profit, including larger one-time items and share of net profit in STG amounted to 6,420 MSEK (4,008). Operating margin from product areas for the year, excluding larger one-time items, was 25.7 percent (25.5). Operating margin, including share of net profit in STG and larger one-time items, was 41.3 percent (27.7).

### Scandinavian Tobacco Group

Until February 9, 2016, Swedish Match owned 49 percent (49 million shares) of Scandinavian Tobacco Group (STG). On February 10, 2016, STG was listed on Nasdaq Copenhagen and in conjunction with the listing Swedish Match sold 17.9 million shares, and divested another 13 million shares on September 7, 2016. Subsequently in January, 2017, Swedish Match divested another 9 million shares

which is commented on in the report as an event after the reporting period. Following the divestment in January, Swedish Match holds approximately 9.1 percent of the shares and votes in STG.

### Larger one-time items

In connection with the listing of STG, Swedish Match divested 17.9 million shares, at a price of 100 DKK per share. Swedish Match's proceeds, net of transaction costs, from the sale of STG shares in the listing amounted to 2,172 MSEK. The tax exempt capital gain from the partial divestment of STG in conjunction with the IPO amounted to 560 MSEK and was recognized as a larger one-time item in the first quarter 2016.

On September 7, 2016, Swedish Match divested another 13 million shares in STG at a price of 106 DKK per share. Swedish Match's proceeds, net of transaction costs, from the second sale of STG shares amounted to 1,752 MSEK. The tax exempt capital gain from this transaction amounted to 648 MSEK and was recognized as a larger one-time item in the third quarter 2016.

Following the September transaction, Swedish Match's ownership in STG corresponded to 18.1 percent of the total number of shares and votes in STG. As a result, Swedish Match has determined that equity accounting is no longer applicable and the remaining shareholding has been reclassified to a financial asset. At the time of reclassification, a tax exempt unrealized gain of 902 MSEK was recognized for the revaluation of the shareholding to market value, as a larger one-time item in the third quarter 2016.

SMD Logistics AB, a subsidiary of Swedish Match AB, reached an agreement on April 27, 2015, to sell its distribution facility in Solna, Sweden, and at the same time reached an agreement to acquire a new distribution center located in Kungsängen, Sweden. The sale of the distribution center in Solna was closed at the end of the first quarter 2016 for approximately 150 MSEK at which time a tax exempt capital gain of 145 MSEK was recognized as a larger one-time item. Restructuring costs of 42 MSEK related to the relocation of the distribution operations were recognized as a larger one-time item during the second quarter 2015.

### Net finance cost

Net finance cost for the year decreased to 431 MSEK (463), including a cost of 67 MSEK (32) relating to the repurchase of bond loans,

## Summary of consolidated balance sheet

MSEK	2016	2015
Non-current assets	8,387	9,871
Other current assets	3,584	3,220
Cash and cash equivalents	3,364	1,732
<b>Total assets</b>	<b>15,335</b>	<b>14,824</b>
Equity	-1,365	252
Non-current financial liabilities and provisions	3,149	3,105
Non-current loans	8,169	7,613
Current liabilities and provisions	3,334	3,201
Current loans	2,047	653
<b>Total equity and liabilities</b>	<b>15,335</b>	<b>14,824</b>

## Summary of consolidated cash flow statement

MSEK	2016	2015
Net cash from operating activities	2,929	3,768
Net cash from investing activities	3,408	-513
Net cash transferred to shareholders	-6,771	-3,318
Net cash from other financing activities	2,007	-605
<b>Net increase in cash and cash equivalents</b>	<b>1,573</b>	<b>-669</b>
Cash and cash equivalents at beginning of the year	1,732	2,312
Effects of exchanges rate fluctuations on cash and cash equivalents	59	90
<b>Cash and cash equivalents at end of year</b>	<b>3,364</b>	<b>1,732</b>

mainly maturing in 2017. Excluding the above mentioned costs for repurchases of bonds in both years, net finance costs have decreased due primarily to lower interest rates and higher interest income.

### Taxes

For the full year, the reported tax expense amounted to 865 MSEK (742), corresponding to a tax rate of 14.4 percent (20.9). The unusually low reported tax rate is a result of the tax exempt larger one-time items. Excluding these tax exempt items, associated companies and joint ventures, the tax rate was 24.3 percent (23.1). The earnings from associated companies and joint ventures are reported net after tax, and relate mainly to the share of earnings from STG.

### Earnings per share

For the full year, basic earnings per share amounted to 27.38 SEK (14.48), favorably impacted by the larger one-time items. Basic and diluted earnings per share for the year, excluding larger one-time items and share of net profit in STG, amounted to 14.39 SEK (12.79).

### Liquid funds

Cash and cash equivalents amounted to 3,364 MSEK at the end of the year, compared with 1,732 MSEK at the beginning of 2016. The cash position reflects the issuance of a public bond, net of bond repurchases. As of December 31, 2016, Swedish Match had 1,500 MSEK in unutilized committed credit lines.

### Financing and cash flow

Cash flow from operating activities for the year amounted to 2,929 MSEK (3,768). The cash flow from operating activities was lower in 2016 than in 2015 due to 625 MSEK of lower dividends received from STG and 466 MSEK of higher pension contributions. The lower dividends are due to Swedish Match's reduction in ownership in STG and that the dividends in 2015 included both an ordinary and a special dividend. Adjusted for dividends and pension contributions, the cash flow from operating activities increased by 252 MSEK. The pension contributions are tax deductible at the 2016 US corporate income tax rate.

The net debt as of December 31, 2016 amounted to 7,941 MSEK compared to 7,922 MSEK at December 31, 2015.

During the year, new bond loans of 3,365 MSEK were issued, of which a 300 MEUR public bond with maturity in 2024 was issued in September. A part of the proceeds from the issuance was used to repurchase 100 MEUR of the 2017 bond maturity via a public tender. In total, during the year, repayments of bond loans amounted to 1,618 MSEK. At December 31, 2016, Swedish Match had 9,854 MSEK of interest bearing debt excluding retirement benefit obligations compared to 8,064 MSEK at December 31, 2015. During 2017, 1,987 MSEK of this debt falls due for payment. Net post-employment employee benefit obligations decreased to 1,452 MSEK as of December 31, 2016, from 1,591 MSEK at December 31, 2015. The defined pension and benefit liability increased during the year, as a result of primarily lower discount rates and currency effects, mostly affecting the US plans, but due to larger than normal pension contributions, the net obligation decreased.

### Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 537 MSEK (491), affected by increased investments primarily in the cigar and snus businesses. Total investments in intangible assets increased to 129 MSEK (14) affected by an investment in patent rights for a nicotine pouch product without tobacco.

### Depreciations, amortizations and write-downs

During the year, total depreciation, amortization and write-downs amounted to 339 MSEK (317), of which depreciation and write-down on property, plant and equipment amounted to 286 MSEK (273) and amortization and write-down of intangible assets amounted to 53 MSEK (44).

### Dividend and financial policy

Excess funds shall be returned to shareholders through dividends and share repurchases. Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent of the earnings per share, subject to adjustment for larger one-time items.

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 of Directors' long term goal is to maintain a Standard & Poor's BBB and a Moody's Baa2 long term rating.

The Board of Directors proposes a total dividend of 16.00 SEK per share consisting of an increased ordinary dividend per share of 8.50 SEK (8.00) and a special dividend of 7.50 SEK. The proposed increased ordinary dividend of 8.50 SEK (8.00) is equivalent to 59 percent (56) of the earnings per share for the year, excluding larger one-time items. The special dividend of 7.50 SEK is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and following the partial divestment of STG in January 2017. The proposed ordinary and special dividend together amounts to 2,955 MSEK based on the 184.7 million shares outstanding at the end of the year. During 2016, the ordinary and special dividends totaled 5,522 MSEK.

### Number of shares

The Annual General Meeting on April 28, 2016 decided to authorize the Board of Directors to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company. In addition, in accordance with the resolution at the Annual General Meeting, 7.8 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 188.8 million shares with a quotient value of 2.0637 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy, 4.2 million shares were repurchased during the year for 1,249 MSEK at an average price of 294.33 SEK, following authorization from the Annual General Meetings held in 2016 and 2015. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted. Total shares bought back by Swedish Match since the buy-back programs started have been repurchased at an average price of 116.87 SEK. As per December 31, 2016 Swedish Match held 4.1 million shares in treasury, corresponding to 2.16 percent of the total number of shares. The number of shares outstanding, net after repurchases, as per December 31, 2016 amounted to 184.7 million. Through February 16, 2017, a further 0.7 million shares have been repurchased for 200 MSEK at an average price of 287.38 SEK.

The Board will propose to the Annual General Meeting in May 2017 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until next Annual General Meeting in 2018.

In addition, a proposal will be made to cancel up to 8.0 million shares held in treasury, including 0.7 million shares repurchased

after December 31, 2016, with a contemporaneous bonus issue without issuing new shares of an amount equivalent to the reduction of share capital through the cancellation of shares.

### Alternative Performance Measures

Swedish Match frequently presents measures of financial performance which complement measures that are defined or specified in the applicable financial reporting framework. The basis for presenting such measures, referred to as Alternative Performance Measures (APM's) are that they are used by management to evaluate the financial performance and are believed to give analysts and other stakeholders valuable information. A listing of APM's is presented on page 53 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

### Average number of Group employees

The average number of employees in the Group during the year was 5,070 compared with 4,488 for the full year 2015. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic.

### Corporate governance report

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corporate Governance Report instead of including the report in the Board of Director's report. The *Corporate Governance Report* is presented on page 111 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 117.

### Corporate Sustainability

Swedish Match is a manufacturer and marketer of well-known brands of tobacco products, non-tobacco pouch products, as well as lights and complementary products. Swedish Match endeavors to deliver sustainable and growing profits to its shareholders and to provide tangible benefits to society. Swedish Match has a vision of a world without cigarettes. Pursuing this vision represents both a commercial opportunity and a societal contribution. By providing products that are recognized as safer alternatives to cigarettes, the Company can contribute considerably to improved public health. From a total impact perspective, this is where the Company is likely to have the largest positive impact on society.

During the past year the Company has taken a new approach to efforts on sustainability. The aim has been and is to further clarify what is material to the Company as a whole and in the long term. The organizational approach to the issues has been changed to encourage cooperation and exchange across the Group. Risk and impact assessments for important sustainability issues have been conducted across units. The improved sustainability strategy emphasizes six areas – public health, business ethics, equal opportunity, child labor, greenhouse gases, and waste and emissions. The focus areas extend in different scopes across the Company's value chain. Managing the supply chain sustainably and a proactive engagement with suppliers is important to success and complements efforts within the focus areas.

The identified focus areas form the basis for a Group common roadmap. Extra efforts will be concentrated and external reporting on progress will be coordinated within these focus areas. Work within other sustainability areas relevant to the Company will continue based on a more decentralized approach. This includes, for example, maintaining high standards for operational health and

safety and emphasizing the wellbeing of company employees. Swedish Match's core values of Passion, Ownership, Innovation and Quality are a natural part of the way Swedish Match conducts business and are demonstrated in its relations with stakeholders, both internally and externally. The company's Code of Conduct represents the commitment of Swedish Match and of all employees to conduct business activities in a responsible manner, consistent with applicable laws and regulations. It applies to all employees within the Swedish Match Group, regardless of location or role. The Code is reviewed internally and approved by the Swedish Match Board of Directors annually. Swedish Match welcomes a continued active dialogue with stakeholders regarding its sustainability efforts.

### 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. Swedish Match considers that it is the Company's responsibility to actively work to map and reduce the negative environmental impact of the business throughout the entire value chain.

To support its environmental efforts, Swedish Match has adopted a Group Environmental Policy that encompasses all aspects of its operations. The policy is established to make sure that Swedish Match commits to continuous environmental improvements, working diligently toward the reduction and prevention of negative environmental impacts in its activities. The policy also ensures that the Group operates an Environmental Management System (EMS), which will safeguard that this commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental objectives and targets. Furthermore, the policy ensures that Swedish Match develops and communicates priority Key Performance Indicators (KPIs) for environmental factors, which are deemed to be of high importance by both Swedish Match and its stakeholders. The policy moreover ensures that the Company commits to comply with all relevant environmental legislation, regulations, and other requirements to which it subscribes. Also, the policy ensures that the Group commits to continual documentation and communication of any changes of environmental impact due to its activities, products, and services. Under the Group Environmental Policy, the Group will undertake appropriate remedial actions and improvements based on financial and environmental criteria.

The ten most significant of the Group's manufacturing facilities, with products accounting for more than 95 percent of Company sales of its own produced products, have management systems certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001.

### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2016. 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 a striking surface that are used in match production. These operations require a permit in accordance with the Environmental Protection Act. The permit is valid indefinitely. Noise levels, storage of timber and solvent emissions are regulated.

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

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

### Organization and personnel

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

The Group is dedicated to maintain its employee focus and their development in a performance driven culture. The Company actively works for developing the skills of both leaders and employees in order to strengthen the result oriented culture while contributing to the improvement and growth of the Company. The largest number of employees is in the Dominican Republic, Sweden, and the US followed by Brazil and the Philippines.

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

The human resource organization regularly coordinates and conducts a global employee survey to identify common improvement areas. The latest survey measured levels of employee engagement, satisfaction, and employer attractiveness. It also evaluated communication effectiveness and other areas critical to the performance of the Company, such as leadership, gender equality and management capabilities. The results from the surveys are shared with all employees and following the presentation of the results, employees and managers develop action plans together based on the survey results.

### 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 develop products and brands that resonate with changing consumer trends, and price and promote its brands competitively. Restrictions on advertising and promotion may, however, make it more difficult to counteract any loss of consumer loyalty. Competitors may develop and promote new products which could be successful, and could thereby have an adverse effect on Swedish Match results of operations.

Swedish Match has substantial sales in the US, with products sourced from local US production facilities and imports from Swedish Match's production facilities in the Dominican Republic and in Sweden. Swedish Match also has operations in Brazil, Norway and EMU member countries. Consequently, changes in import duties as well as in exchange rates of the euro, Norwegian krone, Brazilian real, the Dominican peso and in particular the US dollar 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.

Regulatory developments and fiscal changes related to the marketing, sale and consumption of tobacco products, as well as to tobacco, corporate income and other taxes, in the countries where the Group is operating may have an adverse effect on Swedish Match results of operations.

The Group is involved in legal and regulatory proceedings including pending lawsuits related to alleged injuries caused by tobacco

products. There can be no assurance that the Company's defenses will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Groups results of operations.

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

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

Currency transaction exposures are limited and therefore currency hedging is only done case-by-case. Swedish Match does not have any trading activities, i.e. take specific positions to gain on market fluctuations, in any financial instruments.

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

### Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 1,500 MEUR Global Medium Term Note Program and the 1,500 MSEK Revolving Credit Facility have clauses that can force the Company to pay back loans in a change of control situation. Some agreements with third parties in the Scandinavian tobacco distribution and sales businesses can be cancelled should there be a change of control of Swedish Match.

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

### Events following the close of the reporting period

On January 19, 2017, Swedish Match divested 9 million shares in STG at a price of 118 DKK per share. Swedish Match's proceeds, net of transaction costs, from this divestment amounted to 1,353 MSEK. Following the transaction, Swedish Match owns 9,069,906 shares, corresponding to approximately 9.1 percent of the total number of shares and votes in STG. Swedish Match has agreed to a 60-day lock-up undertaking on the remaining shares held in STG. The tax exempt capital gain from the January divestment amounts

to 131 MSEK and equals the difference between the price at divestment and the market value at reclassification in September less transaction costs and will be recognized in the first quarter 2017.

Swedish Match sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to approval of a changed city plan. This approval was received in January 2017, and Swedish Match has as a result received an additional payment in February 2017. The capital gain of 107 MSEK will be recognized in the first quarter 2017.

On February 8, 2017, the Swedish Patent and Market Court ruled that a labelling system used during parts of 2012 and 2013 for Swedish Match refrigerators was in breach of competition law, and imposed a fine of 38 MSEK plus legal fees. Swedish Match has appealed this decision.

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

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2017. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements. *Note 5 Personnel* sets out details of the remuneration and benefits of the GMT during 2016.

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

#### *1. Fixed salary*

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

#### *2. Variable salary*

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

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

#### *3. Profit Sharing System*

All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS"). For 2017 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

#### *4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident.

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

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

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

#### *6. Other benefits*

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

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

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

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

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

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

The Company has no previous undertakings not yet due besides what is evident from the Annual Report 2016.

### **Application of principles on variable salary for 2017**

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the GMT the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.



### 1. Short term variable salary

The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2017 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden shall be 70 percent of the 2017 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President. Accruals for short term variable salary objectives for GMT members for 2017 are estimated<sup>1)</sup> to range between 0 MSEK and 17 MSEK.

### 2. Long term variable salary

The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2017 base salary or 750 000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2017, but measured over the full performance period 2017–2019. The majority of the outcome is based on Group operating profit from product areas 2017–2019 and the remaining part is based on net sales excluding SMD Logistics AB for 2017–2019. For both measures an improvement compared to the 2016 outcomes is required for the measure to yield an outcome in the program.

Accruals for the GMT long term incentive programs are estimated<sup>1)</sup> to range between 0 MSEK below minimum level and 12 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in April 2016, see *Note 5 Personnel*.

## Outlook

For 2017, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to grow as measured in number of cans. In Scandinavia, we expect the growth to be more modest than in 2016. We expect the level of competitive activity in the Scandinavian snus market to continue to be high in 2017.

For cigars in the US, Swedish Match expects the market to continue to grow in 2017 but to remain highly competitive. Swedish Match has the ambition to continue to grow cigar volumes in the US market in 2017. Costs of goods per cigar are expected to increase due to both the full year effect of FDA fees as well as higher raw material costs. We expect the US chewing tobacco market to continue to decline.

Swedish Match will continue to invest in growth for snus and nicotine pouches outside Scandinavia in 2017. We expect continued growth in volumes and sales. Market related costs are expected to increase somewhat primarily related to the expansion of ZYN in the US market. Operating loss for snus and nicotine pouches outside Scandinavia is expected to be broadly in line with 2016 on a constant currency basis.

The effective corporate tax rate in 2017, excluding associated companies and non-taxable larger one-time items, is expected to be similar to 2016, assuming no changes to current tax regimes. There are currently general expectations that there will be a US corporate income tax reform. Due to the uncertain outcome and structure of such reform, Swedish Match makes no projections to whether the impact would be positive or negative for the Company.

The Company remains committed to returning cash not needed in operations to shareholder.

## Swedish Match AB (publ)

Swedish Match AB (publ) is the Parent Company of the Swedish Match Group. The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries.

Sales in the Parent Company for the full year amounted to 52 MSEK (40). Profit before income tax amounted to 4,260 MSEK (3,794) and net profit for year amounted to 4,041 MSEK (3,614). The higher net profit for the year mainly pertains to higher dividends from subsidiaries compared to the previous year.

During the year, the Parent Company received dividends of 3,395 MSEK (2,983), of which 856 MSEK (1,739) relate to a dividend in kind recognized at market value and net Group contributions of 2,179 MSEK (2,016). An impairment loss on shares in subsidiaries of 76 MSEK was recognized during the year as a result from liquidation of a subsidiary.

Higher administrative expenses during the year mainly relate to higher pension costs due to a decrease in the discount rate assumption applied in the valuation of pension obligations at year end. These higher pension costs are adjusted at Group level and reported as an actuarial loss in other comprehensive income.

Part of the Group's treasury operations are within the operations of the Parent Company including the major part of the Group's external borrowings. The majority of these loans have fixed interest rates.

During the year repayments of bond loans amounted to 1,618 MSEK and new bond loans of 3,365 MSEK were issued. During the year, the Parent Company made share repurchases of 4.2 million (7.5) shares for 1,249 MSEK (1,995). During prior year, 0.7 million treasury shares were sold for 141 MSEK.

Capital expenditures on tangible assets for the year amounted to 0 MSEK (2). No capital expenditures on intangible assets have been recognized during 2016 or 2015.

Dividends of 5,522 MSEK (1,464) have been paid during the year, including two special dividends of 2,258 MSEK and 1,758 MSEK relating to partial divestments of shares in STG.

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 9.06.

## PROPOSED DISTRIBUTION OF EARNINGS

As shown in the balance sheet of the parent company the following funds are available for appropriation by the Annual General Meeting:

Retained earnings including Hedge reserve	SEK	14,003,088,642
Profit for the year	SEK	4,041,276,555
	<b>SEK</b>	<b>18,044,365,197</b>

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

To the shareholders, a dividend of 16.00 SEK per share based on 184,672,687 shares outstanding at the end of 2016	SEK	2,954,762,992
Retained earnings to be carried forward	SEK	15,089,602,205
	<b>SEK</b>	<b>18,044,365,197</b>

The income statements and balance sheets will be presented to the Annual General Meeting on May 4, 2017 for adoption. The Board of Directors also proposes May 8, 2017 as the record date for shareholders listed in the Swedish Securities Register Center, Euroclear Sweden AB.

The Board of Directors and the President declare that the annual report was prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with accounting standards referred to in Regulation (EG) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual report and the consolidated accounts give a true and fair view of the position and earnings of the Parent Company and the Group.

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

Stockholm, February 16, 2017

Conny Karlsson  
Chairman of the Board

Charles A. Blixt  
Board member

Andrew Cripps  
Deputy Chairman

Patrik Engelbrektsson  
Board member

Jacqueline Hoogerbrugge  
Board member

Eva Larsson  
Board member

Eva Norlén-Moritz  
Board member

Wenche Rolfsen  
Board member

Meg Tivéus  
Board member

Joakim Westh  
Board member

Lars Dahlgren  
President and CEO

Our auditor's report was submitted on March 16, 2017

KPMG AB

Cronie Wallquist  
Authorized Public Accountant

## CONSOLIDATED INCOME STATEMENT

MSEK	Note	2016	2015
Sales, including tobacco tax		28,482	27,438
Less tobacco tax		-12,932	-12,952
<b>Sales</b>	3	<b>15,551</b>	<b>14,486</b>
Cost of goods sold		-8,325	-7,697
<b>Gross profit</b>		<b>7,226</b>	<b>6,789</b>
Selling expenses		-2,335	-2,177
Administrative expenses		-892	-890
Other operating income and expenses	4	-12	2
Share of profit in associated companies and joint ventures	14	180	327
Sale of STG shares	14	1,208	-
Gain on fair value of STG shares	15	902	-
Sale of distribution facility	31	145	-
Costs for relocation of distribution facilities		-	-42
<b>Operating profit</b>	3, 5, 6, 7, 22, 27	<b>6,420</b>	<b>4,008</b>
Finance income		53	22
Finance costs		-484	-486
<b>Net finance cost</b>	8	<b>-431</b>	<b>-463</b>
<b>Profit before income tax</b>		<b>5,988</b>	<b>3,545</b>
Income tax expense	9	-865	-742
<b>Profit for the year</b>		<b>5,123</b>	<b>2,803</b>
<i>Attributable to:</i>			
Equity holders of the Parent		5,123	2,803
Non-controlling interests		0	0
<b>Profit for the year</b>		<b>5,123</b>	<b>2,803</b>
Earnings per share, SEK	10		
Including larger one-time items		27.38	14.48
Including larger one-time items and excluding STG		26.44	12.62
Excluding larger one-time items and STG		14.39	12.79

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	Note	2016	2015
<b>Profit for the year</b>		<b>5,123</b>	<b>2,803</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	20	558	-137
Translation differences included in profit and loss	20	-143	44
Effective portion of changes in fair value of cash flow hedges	20	-81	86
Changes in cash flow hedges reclassified to profit and loss	20	16	8
Share of other comprehensive income in associated companies and joint ventures	20	-20	260
Share of other comprehensive income in associated companies and joint ventures included in profit and loss	20	-509	-
Change in fair value of STG shares	20	310	-
Income tax relating to reclassifiable components of other comprehensive income	9	14	-21
<b>Subtotal, net of tax for the period</b>		<b>144</b>	<b>241</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains and losses attributable to pensions, incl. payroll tax		-150	395
Share of other comprehensive income in associated companies and joint ventures		-2	7
Income tax relating to non-reclassifiable components of other comprehensive income	9	39	-155
<b>Subtotal, net of tax for the period</b>		<b>-113</b>	<b>248</b>
<b>Other comprehensive income, net of tax for the period</b>		<b>32</b>	<b>489</b>
<b>Total comprehensive income for the year</b>		<b>5,155</b>	<b>3,292</b>
<i>Attributable to:</i>			
Equity holders of the Parent		5,155	3,292
Non-controlling interests		0	0
<b>Total comprehensive income for the year</b>		<b>5,155</b>	<b>3,292</b>

## CONSOLIDATED BALANCE SHEET

MSEK	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
Intangible assets	11	1,250	1,048
Property, plant and equipment	12	2,392	2,130
Forest plantations	13	150	110
Investments in associated companies and joint ventures	14	122	4,845
Other non-current financial assets	15	2,761	-
Other non-current receivables	16	774	721
Deferred income tax assets	9	938	1,018
<b>Total non-current assets</b>		<b>8,387</b>	<b>9,871</b>
Inventories	17	1,541	1,378
Trade receivables	18	1,539	1,547
Prepaid expenses and accrued income		82	104
Income tax receivables		205	38
Other current receivables	16	216	153
Cash and cash equivalents	19	3,364	1,732
<b>Total current assets</b>		<b>6,948</b>	<b>4,952</b>
<b>TOTAL ASSETS</b>		<b>15,335</b>	<b>14,824</b>
<b>Equity</b>			
	20		
Share capital		390	390
Reserves		982	837
Retained earnings		-2,737	-976
<b>Equity attributable to equity holders of the Parent</b>		<b>-1,366</b>	<b>251</b>
Non-controlling interests		1	1
<b>TOTAL EQUITY</b>		<b>-1,365</b>	<b>252</b>
<b>Liabilities</b>			
Loans and borrowings	21, 26	8,169	7,613
Other liabilities	24	118	212
Provision for pensions and similar obligations	22	1,542	1,682
Other provisions	23	572	456
Deferred income tax liabilities	9	917	755
<b>Total non-current liabilities</b>		<b>11,318</b>	<b>10,718</b>
Loans and borrowings	21, 26	2,047	653
Trade payables		686	602
Income tax liabilities		151	78
Other liabilities	24	1,527	1,659
Accrued expenses and deferred income	25	854	715
Provisions	23	116	147
<b>Total current liabilities</b>		<b>5,382</b>	<b>3,854</b>
<b>TOTAL LIABILITIES</b>		<b>16,700</b>	<b>14,572</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,335</b>	<b>14,824</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2015	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	20	<b>390</b>	<b>597</b>	<b>-709</b>	<b>277</b>	<b>1</b>	<b>279</b>
Profit for the year		-	-	2,803	2,803	0	2,803
Other comprehensive income, net of tax <sup>1)</sup>		-	241	248	489	0	489
<b>Total comprehensive income</b>		<b>-</b>	<b>241</b>	<b>3,051</b>	<b>3,292</b>	<b>0</b>	<b>3,292</b>
Dividend		-	-	-1,464	-1,464	-	-1,464
Repurchase of own shares		-	-	-1,995	-1,995	-	-1,995
Stock options exercised		-	-	141	141	-	141
Cancellation of shares		-8	-	8	0	-	0
Bonus issue		8	-	-8	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>837</b>	<b>-976</b>	<b>251</b>	<b>1</b>	<b>252</b>

2016	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	20	<b>390</b>	<b>837</b>	<b>-976</b>	<b>251</b>	<b>1</b>	<b>252</b>
Profit for the year		-	-	5,123	5,123	0	5,123
Other comprehensive income, net of tax <sup>1)</sup>		-	144	-113	31	0	32
<b>Total comprehensive income</b>		<b>-</b>	<b>144</b>	<b>5,010</b>	<b>5,155</b>	<b>0</b>	<b>5,155</b>
Dividend		-	-	-5,522	-5,522	0	-5,523
Repurchase of own shares		-	-	-1,249	-1,249	-	-1,249
Cancellation of shares		-15	-	15	0	-	0
Bonus issue		15	-	-15	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>982</b>	<b>-2,737</b>	<b>-1,366</b>	<b>1</b>	<b>-1,365</b>

<sup>1)</sup> Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to the Group's defined pension plans and the Group's share of actuarial gains and losses in associated companies and joint ventures, net after payroll and income taxes, in an amount of -113 MSEK (248).

## CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	2016	2015
<b>Operating activities</b>	31		
Profit before income tax		5,988	3,545
Share of net profit/loss in associated companies and joint ventures		-180	-327
Dividends received from associated companies		192	824
Adjustments for other non-cash items and other		-2,338	412
Income tax paid		-693	-724
<b>Cash flow from operating activities before changes in working capital</b>		<b>2,969</b>	<b>3,730</b>
<b>Changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		-74	1,110
Increase (-)/ Decrease (+) in operating receivables		62	-45
Increase (+)/ Decrease (-) in operating liabilities		-28	-1,027
<b>Net cash generated from operating activities</b>		<b>2,929</b>	<b>3,768</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		-537	-491
Proceeds from sale of property, plant and equipment		190	17
Purchase of intangible assets		-129	-14
Acquisition of subsidiaries		-	0
Divestments in associated companies and joint ventures		3,908	-
Investments in associated companies and joint ventures		-5	-25
Changes in financial receivables, etc.		-20	0
<b>Net cash from investing activities</b>		<b>3,408</b>	<b>-513</b>
<b>Financing activities</b>			
Proceeds from non-current borrowing		3,366	798
Repayment of borrowings		-1,618	-1,435
Repurchase of own shares		-1,249	-1,995
Stock options exercised		-	141
Dividend paid to equity holders of the Parent		-5,522	-1,464
Other		259	31
<b>Net cash used in financing activities</b>		<b>-4,764</b>	<b>-3,924</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,573</b>	<b>-669</b>
Cash and cash equivalents at the beginning of the year		1,732	2,312
Effect of exchange rate fluctuations on cash and cash equivalents		59	90
<b>Cash and cash equivalent at end of year</b>		<b>3,364</b>	<b>1,732</b>

# NOTES FOR THE GROUP

## 1 Accounting principles

All amounts referred to in the notes of the Group financial statements are in millions of Swedish kronor (MSEK) unless otherwise stated. The amounts within brackets refer to the preceding year, 2015.

### Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee, approved by the European Commission for application within the EU. In addition, RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Parent Company accounting principles". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on February 16, 2017.

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

The financial reports are presented in Swedish kronor (SEK), which is the functional currency of the Parent Company. Unless otherwise indicated, all amounts are rounded off to the nearest million. Figures in the reports are based on a consolidation system in SEK thousands. By rounding the numbers in tables, totals may not always equal the sum of the included rounded numbers. Assets and liabilities are reported at their historical acquisition value, except for certain financial assets and liabilities and biological assets that are reported at fair value. Financial assets and liabilities reported at fair value comprise derivative instruments and available for sale financial assets classified as financial assets reported at fair value through profit and loss or other comprehensive income. Biological assets refer to forest plantations. Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

### Use of the assessments in the financial reports

Preparing financial reports in accordance with IFRS requires that management make assessments and assumptions that affect the accounting principles and reported amounts for assets, liabilities, revenues and costs. The assessments and assumptions are based on historical experience and a number of other factors that may be considered relevant under the prevailing conditions. The actual outcome may deviate from these assessments and assumptions. Assessments and assumptions are reviewed on a regular basis with changes in assessments recognized in the applicable period. Assessments made by management on the application of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in greater detail in *Note 2 Critical estimates and judgments*.

### Significant accounting principles applied

The below described accounting principles have been applied consistently in all periods that are presented in the Group's financial statements. In case any exceptions would exist to the accounting principles outlined below such as clearly described in relevant disclosure to the financial statements that include such exception.

### New standards, amendments and interpretations

A number of new standards, amendments to standards and interpretations of accounting standards have been applied in 2016. The new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2016 have not had any significant impact on the Group's financial result or position.

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

A number of new standards, changes in standards and interpretations of standards apply from 2017 or later and have not been applied in these financial reports.

*IFRS 15 Revenue from Contracts with Customers* which is effective in 2018 and supersedes *IAS 18 Revenue* and *IAS 11 Construction Contracts* and the

related Interpretations when it becomes effective, introduces a 5-step approach in determining when to recognize revenue from customers. The impact from IFRS 15 is not expected to have any significant impact on the Group's financial statements, as the majority of Swedish Match's revenues are derived from the sale of products with no additional performance obligations.

*IFRS 9 Financial Instruments* which is effective in 2018 and replaces *IAS 39 Financial Instruments: Recognition and Measurement* brings about changes regarding classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment on financial assets, changes in recognition and derecognition of financial instruments, and new requirements for general hedge accounting. The impact from *IFRS 9* is not expected to have any significant impact on the Group's financial statements, as Swedish Match's classification and measurement policies are consistent with the new standard, credit loss amounts are relatively low, and current hedge accounting transactions are expected to be treated similarly under the new standard.

*IFRS 16 Leases* which is expected to be effective in 2019 and replaces *IAS 17 Leases* and the related Interpretations when it becomes effective, prescribes the principles for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor, generally reflecting most leases on-balance sheet. The impact from *IFRS 16* on the Group's financial statement has not been assessed.

The following new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2017 or later are not expected to have any significant impact on the Group's financial result or position: amendments to *IFRS 2 Classification and Measurement of Share-based Payment Transactions*, *IFRS 4 Insurance contracts*, *IFRS 10 Consolidated Financial Statements*, *IFRS 12 Disclosure of Interests in Other Entities*, *IAS 7 Statement of Cash Flows*, *IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses*, *IAS 28 Investments in Associates and Joint Ventures* and annual improvements to *IFRS 12* and *IAS 28*.

### Consolidation principles

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all subsidiaries, joint ventures and associated companies in accordance with the definitions below. Intra-Group receivables and liabilities, revenues and costs and unrealized gains and losses arising from intra-Group transactions are eliminated in their entirety when the consolidated financial statements are prepared. Divested companies are included in the consolidated accounts until the time of divestment.

### Subsidiaries

Swedish Match Group has a number of subsidiaries in various countries for the production and sale of Swedish Match products. A subsidiary is defined as an entity that is controlled by the Swedish Match Group. A subsidiary is considered to be controlled when a Group company has power over the investee, exposures, or rights to variable returns from the involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's return. Swedish Match subsidiaries are owned to 100 percent by Swedish Match Group, with an exception of an insignificant non-controlling interest in a foreign subsidiary. There are no subsidiaries where Swedish Match Group has any significant restriction to access or use of assets from its subsidiaries. Furthermore, Swedish Match is not involved in any unconsolidated structured entities.

Consolidated financial statements in this report include all subsidiaries which Swedish Match Group controls.

All acquisitions of subsidiaries are reported in accordance with the purchase method. This method means that the acquisition of subsidiaries is considered a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. Companies acquired during the year are included in the consolidated financial statements at fair value from the date of acquisition. Transaction costs relating to acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period when incurred. Contingent considerations are recognized on the balance sheet at fair value at the date of the acquisition, with any contingent payment classified as debt subsequently re-measured through the income statement.

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

## NOTE 1 Continued

Joint ventures are defined as companies in which Swedish Match together with other parties through an agreement has shared control over operations. Associates are companies in which the Group exercises a significant influence without the partly owned company being a subsidiary or a joint venture. This normally means that the Group holds 20–50 percent of total voting rights. Holdings in associated companies and joint ventures are reported in accordance with the equity method and they are initially measured at cost. Valuation of acquired assets and liabilities is performed in the same manner as for subsidiaries and the carrying amount for associates and joint ventures includes any goodwill, transaction costs and other Group adjustments.

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate. Results from disposal of an associate when the control is lost are recognized in the income statement. Any remaining interests in divested associates are re-measured to fair value, with the gain or loss recognized in the income statement to the extent disposed externally.

**Non-controlling interest**

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity of the owners of the Parent Company. The non-controlling interest includes profit or loss and components of other comprehensive income attributable to the non-controlling interests. Swedish Match Group has an insignificant non-controlling interest.

**Discontinued operations**

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

**Classification etc.**

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

**Reporting by segment**

The Group's reportable segments are based on the internal reporting structure. Swedish Match's chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are *Snus and moist snuff*, *Other tobacco products*, *Lights* and *Other operations*. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. There are no internal sales between operating segments and the Group's financial costs as well as taxes are not allocated to product areas.

Operating assets are not monitored on a segment basis.

**Foreign currencies***(i) Transactions in foreign currencies*

Transactions in foreign currencies are translated into the functional currency according to the exchange rates applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate applicable on the reporting date. Non-monetary assets and liabilities reported at their historical acquisition values are translated at the exchange rate in effect at the transaction date. Non-monetary assets and

liabilities reported at their fair value are converted to the functional currency at the applicable rate at the time of the valuation. Exchange rate differences are then reported in the same manner as other changes in value relating to the asset or liability. Exchange rate differences arising from translation are reported in the income statement, with exchange differences on non-monetary assets and liabilities reported as operating income and expenses and exchange differences on monetary assets and liabilities are reported in the net finance cost.

*(ii) Financial reports of foreign operations*

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated into SEK at the exchange rate on the reporting date. Revenues and expenses from foreign operations are translated to SEK at an average exchange rate for the year. Translation differences arising from currency translation of foreign operations are reported as a translation reserve in equity through other comprehensive income. The translation difference relating to a specific subsidiary is recycled through the income statement when the subsidiary is divested. Accumulated translation differences contain translation differences accumulated since January 1, 2004.

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

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

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2016	2015	2016	2015
USA	USD	8.56	8.44	9.06	8.41
Euro zone	EUR	9.47	9.36	9.55	9.19
Denmark	DKK	1.27	1.25	1.28	1.23
Brazil	BRL	2.48	2.57	2.78	2.16
Norway	NOK	1.02	1.05	1.05	0.96

**Revenues**

Revenue from the sale of goods is recognized when an agreement with the customer is in place, the delivery has occurred and all key risks and benefits have been transferred to the customer. Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of discounts and anticipated returns at the time of sale.

**Financial income and expenses**

Financial income and expenses consist of interest income on bank balances, receivables, interest-bearing securities and dividend income, interest expense on loans and benefit obligations, exchange rate differences, unrealized and realized gains on financial investments and derivative instruments used in financial activities. Exchange rate differences arising on operating assets and liabilities are reported in operating profit.

The effective interest method is used when calculating the amortized cost of the financial asset or the financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows. Interest income or expense include accrued amounts of transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable or liability and the amount received or paid at maturity.

**Financial instruments**

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

Financial instruments reported in the balance sheet include, on the asset side, cash and cash equivalents, trade receivables, shares and other equity instruments, loans receivable, and derivatives. Such instruments on the liabilities and equity side are trade payables, issued liability and equity instruments, loans and derivatives. A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument.

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

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



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

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

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

#### *Financial assets and liabilities at fair value via the income statement*

Financial assets in this category are held for trading. These include financial instruments reported as other receivables and prepaid expenses and accrued income, and are valued at fair value. Financial liabilities in this category also include the Group's derivatives that are not used for hedge accounting. Changes in financial assets and liabilities fair value are recognized in the income statement.

#### *Loans and receivables*

Cash and cash equivalents are included in this category, along with loan receivables and trade receivables, which are carried in the balance sheet at amortized cost.

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

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

#### *Available for sale financial assets*

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

#### *Other financial liabilities*

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

#### *Derivatives used for hedge accounting*

All derivatives, including currency exchange differences, are reported at their fair value on the balance sheet. Changes in the fair value of the hedging instruments, when cash flow hedge accounting is applied, are recognized in other comprehensive income. Hedge accounting is described in greater detail below.

#### **Derivatives and hedge accounting**

Derivative instruments such as forward contracts and swaps are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in fair value affecting derivative instruments are reported in the income statement based on the reason for the holding. If hedge accounting is not applied, increases or decreases in the value of the derivative are reported as a revenue or expense item under operating profit or under net finance cost, based on the reason for using the derivative instrument and whether its use is

related to an operating item or a financial item. When hedge accounting is used, the ineffective portion is reported in the same manner as changes in value affecting derivatives that are not used for hedge accounting. In those cases in which derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS 39.

#### *Receivables and liabilities in foreign currency*

For hedging of assets or liabilities against exchange rate risks, forwards are used to convert foreign currencies into SEK. Forwards are also used for certain binding contracts. For these hedges, no hedge accounting is necessary since both the hedged item and the hedging instrument are valued at fair value with changes in value relating to exchange rate differences reported in the income statement. Changes in value relating to operations-related receivables and liabilities are reported in operating profit while changes in value relating to financial receivables and liabilities are reported in net finance cost. Swedish Match presently has no hedging in foreign currencies.

#### *Cash flow hedges*

When derivatives are used in order to convert a stream of interest payments in foreign currency into a stream of fixed interest payments in SEK, hedge accounting according to the cash flow hedge technique is applied. Fair value changes arising from the revaluation of derivatives that are part of a cash flow hedge relationship and are considered to be effective as described in IAS 39 are recognized in other comprehensive income and are accumulated in the hedge reserve. Any ineffective portion is recognized directly in the income statement. Reclassification from the hedge reserve through other comprehensive income into the income statement is made either when the hedged item affects the income statement or when the hedged item has ceased to exist, for instance when issued debt is repurchased.

#### *Fair value hedges*

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value changes arising from revaluation of derivatives are recognized directly in profit and loss, and the related value change from the hedged item is similarly recognized in profit and loss thus offsetting the effective portion in the hedge relationship. Swedish Match had no fair value hedges at December 31, 2016.

#### *Derivatives not used for hedge accounting*

Derivatives not used for hedge accounting are classified as held-for-trading assets when their fair values are positive, and held-for-trading liabilities when their fair values are negative. For those derivatives to which hedge accounting cannot be applied, changes in fair value are recognized directly in the income statement.

#### **Leased assets**

In the case of leased assets, IAS 17 applies. Leasing of fixed assets, whereby the Group is essentially subject to the same risks and benefits as with direct ownership, is classified as financial lease. However, the Group has entered into certain financial leasing agreements related to company cars, photocopiers, etc. that, based on materiality criteria, are reported as operating leases. Leasing of assets where the lessor essentially retains ownership of the assets is classified as operating leases. Lease charges are expensed straight-line over the lease period.

#### **Intangible assets**

##### *(i) Goodwill*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies. 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, subject to impairment testing.

Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is allocated to cash-generating units and is tested annually, or upon indication, for impairment. For more information on the Group's goodwill and impairment testing *Note 11 Intangible assets*.

## NOTE 1 Continued

*(ii) Trademarks and other intangible assets*

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

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

*(iii) Amortization*

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

- trademarks 10–20 years
- other intangible assets and capitalized development expenditures 5–7 years

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

**Tangible assets**

Tangible assets are reported in the Group at their acquisition value, less accumulated depreciation and impairments, if applicable. The acquisition value includes the purchase price and costs directly attributable to the asset in order to transport it to its place of use in the appropriate condition for being used in accordance with the purpose of the acquisition. Borrowing costs directly pertaining to acquisition, construction or production of an asset that takes a substantial time to complete are included in the acquisition value.

*Depreciation*

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

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

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

**Forest plantations**

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

**Inventory**

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

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

**Impairment**

The carrying amounts for the Group's assets, with the exception of financial assets, forest plantations, assets held for sale and disposal groups reported in accordance with IFRS 5, inventories, plan assets used for the financing of employee benefits and deferred tax assets, are tested in accordance with IAS 36 on each reporting date to evaluate whether there is an indication of an impairment. Should such an indication exist, the asset's recoverable amount is calculated.

For goodwill and other intangible assets with an indefinite useful life and intangible assets that are not yet ready for use, their recoverable amount is calculated annually, or when an impairment is indicated. The recoverable amounts, defined as the higher of value in use and fair value less cost of disposal, are normally determined on the basis of value in use, applying discounted cash flow calculations. An impairment charge against the income statement is made when the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, goodwill is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. For more information on the Group's goodwill and impairment testing see *Note 11 Intangible assets*.

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

**Provisions**

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

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

**Share capital**

Buybacks of own shares and sale of own shares when stock options are exercised are reported directly in equity.

**Employee benefits***Short term employee benefits*

Short term employee benefits, such as wages, salaries, vacation leave, profit-sharing, bonuses, other benefits, that are expected to be settled within twelve months are recognized as expenses in the income statement when the services are received.

The expected cost of profit-sharing and bonus plans is recognized when the company has a present legal or constructive obligation to make such payment as a result of a past event and when the obligation can be reliably estimated.

*Termination benefits*

The Group recognizes termination benefits when there is an event that gives rise to an obligation to an employee when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

*Post-employment benefits*

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

Pension fees for defined contribution plans are reported as an expense in the income statement as incurred.

Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These costs 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. Service cost, past service cost and any administration costs relating to post-employment defined benefit plans are classified as operating cost. A finance component calculated based on the discount rate on the net liability or net asset is recognized in the net finance cost. The finance component is recognized as interest expense or interest income net by plan.

In the Swedish Match consolidated balance sheet, the pension commitments for funded plans are reported net after deductions for the fair value of plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as non-current receivables. When the calculation leads to a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the lower of the surplus in the plan and the present value of future service cost to be borne by the Company. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to remeasurement gains and losses. These arise when actual outcome deviates from projected outcome or when assumptions earlier made are changed. Measurement differences that arise from the revaluation of the post-employment benefit plans are recognized in Other comprehensive income as actuarial gains and losses in the period as they occur.

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 for special employer's salary tax is included in the net present value of the net obligation or net asset. Special employer's salary tax pertains to pension plans in Sweden.

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

In the reporting period beginning January 1, 2016, Swedish Match has changed the method used to estimate the service and interest components of income and expenses related to the post-employment benefit plans in the US. This change compared to the previous method results in a decrease in the service and interest cost components from 2016. Historically, these service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation as of the beginning of the period. We have elected to use the full yield curve approach in estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to corresponding spot rate along the yield curve. This change will not affect the measurement of benefit obligations related to the US plans as the change in the service and interest cost components will be offset by an increase in the actuarial gains and losses reported in experience assumptions. We view this change as a change in accounting estimate and accordingly have accounted for it prospectively.

### Share-based payments

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

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

For 2010, a new long term incentive plan for executives was introduced by the Board of Directors which replaced the option program. Under the new plan eligible executives may, after a three year performance period, receive a cash bonus based on the established performance targets for the performance

period. Costs for the incentive plan are expensed during the service year including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

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

### Taxes

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

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

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

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

### Contingent liabilities

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

### Earnings per share

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

### Parent Company accounting principles

The annual report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the rules of RFR 2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2 states that in the annual report for the legal entity, the Parent Company shall apply all IFRS standards and statements approved by the EU as far as this is possible within the framework of the Annual Accounts Act and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions may be made in relation to IFRS.

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

#### *Subsidiaries, joint ventures and associated companies*

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

#### *Employee benefits*

The Parent Company applies different principles for computing defined benefit plans than those specified in IAS 19. The Parent Company follows the

## NOTE 1 Continued

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

**Taxes**

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

**Group and shareholder contributions**

Shareholder contributions are transferred directly to the recipient's equity and are capitalized in shares and participations by the donor, to the extent that an impairment loss is not required. Group contributions, received and granted, are reported in the income statement as appropriations in accordance with RFR 2.

**2 Critical estimates and judgments**

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

**Intangible assets**

According to IFRS, intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks have been deemed to have definite useful lives and are in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of an intangible asset is impaired. The impairment tests include significant judgments made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2016 amounted to 1,250 MSEK and amortization and write downs amounted to 53 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 710 MSEK. For further information on impairment test of intangible assets see *Note 11 Intangible assets*.

**Investments in associated companies and joint ventures**

The carrying value of the investments in associated companies and joint ventures are tested for impairment when there is an indication of a decline in the value. As per December 31, 2016 the Group's investments in associated companies and joint ventures amounted to 122 MSEK. For further information on the Group's investments in associated companies and joint ventures see *Note 14 Investments in associates and joint ventures*.

**Legal disputes**

The Company is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have an adverse effect on the Group's earnings. Further details of the Group's legal disputes are explained in *Note 29 Commitments and contingent liabilities and assets*.

**Post employment defined benefits**

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations are based on assumptions on the discount rate, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined benefit pension plans and post-employment medical benefit plans as of December 31, 2016 were estimated to exceed the fair value of plan assets by 1,452 MSEK. Further details of the Group's defined benefit plans are presented in *Note 22 Employee benefits*.

**3 Segment information**

Swedish Match reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are Snus and moist snuff, Other tobacco products, Lights, and Other operations.

**Snus and moist snuff** are smokeless tobacco products that are produced and sold primarily in Sweden, Norway and the US. Sweden is the world's largest snus market measured by per capita consumption. The Norwegian market is smaller than the Swedish market but has experienced strong volume growth in recent years. The US is the world's largest moist snuff market measured in number of cans and is about four times larger than the Scandinavian snus market. In Sweden and Norway, Swedish Match has a leading position. In the US, the Group is the third largest player in moist snuff, and has a rapidly growing position in Swedish snus. Some of the best known brands include *General*, *Göteborgs Rapé*, *Ettan*, *Grov*, *Catch*, *Kaliber*, and *Kronan* in Sweden, *General*, *General G.3*, *Nick & Johnny*, and *The Lab* in Norway, and *Longhorn*, *Timber Wolf*, *General* and *ZYN* in the US.

**Other tobacco products** represent cigars and chewing tobacco sold on the US market. Swedish Match is a major player in the US mass market cigar market, with such well known brands as *Garcia y Vega*, *Game by Garcia y Vega*, *1882*, *White Owl*, and *Jackpot*, which are manufactured in the Dominican Republic and the US. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country. The main brand is *Red Man*. The market for chewing tobacco shows a declining trend.

**Lights** include manufacturing and distribution of matches and lighters as well as distribution of complementary products. Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include *Solstickan*, *Fiat Lux*, *Swan Vestas*, *Tres Estrellas*, and *Redheads*. The Group's main brand for disposable lighters is *Cricket*. Swedish Match's largest market for lighters is Russia. Complementary products include externally sourced razors, batteries, light bulbs and toothpicks offered mainly on the Brazilian market under the *Fiat Lux* brand.

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

There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS.

NOTE 3 Continued

Operating segments	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Swedish Match Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
External sales	5,277	5,090	4,283	3,829	1,314	1,295	4,676	4,272	15,551	14,486	-	-	15,551	14,486
Depreciations, amortizations and write-downs <sup>1)</sup>	-186	-176	-63	-59	-40	-38	-50	-43	-339	-317	-	-	-339	-317
Income from associated companies and joint ventures <sup>2)</sup>	-	-36	2	3	1	0	1	-	4	-33	176	360	180	327
<b>Operating profit</b>	<b>2,197</b>	<b>2,071</b>	<b>1,705</b>	<b>1,554</b>	<b>219</b>	<b>190</b>	<b>-132</b>	<b>-124</b>	<b>3,990</b>	<b>3,690</b>	<b>176</b>	<b>360</b>	<b>4,166</b>	<b>4,050</b>
<i>Larger one-time items</i>														
Sale of STG shares	-	-	-	-	-	-	-	-	-	-	1,208	-	1,208	-
Gain on fair value of STG shares	-	-	-	-	-	-	-	-	-	-	902	-	902	-
Sale of distribution facility	-	-	-	-	-	-	145	-	145	-	-	-	145	-
Costs for relocation of distribution facilities	-	-	-	-	-	-	-	-42	-	-42	-	-	-	-42
<b>Operating profit, including larger one-time items</b>	<b>2,197</b>	<b>2,071</b>	<b>1,705</b>	<b>1,554</b>	<b>219</b>	<b>190</b>	<b>13</b>	<b>-166</b>	<b>4,134</b>	<b>3,648</b>	<b>2,285</b>	<b>360</b>	<b>6,420</b>	<b>4,008</b>
Finance income													53	22
Finance costs													-484	-486
<b>Profit before income tax</b>													<b>5,988</b>	<b>3,545</b>

<sup>1)</sup> Write-downs of tangible assets amounted to 1 MSEK (1) for snus and moist snuff and 0 MSEK (0) for other tobacco products. There were no write-downs of intangible assets.

<sup>2)</sup> The full year 2016 only includes Swedish Match's share of STG's net profit until the date of partial divestment in September, thereafter, the shareholding in STG has been reclassified as a financial asset. Swedish Match's share of net profit in STG for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's reported share of net profit in STG in 2015 included an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit/loss in STG		Swedish Match Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Results from sale of fixed assets</b>														
Gains/losses from sale of fixed assets	-0	-2	0	0	0	0	-6	-1	-6	-2	-	-	-6	-2
<b>Investments</b>														
Property, plant and equipment <sup>1)</sup>	247	164	191	95	76	54	23	178	537	491	-	-	537	491
Intangible assets	121	5	-	-	4	-	4	9	129	14	-	-	129	14

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

## Geographic information

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

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

Country	Sales to external customers				Fixed assets <sup>1)</sup>			
	2016		2015		2016		2015	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	7,763	50	7,283	50	4,811	69	6,669	79
USA	5,679	37	5,163	36	1,324	19	1,195	14
Rest of the world	2,109	14	2,040	14	856	12	601	7
<b>Total</b>	<b>15,551</b>	<b>100</b>	<b>14,486</b>	<b>100</b>	<b>6,991</b>	<b>100</b>	<b>8,465</b>	<b>100</b>

<sup>1)</sup> Non-current assets other than financial instruments, deferred tax assets and pension assets.

## Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited. Sales from the Group's largest single external customer constituted 8 percent of the Group's total sales, whereof 4 percent in Snus and moist snuff and 4 percent in Other operations.

## 4 Other operating income and expenses

Other operating income and expenses are specified below:

	2016	2015
Foreign exchanges gains	29	52
Foreign exchanges losses	-35	-48
Result from sale of fixed assets	-6	-2
<b>Total</b>	<b>-12</b>	<b>2</b>

## 5 Personnel

The average number of employees, including temporary employees, in the Parent Company during 2016 was 43, and in the Group 5,070. The corresponding numbers in 2015 were 40 and 4,488, respectively. The increase in the average number of employees primarily relates to the expansion of cigar production in the Dominican Republic.

Group employees by country are summarized in the table below:

	2016		2015	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	43	44	40	48
<b>Subsidiaries</b>				
Belgium	3	33	3	-
Brazil	652	67	608	71
Dominican Republic	1,873	55	1,392	48
Netherlands	99	95	102	95
Norway	45	67	47	68
Philippines	270	57	258	58
Sweden	1,073	61	1,013	63
Switzerland	2	50	-	-
Turkey	15	73	15	73
United States	995	70	1,009	70
Other countries	-	-	1	-
<b>Total</b>	<b>5,070</b>	<b>62</b>	<b>4,488</b>	<b>61</b>

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

	2016		2015	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members	10	50	10	60
President and other management	8	75	7	71
<b>Group</b>				
Board members	97	58	102	58
President and other management	44	86	46	83

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

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

	2016			2015		
	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>
Parent Company	89	42	13	76	33	10
Subsidiaries	1,461	640	198	1,357	626	216
<b>Total</b>	<b>1,550</b>	<b>682</b>	<b>211</b>	<b>1,433</b>	<b>659</b>	<b>226</b>

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

The pension costs for the Parent Company include 7 MSEK (6) attributable to the President and other management consisting on average of seven persons during 2016 and six persons in 2015.

The pension costs for the subsidiaries include 9 MSEK (9) attributable to Presidents and other management consisting on average of 18 persons during 2016 (21 persons in 2015). The defined benefit obligations related to Presidents and other management as of December 31, 2016 amounted to 96 MSEK (79).

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

	2016			2015		
	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees	Board, President and other management <sup>1)</sup>	of which, variable salaries	Other employees
<b>Parent Company</b>						
Sweden	49	21	41	42	16	34
<b>Subsidiaries</b>						
Total in subsidiaries	64	28	1,396	70	31	1,287
<b>Total</b>	<b>113</b>	<b>49</b>	<b>1,437</b>	<b>111</b>	<b>47</b>	<b>1,321</b>

<sup>1)</sup> The Board, President and other management employed by the Parent Company consisted on average of 14 persons (13). Presidents and other management employed by the subsidiaries consisted on average of 18 persons (21), whereof one person was a member of the Group Management Team. For further information about remunerations to Group Management Team members see table below – "Remuneration and other benefits to Group Management Team".

During 2016, 50 MSEK (43) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

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

The Annual General Meeting on April 28, 2016 decided, for the period up to and including May 4, 2017 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,750,000 SEK, the deputy Chairman shall receive 830,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 700,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 250,000 SEK respectively and the other members of these committees shall each receive 125,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2016. In 2016 a study fee in the amount of 57,048 SEK was paid to each of the three employee representatives on the Board, and in the amount of 42,699 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective company. The fees to Board members elected by the Annual General Meeting for Board work during 2016 and 2015 are shown in the tables below:

## Fees to Board members

TSEK	2016			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	1,750	250	–	2,000
Andrew Cripps Board member	830	–	125	955
Charles Blixt Board member	700	125	–	825
Jacqueline Hoogerbrugge Board member	700	125	–	825
Wenche Rolfsen Board member	700	–	125	825
Meg Tivéus Board member	700	–	250	950
Joakim Westh Board member	700	–	125	825
<b>Total</b>	<b>6,080</b>	<b>500</b>	<b>625</b>	<b>7,205</b>

TSEK	2015			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	1,750	250	–	2,000
Andrew Cripps Board member	830	–	125	955
Charles Blixt Board member	700	125	–	825
Jacqueline Hoogerbrugge Board member	700	125	–	825
Wenche Rolfsen Board member	700	–	125	825
Meg Tivéus Board member	700	–	250	950
Joakim Westh Board member	700	–	125	825
<b>Total</b>	<b>6,080</b>	<b>500</b>	<b>625</b>	<b>7,205</b>

## Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 28, 2016 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

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

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

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

- Profit Sharing System:** All employees in Sweden are participating in Swedish Match profit sharing system ("PSS").
- Insurable benefits:** Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.
- Severance pay, etc:** A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.
- Other benefits:** Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to market practice.
- The Board's right to deviate from the principles:** The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:** Swedish Match Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

## Application of principles on variable salary for 2016

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the GMT the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.

**Short term variable salary:** The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2016 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden shall be 70 percent of the 2016 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

**Long term variable salary:** The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2016 base salary or 750,000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden participates in an additional long term variable salary program capped at 100 percent of the base salary every second year.

## NOTE 5 Continued

## Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance costs
<b>President</b>	<b>2016</b>	<b>6,638</b>	<b>7,703</b>	<b>146</b>	<b>2,462</b>	<b>16,950</b>	-	-
	2015	6,439	6,763	134	2,370	15,707	-	-
<b>Other members of Group Management Team</b>	<b>2016</b>	<b>17,667</b>	<b>19,809</b>	<b>1,425</b>	<b>5,895</b>	<b>44,796</b>	<b>23,407</b>	-
	2015	15,692	16,503	1,237	5,264	38,696	20,098	-
<b>Total</b>	<b>2016</b>	<b>24,305</b>	<b>27,513</b>	<b>1,571</b>	<b>8,358</b>	<b>61,746</b>	<b>23,407</b>	-
	2015	22,131	23,266	1,371	7,634	54,403	20,098	-

## Comments to the table

- At the end of 2016, the Group Management Team consisted of eight persons including the President. The President and six other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary.
- At the end of 2015, the Group Management Team consisted of seven persons including the President. The President and five other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary.
- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).

## Variable salary

In 2016, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The predominant performance criterion for the CEO and the heads of corporate functions in the short term incentive program for 2016 was Group operating profit from product areas. Those members of the Group Management Team who were operating unit Presidents had partly the same criterion as the CEO and partly incentive criteria linked to the operating unit.

The performance criteria for the CEO and other members of the GMT for the long term program that started in 2014, for which the performance period ended in 2016, was based on the accumulated Group operating profit from product areas. The threshold and target for maximum payout were 10,057 MSEK and 10,807 MSEK respectively for the total performance period. The Compensation Committee established the total performance outcome for the long term program to 90.0 percent.

In the long term program that started in 2016, the performance criterion for the CEO and other members of the Group Management Team is the accumulated Group operating profit from product areas for the years 2016 to 2018. There will be no pay-out in relation to this criterion unless there is an improvement in relation to the comparable performance of the Group in 2015. As the long term program extends over three years the final result will be established at the end of the three year performance period.

In addition to the programs noted above, the President of the US Division also participated in a three-year local program. This local program extends over three years, with a new program starting every second year. Accordingly, this program can generate an outcome every second year. The maximum outcome of this plan corresponds to a fixed annual salary every second year.

## Options

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

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

SEK	2016		2015	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	-	-	197.45	711,770
Granted during period	-	-	-	-
Exercised during period	-	-	197.45	711,770
Expired during period	-	-	-	-
<b>Outstanding at period-end</b>	-	-	-	-
Exercisable at period-end	-	-	-	-

The average share price for share options exercised in 2016 was 0 SEK (255.34).

During 2015, all remaining options issued by Swedish Match, as part of its former option program, have been exercised and no further options are outstanding.



**Pensions***President*

The President's retirement age is 62 and he is covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. The President's ITP plan shall be fully funded at age 62. In addition, the Company pays a pension premium amounting to 40 percent of fixed salary above 30 times the income base amount to a defined contribution pension plan.

*Other members of Group Management Team*

For members of Group Management Team who are residents in Sweden, the retirement age is 62 or 65. All Swedish members are covered by the Swedish standard retirement plan for white-collar employees (ITP plan) on salary up to 30 times the income base amount. In addition, for some of the members, the Company also pays a pension premium amounting to a maximum of 35 percent of fixed salary above 30 times the income base amount. One member of Group Management Team, who is resident abroad, is covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary is capped at 50 percent of the fixed salary in the calculation of retirement benefits.

**Other employment conditions***Severance pay etc.*

For the Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract.

The President and two other members of the Group Management Team are entitled to terminate their employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts their position.

**6 Audit fees**

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

Audit fees	2016	2015
KPMG		
Audit services	7	7
Audit related services	0	0
Tax services	0	1
Other services	1	1
<b>Total</b>	<b>9</b>	<b>9</b>

Other services include assistance with testing of IT-controls.

**7 Operating expenses classified by nature**

Operating expenses	2016	2015
Personnel expenses	2,232	2,092
Depreciation, amortization and write-downs	339	317
Direct material	2,061	1,884
Finished products from third party manufacturers	4,516	4,118
Other operating expenses	2,417	2,352
<b>Total</b>	<b>11,565</b>	<b>10,763</b>

Expenses for research and development are recognized in the income statement as other operating expenses. During 2016 expenses for research and development amounted to 126 MSEK (118).

**8 Net finance cost**

Financial income	2016	2015
Interest income relating to pension receivables	2	2
Interest income relating to cash and bank	17	10
Interest income relating to financial instruments held for trading	33	7
Net foreign exchange gains	-	3
<b>Total</b>	<b>53</b>	<b>22</b>
<b>Financial expenses</b>	<b>2016</b>	<b>2015</b>
Interest expense relating to pension liabilities	-66	-82
Interest expense relating to financial liabilities measured at amortized cost	-343	-367
Realized fair value from repurchase of bonds including hedging derivatives <sup>1)</sup>	-62	-30
Interest expense relating to financial instruments pertaining to fair value	0	0
Net foreign exchange losses	-2	-
Other financial expenses	-12	-6
<b>Total</b>	<b>-484</b>	<b>-486</b>
<b>Net finance cost</b>	<b>-431</b>	<b>-463</b>

<sup>1)</sup> Includes 16 MSEK (8) transferred from equity.

**9 Income tax**

The major components of income tax expense/income for the years ended December 31, 2016 and 2015 are:

Income tax expense reported in the income statement	2016	2015
<i>Current tax:</i>		
Current tax on earnings for the year	-574	-827
Adjustments in respect of prior years	-7	-7
<b>Total current tax</b>	<b>-581</b>	<b>-834</b>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	-277	92
Impact of change in tax rate	-7	0
<b>Total deferred tax</b>	<b>-284</b>	<b>92</b>
<b>Income tax expense</b>	<b>-865</b>	<b>-742</b>

Income tax reported outside of the Income statement	2016	2015
Deferred tax	54	-175
<b>Total</b>	<b>54</b>	<b>-175</b>

*This comprises:*

Tax reported in other comprehensive income	2016	2015
Actuarial net gains/losses attributable to pensions	39	-155
Revaluation of cash flow hedges net gain/loss	14	-21
<b>Total tax reported in other comprehensive income</b>	<b>54</b>	<b>-175</b>
<b>Total tax reported outside of the income statement</b>	<b>54</b>	<b>-175</b>

## NOTE 9 Continued

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2016 and 2015 are summarized below:

	2016			2015		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Deferred tax assets and deferred tax liabilities						
Tax loss carry forwards	107	–	107	108	–	108
Trade receivables	2	–	2	2	–	2
Pensions and other post-employment benefits	583	20	563	641	20	621
Employment benefits	141	–	141	123	–	123
Intangible assets	39	321	–281	76	273	–197
Tangible assets	19	215	–196	17	204	–187
Tax allocation reserve	–	281	–281	–	210	–210
Inventory	1	66	–65	3	67	–64
Unremitted earnings in foreign subsidiaries	–	68	–68	–	29	–29
Financial assets	33	–	33	19	–	19
Other	66	1	65	78	–	78
<b>Total</b>	<b>992</b>	<b>971</b>	<b>21</b>	<b>1,067</b>	<b>804</b>	<b>263</b>
Netting of assets and liabilities	–54	–54	–	–49	–49	–
<b>Net deferred tax balances</b>	<b>938</b>	<b>917</b>	<b>21</b>	<b>1,018</b>	<b>755</b>	<b>263</b>

The net of deferred tax liabilities and assets for the years ended December 31, 2016 and 2015 are summarized below:

	2016	2015
Movement in deferred tax liabilities, net		
Opening balance, net	–263	–305
Deferred tax expense/income in the income statement	284	–92
Deferred tax in other comprehensive income	–54	175
Translation differences	12	–41
<b>Closing balance, net</b>	<b>–21</b>	<b>–263</b>

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

As of December 31, 2016 the Group's non-recognized deductible temporary differences, excluding tax losses, are in total 8 MSEK (9). The table below shows amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2016	–
2017	–
Subsequent years or no time limitation	486
<b>Total tax losses carried forward recognized</b>	<b>486</b>
<b>Total tax losses carried forward not recognized</b>	<b>–</b>

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2016 and 2015 is as follows:

	2016		2015	
	%	MSEK	%	MSEK
Reconciliation of effective tax rate				
<b>Accounting profit before income tax excluding discontinued operations</b>		<b>5,988</b>		<b>3,545</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>1,317</b>	<b>22.0</b>	<b>780</b>
Effect of tax rates in foreign jurisdictions	1.9	112	2.0	71
Results from associated companies reported net of tax	–0.7	–39	–1.9	–69
Income tax in respect of prior years	0.1	5	0.1	5
Income not subject to tax	–8.7	–520	–1.9	–68
Expenses not deductible for tax purposes	0.1	8	0.1	4
No benefit available for loss	0.0	2	0.0	1
Effect of enacted change of tax rate	0.0	0	0.0	0
Other items	–0.4	–21	0.5	18
<b>Reported effective tax</b>	<b>14.4</b>	<b>865</b>	<b>20.9</b>	<b>742</b>

The unusually low reported tax rate in 2016 is a result of the tax exempt larger one-time items i.e. the capital gains from the sale of shares in STG, the revaluation to market value of the remaining part of the STG shares and the sale of a distribution center in Sweden.

## 10 Earnings per share

	2016	2015
Basic		
Profit for the year attributable to equity holders of the Parent <sup>1)</sup>	5,123	2,803
Profit for the year attributable to equity holders of the Parent, excluding STG	4,947	2,443
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items and STG <sup>2)</sup>	2,693	2,476
<b>Weighted average number of shares outstanding, basic</b>	<b>187,116,474</b>	<b>193,506,546</b>

	2016	2015
Diluted		
Profit for the year attributable to equity holders of the Parent <sup>1)</sup>	5,123	2,803
Profit for the year attributable to equity holders of the Parent, excluding STG	4,947	2,443
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items and STG <sup>2)</sup>	2,693	2,476
Weighted average number of shares outstanding, basic	187,116,474	193,506,546
Effect of issued options	–	23,720
<b>Weighted average number of shares outstanding, diluted</b>	<b>187,116,474</b>	<b>193,530,266</b>

	2016	2015
Earnings per share, basic, SEK		
Including larger one-time items <sup>1)</sup>	27.38	14.48
Including larger one-time and excluding STG	26.44	12.62
Excluding larger one-time items and STG <sup>2)</sup>	14.39	12.79

	2016	2015
Earnings per share, diluted, SEK		
Including larger one-time items <sup>1)</sup>	27.38	14.48
Including larger one-time and excluding STG	26.44	12.62
Excluding larger one-time items and STG <sup>2)</sup>	14.39	12.79

<sup>1)</sup> Profit for the full year 2016 only includes Swedish Match's share of STG's net profit until the date of partial divestment in September, thereafter, the shareholding in STG has been reclassified as a financial asset. Profit for the full year 2015 includes only the first nine months of net profit in STG due to transition to a one quarter lag reporting. Swedish Match's reported share of net profit in STG in 2015 included an adjustment of 56 MSEK relating to 2014 due to a reassessment of useful lives of certain intangible and tangible assets.

<sup>2)</sup> Adjusted for Swedish Match larger one-time items. Larger one-time items for 2016, all of which were tax exempt, include capital gains from the sale of shares in STG, in two tranches, totalling 1,208 MSEK and the sale of a distribution facility of 145 MSEK as well as an unrealized gain of 902 MSEK from revaluing the remaining holding in STG to market value. Larger one-time items for 2015 include costs of 42 MSEK (33 MSEK after tax) on the relocation of distribution facilities.

The Company has issued call options to senior management and key employees. These call options are potentially dilutive. The weighted diluted average number of shares outstanding is calculated by adding the dilutive effect of outstanding

call options to the weighted average number of ordinary shares outstanding. Call options have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the call options. The dilutive effect of outstanding call options is the number of new shares that would be issued if all options with an exercise price below the average share price during the year were exercised, less the number of shares that could be acquired at this average share price for the cash paid for the exercise of the call options.

All of the options issued had an exercise price below the average market price during 2015. During 2015, all remaining options issued by Swedish Match, as part of its former option program, have been exercised and no further options are outstanding. For a table detailing number and weighted average of exercise prices for shares under options during 2015 see Note 5 Personnel.

## 11 Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets <sup>1)</sup>		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Cost at beginning of year</b>	<b>710</b>	<b>673</b>	<b>1,016</b>	<b>989</b>	<b>220</b>	<b>202</b>	<b>1,946</b>	<b>1,864</b>
Purchases/investments <sup>2)</sup>	-	-	-	-	207	14	207	14
Reclassifications <sup>3)</sup>	-	-	-	-	2	4	2	4
Adjustment	-	-	-	0	0	-	0	0
Translation differences, etc.	39	37	29	27	0	0	68	64
<b>Cost at end of year</b>	<b>749</b>	<b>710</b>	<b>1,044</b>	<b>1,016</b>	<b>430</b>	<b>220</b>	<b>2,223</b>	<b>1,946</b>
<b>Accumulated amortization and write-down at beginning of year</b>	<b>-39</b>	<b>-39</b>	<b>-742</b>	<b>-706</b>	<b>-116</b>	<b>-89</b>	<b>-898</b>	<b>-833</b>
Amortization for the year	-	-	-16	-16	-37	-27	-53	-44
Adjustment	-	-	-	-	0	0	0	0
Translation differences, etc.	-	-	-22	-20	0	0	-22	-20
<b>Accumulated amortization and write-down at end of year</b>	<b>-39</b>	<b>-39</b>	<b>-781</b>	<b>-742</b>	<b>-153</b>	<b>-116</b>	<b>-973</b>	<b>-898</b>
<b>Net carrying value at end of year</b>	<b>710</b>	<b>671</b>	<b>264</b>	<b>273</b>	<b>277</b>	<b>104</b>	<b>1,250</b>	<b>1,048</b>

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

<sup>2)</sup> Purchases/investments in 2016 include non-cash investments of 79 MSEK (-) related to the acquisition of patent rights for a nicotine pouch product without tobacco.

<sup>3)</sup> During 2016, 2 MSEK was reclassified from construction in progress to software.

No borrowing costs have been capitalized during 2016 for intangible assets.

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

Amortization and write-downs has been charged to the income statement as stated below:

	Amortization and write-down	
	2016	2015
Cost of goods sold	0	0
Selling expenses	-19	-20
Administrative expenses	-34	-24
<b>Total</b>	<b>-53</b>	<b>-44</b>

### Goodwill

The Group's goodwill is tested for impairment annually and whenever there is an indication of impairment. For the purpose of impairment testing, goodwill is allocated to the lowest level of groups of cash generating units based on product groups and geographical markets, at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their recoverable amount, determined on the basis of value in use. If the carrying value is higher, the difference is charged to the income statement.

The value in use of a cash generating unit is calculated using a valuation model based on discounted expected future cash flows. The cash flows are explicitly forecasted for the coming five years, after which a terminal growth factor is applied to calculate the terminal value. The cash flows used in the valuation model are projected considering historical performance and forecasts, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new

facts become known. The key assumptions in the calculation are sales growth, EBITDA margin, working capital and investment needs, discount rate and the terminal growth rate of free cash flow. The discount rates are calculated by weighting cost of debt and cost of equity with Swedish Match's target debt ratio. The calculation of cost of debt is based on local risk-free interest rates with a country specific risk premium for applicable markets, local tax rates and a Swedish Match specific interest margin. Cost of equity is calculated using the Capital Asset Pricing Model, applying average beta for the industry adjusted for capital structure, local risk-free interest rates, and an equity risk premium. As local interest rates are included in the calculation of discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill was tested for impairment in 2016, the value in use exceeded the carrying values for all cash generating units. To calculate the cash flows after the explicit forecasting period, a terminal growth rate of 1 percent (1) is applied for the Other tobacco products operations, 2 percent (1) for Lights operations and 1 percent (1) for the US moist snuff operations. When performing sensitivity analysis by increasing the discount rate by 2 percentage points or decreasing the terminal growth rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. Realistic changes in key assumptions show no indications of impairment.

Cash generating units	Goodwill in cash generating units			
	Pre-tax WACC 2016, %	2016	Pre-tax WACC 2015, %	2015
Other tobacco products operations	6.8	462	7.3	424
Lights operations	12.7	170	13.4	170
US moist snuff operations	8.3	78	8.4	77
<b>Total</b>		<b>710</b>		<b>671</b>

## 12 Property, plant and equipment

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

	Buildings and land <sup>1)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>2)</sup>	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Cost at beginning of year</b>	<b>1,252</b>	<b>1,076</b>	<b>3,507</b>	<b>3,394</b>	<b>729</b>	<b>718</b>	<b>163</b>	<b>104</b>	<b>5,651</b>	<b>5,292</b>
Purchases/investments	37	152	74	55	100	73	310	195	521	474
Acquisitions	-	-	-	-	-	1	-	-	-	1
Sales/disposals	-74	0	-39	-100	-35	-44	-1	0	-150	-144
Reclassifications <sup>3)</sup>	37	17	180	116	2	2	-221	-139	-2	-4
Translation differences, etc.	57	8	175	42	20	-21	11	4	263	33
<b>Cost at end of year</b>	<b>1,309</b>	<b>1,252</b>	<b>3,896</b>	<b>3,507</b>	<b>816</b>	<b>729</b>	<b>263</b>	<b>163</b>	<b>6,283</b>	<b>5,651</b>
<b>Accumulated depreciation and write-down at beginning of year</b>	<b>-496</b>	<b>-456</b>	<b>-2,589</b>	<b>-2,466</b>	<b>-436</b>	<b>-433</b>	<b>-1</b>	<b>0</b>	<b>-3,521</b>	<b>-3,355</b>
Depreciation for the year	-36	-32	-176	-177	-72	-63	-	-	-285	-272
Write-down for the year	-	-	-1	-1	0	0	-	-	-1	-1
Acquisitions	-	-	-	-	-	-1	-	-	-	-1
Sales/disposals	19	-	39	83	33	43	-	-	91	126
Translation differences, etc.	-26	-8	-133	-28	-16	18	0	0	-175	-18
<b>Accumulated depreciation and write-down at end of year</b>	<b>-538</b>	<b>-496</b>	<b>-2,860</b>	<b>-2,589</b>	<b>-491</b>	<b>-436</b>	<b>0</b>	<b>-1</b>	<b>-3,891</b>	<b>-3,521</b>
<b>Net carrying value at end of year</b>	<b>770</b>	<b>756</b>	<b>1,036</b>	<b>918</b>	<b>324</b>	<b>293</b>	<b>262</b>	<b>163</b>	<b>2,392</b>	<b>2,130</b>

<sup>1)</sup> Buildings and land include land and land improvements at a book value of 108 MSEK (100).

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

<sup>3)</sup> Reclassifications include property, plant and equipment reclassified from construction in progress. During 2016, 2 MSEK was reclassified from construction in progress to software.

Construction in progress primarily relates to investments in production facilities.

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

Depreciation and write-downs for the year totaling 286 MSEK (273) was charged to cost of goods sold in the income statement in an amount of 210 MSEK (210), to administrative expenses of 25 MSEK (22), and to selling expenses of 51 MSEK (41).

## 13 Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2016	2015
<b>Carrying value at beginning of year</b>	<b>110</b>	<b>137</b>
Purchases/investments/new planting	16	17
Transfer to inventories	-8	-6
Translation differences, etc.	33	-38
<b>Carrying value at end of year</b>	<b>150</b>	<b>110</b>

The Group's forest plantations comprise poplar and pine forests in Brazil with a total area of 5,920 hectares at December 31, 2016. The age of the trees varies from newly planted seedlings up to 30 years. The forests are held to ensure the supply of wood for parts in the product area Lights.

Timber felled during 2016 had an estimated value of 8 MSEK at the time of felling, and made up 89,575 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. Volume estimates for each age category and type of wood are based on measurements of the height and diameter of trees and the number of trees per unit of area, and an assessment of the fair value of the forest is made based on estimated volumes and market prices of comparable timber less cost to sell.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2016, 156 hectares (167) pine forest was replanted. At present, there is no corresponding requirement for poplar.

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

## 14 Investments in associated companies and joint ventures

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

### Investments in associated companies

Scandinavian Tobacco Group (STG) was established on October 1, 2010, following a merger between the tobacco activities in Scandinavian Tobacco Group A/S and the European mass market cigar, US premium cigar and pipe tobacco businesses of Swedish Match. The Danish company Skandinavisk Holding A/S held 51 percent of the shares in STG, and the remaining 49 percent was held by Swedish Match.

Transaction costs of 19 MSEK attributable to the investment in the STG were included in the acquisition value. As Swedish Match continued to own 49 percent of the net assets transferred via STG, 49 percent of the total capital gain was deferred. Hence, in the Group's accounts the carrying value of the STG investment were adjusted by the deferred capital gain in an amount of 543 MSEK.

Until February 9, 2016, Swedish Match owned 49 percent (49 million shares) of STG. On February 10, 2016, STG was listed on Nasdaq Copenhagen and in conjunction with the listing Swedish Match sold 17.9 million shares, and divested another 13 million shares on September 7, 2016. Following the September transaction, Swedish Match owned 18,069,906 shares, corresponding to approximately 18.1 percent of the total number of shares in STG. As a result, Swedish Match has determined that equity accounting is no longer applicable and the shareholding was accordingly reclassified to a financial asset. Also following the reclassification, Swedish Match has ceased to recognize its share of net profit in STG in the profit and loss. The proportionate share of the deferred capital gain has been recognized in each sale of STG shares and the remaining deferred capital gain was recognized when our shareholding in STG was reclassified to a financial asset.

Other associated companies of Swedish Match, which are not considered material, are a 40 percent ownership interest in Arnold André GmbH & Co. KG, a cigar company in Germany, a 32 percent ownership interest in Malaysian Match Co. SDN. BHD, which is a Malaysian sales distributor for primarily matches and lighters in the Asia region and a 25 percent interest in EB Road Cargo AB, a Swedish company which through its subsidiaries provides road transportation services with SMD Logistics AB as a major client. During 2015 Swedish Match owned 49 percent in Road Cargo Sweden Holding AB and on

December 23, 2015, Swedish Match acquired the remaining 51 percent interest in Road Cargo Sweden Holding AB, and contributed 100 percent of the shares in Road Cargo Sweden AB, a subsidiary of Road Cargo Sweden Holding AB, to EB Road Cargo AB in exchange for a 25 percent ownership interest in EB Road Cargo AB.

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

Associates	2016	2015
<b>Carrying value at beginning of year</b>	<b>4,845</b>	<b>5,221</b>
Investments in associated companies	5	2
Share of net profit/loss in associated companies	180	363
Share of other comprehensive income in associated companies	-22	268
Dividends from associated companies	-192	-824
Write-down of investment <sup>1)</sup>	-5	-
Sale of STG shares	-3,024	-
Reclassification of STG shares to a financial asset	-1,796	-
Translation differences, etc	132	-186
<b>Carrying value at end of year</b>	<b>122</b>	<b>4,845</b>

<sup>1)</sup> Write-down of investment relates to EB Road Cargo AB.

During the year, Swedish Match received dividends of 191 MSEK (816) from STG and 0 MSEK (8) from other associated companies.

The tables below specify the summary financial position of the associated companies and the corresponding carrying values. Beginning in the fourth quarter of 2015, operating results for STG are reported on a one quarter lag, based on the availability of publicly released financial reporting. As a consequence of this change, 2015 reported figures for STG reflect the operating results of the nine months ended September 2015. The 2016 reported figures for STG only reflect the operating results until the date of partial divestment in September, thereafter the shareholding in STG has been reclassified as a financial asset. Operating results of other associated companies are recognized with a time lag of one month, based on the investee's internal financial reporting. Adjustments resulting from annual audits of investee results are reflected in the subsequent reporting periods.

	Scandinavian Tobacco Group A/S		Other associated companies		Total	
	2016	2015	2016	2015	2016	2015
Sales	5,594	6,229	1,147	1,040	6,741	7,269
Operating profit	804	900	17	13	821	913
Net profit/loss	574	619	11	6	585	625
Other comprehensive income	-73	546	0	-	-73	546
<b>Total comprehensive income</b>	<b>500</b>	<b>1,165</b>	<b>11</b>	<b>6</b>	<b>511</b>	<b>1,171</b>
Total current assets	-	5,652	584	595	584	6,247
Total fixed assets	-	11,869	139	143	139	12,012
Total current liabilities	-	2,230	292	330	292	2,560
Total non-current liabilities	-	4,593	150	129	150	4,722
<b>Equity</b>	<b>-</b>	<b>10,698</b>	<b>281</b>	<b>276</b>	<b>281</b>	<b>10,974</b>
<b>Equity interest</b>	<b>-</b>	<b>5,275</b>	<b>117</b>	<b>108</b>	<b>117</b>	<b>5,383</b>
Goodwill	-	-	5	5	5	5
Deferred capital gain net of transaction costs	-	-543	-	-	-	-543
<b>Carrying value at end of year</b>	<b>-</b>	<b>4,732</b>	<b>122</b>	<b>113</b>	<b>122</b>	<b>4,845</b>

### Investments in joint ventures

In 2009, Swedish Match and Philip Morris International established an exclusive joint venture company, SMPM International AB, to commercialize Swedish snus and other smokeless products worldwide, outside Scandinavia and the United States. The joint venture agreement was a 50 percent holding of SMPM International. Swedish Match share of the net loss for 2015 was 36 MSEK. On October 1, 2015, SMPM International AB was dissolved, with trademarks and certain other assets reverting the original owners.

## NOTE 14 Continued

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

	2016	2015
Joint ventures		
Carrying value at beginning of year	-	11
Investment in joint venture	-	25
Net loss of joint venture	-	-36
<b>Carrying value at end of year</b>	<b>-</b>	<b>-</b>

The table below specifies the summary financial position of the joint venture:

	2016	2015
Sales	-	6
Operating loss	-	-71
Net loss	-	-72
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-72</b>
Total current assets	-	30
Total fixed assets	-	0
Total current liabilities	-	29
Total non-current liabilities	-	-
<b>Equity</b>	<b>-</b>	<b>1</b>
<b>Carrying value at end of year</b>	<b>-</b>	<b>-</b>

#### Transactions with associated companies and joint ventures

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 25 MSEK (27). Total sales to associated companies and joint ventures amounted to 142 MSEK (169). Payables to these companies totaled 2 MSEK (10). Total purchases from associated companies and joint ventures amounted to 58 MSEK (103).

### 15 Other non-current financial assets

Non-current financial assets pertains to the investment in STG of 2,761 MSEK (-), which was previously reported as an investment in associated companies. As of December 2016, Swedish Match owned 18,069,906 shares in STG, corresponding to approximately 18.1 percent of the total number of shares in STG. Swedish Match recognized an unrealized gain of 902 MSEK on the reclassification of the investment in STG to a financial asset.

### 16 Other non-current receivables and other current receivables

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

	2016	2015
Non-current receivables		
Non-current financial receivables <sup>1)</sup>	674	621
Net assets in pension plans	90	91
Other non-current receivables	10	9
<b>Total</b>	<b>774</b>	<b>721</b>

<sup>1)</sup> Non-current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies of 391 MSEK (297).

The greater part of non-current financial receivable pertains to life insurance policies in a non-Swedish subsidiary.

Other current receivables at December 31 comprised the following items:

	2016	2015
Other current receivables		
Current financial receivables <sup>1)</sup>	44	21
VAT receivables	16	16
Other current receivables	157	115
<b>Total</b>	<b>216</b>	<b>153</b>

<sup>1)</sup> Current financial receivables include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies of 33 MSEK (-).

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

### 17 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:

	2016			2015		
	Current	Non-current	Total	Current	Non-current	Total
Inventories						
Finished goods	576	-	576	477	-	477
Work in progress	44	-	44	41	-	41
Leaf tobacco	470	147	617	347	227	573
Other input materials and consumables	304	-	304	286	-	286
<b>Total</b>	<b>1,395</b>	<b>147</b>	<b>1,541</b>	<b>1,151</b>	<b>227</b>	<b>1,378</b>

During 2016, 19 MSEK (19) of inventory write-downs have been expensed.

Other input materials and consumables include harvested trees which are reported at fair value less estimated point-of-sale cost. Harvested trees constitute an immaterial part of other input materials.

### 18 Trade receivables

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

	2016	2015
Trade receivables		
Trade receivables	1,563	1,569
Less provision for impairment of trade receivables	-24	-21
<b>Net total</b>	<b>1,539</b>	<b>1,547</b>

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

	2016	2015
Trade receivable provision		
<b>Carrying value at beginning of year</b>	<b>-21</b>	<b>-28</b>
Provision	-4	-7
Recovery	4	9
Write-off	1	1
Translation differences, other deductions or additions, etc.	-4	3
<b>Carrying value at end of year</b>	<b>-24</b>	<b>-21</b>

As of December 2016, net trade receivables of 67 MSEK (55) were past due but not impaired. The aging of net trade receivables are as follows:

	2016	2015
Aging of trade receivables		
Current	1,472	1,492
Overdue < 31 days	46	38
Overdue 31-60 days	8	7
Overdue > 60 days	13	10
<b>Total</b>	<b>1,539</b>	<b>1,547</b>

Swedish Match does not generally hold collateral against trade receivable. The ten largest customers represent 38 percent (38) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables are deemed to be low. For more information see Note 26 Financial instruments and financial risks.

### 19 Cash and cash equivalents

	2016	2015
Cash and cash equivalents		
Cash and bank	731	1,732
Other current investments	2,633	-
<b>Total</b>	<b>3,364</b>	<b>1,732</b>

Other current investments consist of short term deposits with other institutions.

## 20 Equity

### Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA.

Excess funds shall be returned to shareholders through dividends and share repurchases. Swedish Match has the ambition to continuously grow dividend per share with a payout ratio normally within 40–60 percent, subject to adjustment for larger one-time items. The Board of Directors proposes a total dividend of 16.00 SEK per share consisting of an increased ordinary dividend per share of 8.50 SEK and an extra dividend per share of 7.50 SEK. The proposed increased ordinary dividend of 8.50 SEK per share is equivalent to 59 percent of the earnings per share for the year, excluding larger one-time items. The extra dividend of 7.50 SEK per share is proposed in accordance with Swedish Match's financial policy of returning excess cash to its shareholders and following the partial divestment of STG in January 2017. The proposed ordinary and extra dividend together amounts to 2,955 MSEK (3,778) based on the 184.7 million shares outstanding at the end of the year. Ordinary dividend for 2015, paid in 2016, amounted to 1,506 MSEK corresponding to 8.0 SEK per share, which is equivalent to 56 percent of the earnings per share for the year, excluding larger one-time items. In conjunction with the ordinary dividend an extra dividend of 12.00 SEK per share was paid out in 2016 following the partial divestment of STG in conjunction with the listing of STG on Nasdaq Copenhagen and another extra dividend of 9.50 SEK per share was paid out in December 2016 following the partial divestment of STG in September 2016. The two extra dividends were 2,258 and 1,758 MSEK respectively.

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

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2016	2015	2016	2015
<b>Balance at beginning of year</b>	<b>7,584</b>	<b>4,823</b>	<b>-25,089</b>	<b>-23,235</b>
Repurchase of own shares during the year	4,243	7,473	-1,249	-1,995
Stock options exercised during the year	-	-712	-	141
Allocated to retained earnings by cancellation of treasury shares	-7,750	-4,000	15	8
Bonus issue	-	-	-15	-8
<b>Balance at end of year</b>	<b>4,077</b>	<b>7,584</b>	<b>-26,338</b>	<b>-25,089</b>

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 233.9 million shares and the total number of cancellation of shares amounts to 215.2 million shares. Total number of shares sold as a result of option holders exercising options amounted to 14.6 million shares in 2015.

The Annual General Meeting on April 28, 2016 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 8 million shares held in treasury. The total number of outstanding shares of the Company, including treasury shares, after the cancellations, is 188.8 million shares.

During the year 4.2 million shares were repurchased for 1,249 MSEK at an average price of 294.33 SEK. As of December 31, 2016 Swedish Match held 4.1 million shares in its treasury, corresponding to 2.16 percent of the total number of shares. The number of shares outstanding, net after repurchase as per year end amounted to 184.7 million. All remaining options issued by Swedish Match, as part of its former options program, were exercised in 2015 and no further options are outstanding.

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

2015	Hedge reserve	Translation reserve	Fair value reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-172</b>	<b>768</b>	<b>-</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	-	0
Translation differences related to foreign operations for the year	-	-137	-	0
Translation differences included in profit and loss	-	44	-	-
Effective portion of changes in fair value cash flow hedges	86	-	-	-
Changes in fair value cash flow hedges included in profit and loss	8	-	-	-
Share of reserves in associated companies and joint ventures, net of taxes <sup>1)</sup>	10	250	-	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	-21	-	-	-
<b>Balance at end of year</b>	<b>-89</b>	<b>926</b>	<b>-</b>	<b>1</b>

2016	Hedge reserve	Translation reserve	Fair value reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-89</b>	<b>926</b>	<b>-</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	-	0
Translation differences related to foreign operations for the year	-	558	-	0
Translation differences included in profit and loss	-	-143	-	-
Effective portion of changes in fair value cash flow hedges	-81	-	-	-
Changes in fair value cash flow hedges included in profit and loss	16	-	-	-
Share of reserves in associated companies and joint ventures, net of taxes <sup>1)</sup>	-7	-14	-	-
Available-for-sale financial assets – net change in fair value	-	-	310	-
Share of reserves in associated companies and joint ventures, net of taxes, included in profit and loss <sup>1)</sup>	-	-509	-	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	14	-	-	-
<b>Balance at end of year</b>	<b>-147</b>	<b>819</b>	<b>310</b>	<b>1</b>

<sup>1)</sup> Share of reserves in associates and joint ventures includes Swedish Match share of other comprehensive income reported in the consolidated financial reports of associated companies and joint ventures, such as fair value adjustments on financial instruments and related income taxes and translation effects that arise from the transaction of the financial reports of foreign subsidiaries that have prepared their financial statements in a different currency from the Parent company in the associates and joint ventures of Swedish Match.

<sup>2)</sup> For further details on tax components relating to the various other comprehensive income items, see Note 9, Income tax.

#### Hedge reserve

The hedge reserve includes the accumulated effective portion of changes in fair value of cash flow hedges attributable to interest rate hedges.

#### Translation reserve

The translation reserve includes all exchange rate differences that arise in translation of the financial reports of foreign operations that have prepared their financial statements in a different currency from that which is used to present the consolidated financial reports. The Parent Company and the Group present their reports in Swedish krona (SEK).

#### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

## 21 Interest bearing liabilities

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

Year	2016	2015
2017	–	2,920
2018	1,249	1,249
2019	1,154	1,117
2020	799	799
2021	497	–
2022 and later	4,471	1,528
<b>Total</b>	<b>8,169</b>	<b>7,613</b>

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

	2016	2015
Current interest-bearing liabilities		
Current portion of non-current loans	2,042	650
Bank overdraft facilities utilized	5	4
<b>Total</b>	<b>2,047</b>	<b>653</b>

Hedging related to interest-bearing liabilities amounts to 363 MSEK (203) of which 424 MSEK (297) are included in *Note 16* and –61 MSEK (–94) in *Note 24*. See further information on interest-bearing liabilities in *Note 26*.

## 22 Employee benefits

### Post-employment employee benefits

The Group has defined benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years.

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

	2016	2015
Post-employment defined benefits		
Defined benefit plans, net liabilities	412	689
Post-employment medical benefits, net liabilities	1,121	985
Other long term employee benefits, net liabilities	9	8
<b>Provision for pensions and similar obligations</b>	<b>1,542</b>	<b>1,682</b>
Defined benefit plans, net assets	–90	–91
<b>Included in non-current receivables</b>	<b>–90</b>	<b>–91</b>
<b>Net post-employment liability</b>	<b>1,452</b>	<b>1,591</b>

The defined pension and benefit liability increased during the year, as a result of primarily lower discount rates and currency effects, mostly affecting the US plans, but due to larger than normal pension contributions, the net obligation decreased.

### Overview of the Group's post-employment defined benefit plans

Post-employment defined benefit plans in US, together with the pension plan in UK, represents more than 90 percent of the Group's total defined benefit obligation.

In the US, Swedish Match provides two qualified pension plans, a postretirement medical plan, a supplemental pension plan covering certain executives, and a long term disability plan. The qualified pension plans are funded, where benefit payments are made from a trustee-administered fund. The other plans are unfunded, where the Company pays benefits as they come due.

The largest qualified pension plan covers non-collectively bargained US employees and was closed for new entrants beginning in 2008. The plan is a final average pay pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

The second qualified pension plan covers collectively bargained US employees and is open for new entrants. The plan is a dollars times service pension plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and dollar multipliers specified by the plan.

Normal retirement age for the US qualified pensions is 65 years and benefits do not receive inflationary increases. Plan assets are held in trusts and there are pension plan fiduciaries as required under US pension law. The fiduciaries, jointly with Swedish Match, are responsible for the governance of the plans.

In the reporting period beginning January 1, 2016, Swedish Match has changed the method used to estimate the service and interest components of income and expenses related to the post-employment benefit plans in the US. This change compared to the previous method results in a decrease in the service and interest cost components in 2016. Historically, these service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation as of the beginning of the period. We have elected to use the full yield curve approach in estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to corresponding spot rate along the yield curve. This change will not affect the measurement of benefit obligations related to the US plans as the change in the service and interest cost components will be offset by an increase in the actuarial gains and losses reported in experience assumptions. We view this change as a change in accounting estimate and accordingly will account for it prospectively.

Plan assets are invested in accordance with the plans' Statement of Investment Guidelines. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The asset allocation strategy is to gradually move toward a higher fixed income allocation, following an interest rate matching strategy specifically referred to as a Liability Responsive Asset Allocation. As the funded status improves, the allocation to liability-oriented long duration bonds, or hedging assets, will increase, with a corresponding decrease to return-seeking assets, including equities, real estate, and hedge funds.

Actuarial valuations are completed annually for the US plans, and historically contributions have been made to satisfy minimum funding requirements and any additional discretionary amounts to avoid benefit restrictions, and to maintain a funded ratio of at least 80 percent under US pension law.

The US post-retirement medical plan offers heavily subsidized health care coverage for employees and their beneficiaries after retirement. For non-collectively bargained employees, the plan was closed for new entrants beginning in 2008. The plan is still open for collectively bargained new entrants. In addition to retiree medical benefits, retiree life insurance benefits are also provided under the plan.

In the UK, Swedish Match provides a funded pension plan for former employees of Swedish Match UK Limited, providing benefits based on final pay. Over two-thirds of the liabilities relate to retired members already in receipt of pensions, and their dependents, with the balance relating to members with deferred pensions. There are no active members accruing further benefits, and no new members are able to join.

The plan is set up as a separate legal entity, and a separate trustee company, Swedish Match UK Pension Trustee Limited, is responsible for its governance. One-third of the directors of the trustee company are nominated by the membership and two-thirds are nominated by the employer. The strategic asset allocation is determined from time to time by the directors of the trustee company, after consulting Swedish Match, based on professional advice and having regard to the level of risk.

At the end of 2011, the trustee undertook a significant exercise to reduce risk by purchasing a bulk annuity contract covering all of the liabilities for pensions in payment at that time. The trustee is currently following a largely growth-based strategy for the remaining assets but is actively looking for opportunities to de-risk further as and when the funding position allows.

The other pension plans within the Group are final salary pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life, or in a lump-sum at the date of the retirement. The majority of benefit payments are from trustee-administered funds. Also, there are a number of unfunded plans where the Group meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by local regulations and practices in each country, as is the nature of relationship between Swedish Match and the trustees (or equivalent) and their composition. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies jointly with Swedish Match and the board of trustees. The board of trustees is composed of representatives of Swedish Match and plan participants in accordance with the plans' regulations.



NOTE 22 Continued

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

Post-employment defined benefits	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
Present value of funded obligations	3,179	2,857	-	-
Fair value of plan assets	-3,012	-2,397	-	-
<b>Deficit(+), net</b>	<b>167</b>	<b>461</b>	<b>-</b>	<b>-</b>
Present value of unfunded obligations	155	138	1,121	985
<b>Net liability(+) in the balance sheet</b>	<b>322</b>	<b>598</b>	<b>1,121</b>	<b>985</b>
<b>Amounts in the balance sheet</b>				
Liabilities	412	689	1,121	985
Assets	-90	-91	-	-
<b>Net liability(+) in the balance sheet</b>	<b>322</b>	<b>598</b>	<b>1,121</b>	<b>985</b>

**Actuarial assumptions**

Provisions for the Group's post-employment defined benefit plans are reported based on actuarial valuations. Actuarial valuations are calculated based on actuarial assumptions for determining the discounted net present value of the obligations. Significant actuarial assumptions used are discount rate, future salary growth rate, future pension growth rate, inflation, future mortality experience and medical cost trend rate, as applicable.

The discount rate is set per country with reference to market yield on high quality corporate bonds of appropriate duration or government bonds for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. The interest income on plan assets is based on the discount rate and is a component of the return on plan assets. Changes in assumptions can give rise to remeasurement differences, i.e., actuarial gains and losses, in the valuation of the Group's defined benefit obligations and the outcome from the performance of plan assets. Actuarial gains and losses are recognized to the full amount as they occur in accordance with the actuarial valuation and reported in other comprehensive income. The full recognition of actuarial gains and losses implies that the Group's net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

**Significant risks associated with the Group's post-employment defined benefit plans**

Changes in market yields on corporate and government bonds would impact the plan liabilities. A decrease in market yields will decrease the discount rate assumption which increases plan liabilities for accounting purposes. However, for funded plans, this will be partially offset by an increase in the value of the trusts' bond holdings. As Swedish Match moves along the liability-driven investment glide path, this offset will increase and risk will be further mitigated.

Some pension plan trusts hold equities, whose growth is expected to outpace liabilities over the long term while providing volatility and risk in the short term. Poor equity performance will decrease funded status and will increase both accounting expense and required funding. As discussed above, over time, Swedish Match intends to reduce the level of equity investment risk by investing more in fixed income assets that better match the liabilities per the liability-driven investment glide path set forth in the Statement of Investment Guidelines.

The plans provide benefits for the life of participants (and often their spouses as well). As such, increases in life expectancy will result in an increase in the plans' liabilities.

Other risks to which the plans are exposed include the risk that price inflation will increase, which will result in higher pension payments being due.

The postretirement medical liabilities in the US reflect assumptions of increases in future US health care costs (health care trend). If actual cost increases outpace these assumptions, plan liabilities will increase.

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

Actuarial assumptions	Group			
	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
Discount rate, %	3.8	4.2	4.2	4.4
Future salary increases, %	3.0	2.9	3.0	3.0
Future pension increases, %	2.4	2.3	-	-
Medical cost trend rate, %	-	-	7.0	7.0

**Sensitivity analysis of significant assumptions**

Changes in the discount rate may have a significant effect on the Group defined benefit obligation. An increase in the discount rate of 0.5 percent would decrease the defined benefit obligation with 318 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 279 MSEK. The effect from the sensitivity analysis is based on a change in the discount rate assumption while holding all other assumptions constant.

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

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

Defined benefit obligations	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
<b>Balance at beginning of year</b>	<b>2,995</b>	<b>3,033</b>	<b>985</b>	<b>1,054</b>
Service cost	56	65	27	41
Interest expense	109	123	37	47
Administrative expense	-	-	-1	-1
Loss on settlements	1	-	-	-
Employer direct settlements payments	-7	-	-	-
Settlements payments from plan assets	-2	-	-	-
Contributions by plan participants	-	-	3	3
Benefits paid	-154	-166	-29	-27
Taxes paid	-	-1	-	-
Changes in financial assumptions	215	-113	31	-113
Changes in demographic assumptions	-16	-78	-11	-86
Experience assumptions	47	-52	0	-16
Translation differences	91	183	80	84
<b>Balance at end of year</b>	<b>3,333</b>	<b>2,995</b>	<b>1,121</b>	<b>985</b>

Profile of plan members of the defined benefit obligation	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
Active employees	1,018	954	633	547
Deferred members	463	410	-	-
Members in retirement	1,853	1,631	487	437
<b>Balance at end of year</b>	<b>3,333</b>	<b>2,995</b>	<b>1,121</b>	<b>985</b>
<b>Weighted average duration of defined benefit obligation</b>	<b>13 years</b>	<b>13 years</b>	<b>14 years</b>	<b>15 years</b>

## NOTE 22 Continued

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

Plan assets	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
<b>Fair value at beginning of year</b>	<b>2,397</b>	<b>2,360</b>	<b>0</b>	<b>0</b>
Interest income on plan assets	83	90	-	-
Administrative expense	-14	-16	-1	-1
Settlements payments from plan assets	-2	-	-	-
Employer direct settlement payments	7	-	-	-
Employer contributions	527	62	27	26
Employee contributions	-	-	3	3
Benefits paid	-154	-166	-29	-27
Settlements payments from employer	-7	-	-	-
Taxes paid	-	-1	-	-
Return on plan assets	114	-63	-	-
Translation differences	62	130	-	-
<b>Fair value at end of year</b>	<b>3,012</b>	<b>2,397</b>	<b>0</b>	<b>0</b>

The actual return on plan assets in 2016 amounted to 197 MSEK compared to a return in 2015 of 28 MSEK.

Plan assets at December 31 are comprised as follows:

Plan assets	2016	2015
Equity securities <sup>1)</sup>	1,509	1,047
Debt instruments	501	389
Real estate	81	72
Other <sup>2)</sup>	921	888
<b>Total</b>	<b>3,012</b>	<b>2,397</b>

<sup>1)</sup> Equity securities consist of quoted securities in all material respect. The Group's plan assets do not hold any own shares.

<sup>2)</sup> A large part pertains to the UK annuity insurance policies.

### Income and expenses relating to post-employment benefit plans recognized in the income statement

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
Current service costs	56	65	27	41
Interest expense on obligation	109	123	37	47
Interest income on plan assets	-83	-90	-	-
Administrative expenses	15	16	-	-
Loss on settlements	1	-	-	-
<b>Net expense(+) reported in the income statement</b>	<b>98</b>	<b>114</b>	<b>64</b>	<b>88</b>

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
Cost of goods sold	26	25	15	17
Administrative expenses	18	28	-3	5
Selling expenses	28	28	16	18
Interest income	-83	-90	-	-
Interest expenses	109	123	37	47
<b>Net expense(+) reported in the income statement</b>	<b>98</b>	<b>114</b>	<b>64</b>	<b>88</b>

### Income and expenses relating to post-employment benefit plans recognized in other comprehensive income

The amounts reported in other comprehensive income consist of the following:

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2016	2015	2016	2015
Actuarial gains and losses on obligations, incl. salary taxes	245	-243	19	-215
Return on plan assets, excluding interest income	-115	63	-	-
<b>Net income(-)/expense(+) reported in other comprehensive income statement</b>	<b>131</b>	<b>-180</b>	<b>19</b>	<b>-215</b>

### Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 125 MSEK (118).

### Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan for salaried personnel in Alecta. Although this plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, to provide specific information for each customer's obligation and fair value of related assets and therefore it has been accounted for as a defined contribution plan. The contribution to the multi-employer plan Alecta for the year ended December 2016 was 55 MSEK (51). Swedish Match contribution represents 0.24 percent (0.18) of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.08 percent (0.08) of all active members in the plan. Alecta has a collective funding ratio as per December 2016 of 149 percent (153). Collective funding ratio is a buffer for Alecta's insurance commitments to protect against fluctuations in investment return and insurance risks. It is a difference between Alecta's assets and the company's insurance commitments to policyholders and insured individuals. The collective solvency is normally allowed to vary between 125 and 155 percent, with the target of 140 percent. If the level of collective solvency is less than 125 percent or exceeds 155 percent, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval.

## NOTE 22 Continued

**Post-employment employee benefits per country**

Defined benefit pension plans and post-employment medical benefits at December 31 per significant country are comprised as follows:

	Present value of obligation	Fair value of plan assets	Net liability/asset	Net liability/asset in balance sheet
<b>2016</b>				
USA	3,462	2,044	1,419	1,419
UK	786	731	55	55
Rest of the world	216	237	-22	-22
<b>Total</b>	<b>4,463</b>	<b>3,012</b>	<b>1,452</b>	<b>1,452</b>
<b>2015</b>				
USA	3,031	1,421	1,610	1,610
UK	756	745	11	11
Rest of the world	200	230	-30	-30
<b>Total</b>	<b>3,987</b>	<b>2,397</b>	<b>1,591</b>	<b>1,591</b>

Significant actuarial assumptions at the balance sheet date per significant country (expressed as weighted average):

Actuarial assumptions	USA				UK		Rest of the world	
	Defined benefit pension plans		Post-employment medical benefits		Defined benefit pension plans		Defined benefit pension plans	
	2016	2015	2016	2015	2016	2015	2016	2015
Discount rate, %	4.1	4.4	4.2	4.4	2.6	3.7	4.7	4.6
Future salary increases, %	3.0	3.0	3.0	3.0	-	-	2.7	2.3
Future pension increases, %	2.2	2.0	-	-	3.3	3.3	1.1	1.2
Medical cost trend rate, %	-	-	7.0	7.0	-	-	-	-

**Expected contribution next year**

Expected contributions for post-employment benefit plans for the full year 2017 amounts to 68 MSEK.

## 23 Provisions

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

Non-current provisions	2016	2015
Income tax	110	121
Restructurings	4	4
Other operating provisions	4	5
Deferred compensation	313	271
Other provisions	140	55
<b>Total non-current provisions</b>	<b>572</b>	<b>456</b>

Current provisions	2016	2015
Restructurings	20	42
Other operating provisions	96	105
<b>Total current provisions</b>	<b>116</b>	<b>147</b>
<b>Total provisions</b>	<b>687</b>	<b>603</b>

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other Provisions	Total
<b>Carrying value at beginning of year</b>	<b>121</b>	<b>46</b>	<b>111</b>	<b>271</b>	<b>55</b>	<b>603</b>
Provisions made during the year	-	11	30	87	86	214
Provisions used during the year	-	-33	-41	-63	-	-137
Provisions reversed during the year and changes in estimates	-21	-	-8	-	-	-29
Reclassifications	-	0	1	0	-	0
Translation differences, etc.	10	-	8	19	-	37
<b>Carrying value at end of year</b>	<b>110</b>	<b>23</b>	<b>100</b>	<b>313</b>	<b>140</b>	<b>687</b>

### Income tax provisions

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

### Restructuring provisions

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

### Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. While provisions related to coupons and returns are expected to be realized within the year, they are replaced within the year, and as such the provisions are classified as current.

### Deferred compensation

The deferred compensation provision represents obligations for earned remuneration to certain employees and accruals for the long term incentive plan. Certain employees may elect to defer a portion of their normal salary and/or bonus awards until a later date, and may elect to defer compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years. The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years.

### Other provisions

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

## 24 Other liabilities

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

Other non-current liabilities	2016	2015
Non-interest bearing non-current liabilities <sup>1)</sup>	49	12
Non-current financial liabilities, derivatives <sup>2)</sup>	69	200
<b>Total</b>	<b>118</b>	<b>212</b>

<sup>1)</sup> During 2016, non-interest bearing non-current liabilities mainly pertains to additional obligations related to acquisition of patent rights.

<sup>2)</sup> Non-current financial liabilities, derivatives are measured at fair value and include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies of 65 MSEK [94].

Other current liabilities at December 31 comprised the following:

Other current liabilities	2016	2015
Tobacco taxes	1,112	1,223
VAT liabilities	324	387
Current financial liabilities, derivatives <sup>1)</sup>	65	-
Other	26	49
<b>Total</b>	<b>1,527</b>	<b>1,659</b>

<sup>1)</sup> Current financial liabilities, derivatives are measured at fair value and include foreign exchange derivatives used to hedge the bond loans denominated in foreign currencies of -4 MSEK (-).

## 25 Accrued expenses and deferred income

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

Accrued expenses and deferred income	2016	2015
Accrued wage/salary-related expenses	246	181
Accrued vacation pay	65	62
Accrued social security charges	73	58
Accrued interest	105	109
Other	366	305
<b>Total</b>	<b>854</b>	<b>715</b>

## 26 Financial instruments and financial risks

### Operations

As a result of its international operations, Swedish Match is exposed to financial risks. The term "financial risks" refers to fluctuations in Swedish Match's cash flow caused by changes in foreign exchange rates and interest rates, and to risks associated with refinancing and credit. To manage its financial risks, Swedish Match has a finance policy in place established by the Board of Directors. The Group's finance policy comprises a framework of guidelines and principles governing the management of financial risks and finance operations in general. The central functions consist of Financial Services and Treasury, which are responsible for the Group's borrowing including securing financing needs, cash management including cash pools and handling the liquidity surplus, as well as currency and interest rate management. Treasury serves as an internal bank for the Group's financial transactions. The Group's financial risk management is centralized to capitalize on economies of scale and synergy effects, and to minimize operational risks.

### Financial instruments

Swedish Match uses various types of financial instruments to hedge the Group's financial exposure arising in business operations and as a result of the Group's financing and asset and debt management activities. Currency exchange and 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

	2016			2015		
	Nominal	Assets	Liability	Nominal	Assets	Liability
Currency derivatives	2,836	-	65	1,791	0	-
Interest-rate and currency derivatives*	7,053	340	78	5,171	267	101
<b>Total:</b>	<b>9,889</b>	<b>340</b>	<b>143</b>	<b>6,962</b>	<b>267</b>	<b>101</b>
<b>*Of which hedge accounting</b>						
Cash flow hedges <sup>1)</sup>	7,053	340	78	5,171	267	101

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

### Currency risks

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

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

The consolidated income statement includes exchange rate loss of -3 MSEK (8) in operating profit, and loss of -2 MSEK (3) in net finance cost.

### Transaction exposure

For the Group as a whole, there is a balance between inflow and outflow, which effectively limits the Group's transaction exposure. Limited transaction exposure arises when certain of the Group's production units in Europe make purchases of raw tobacco in USD, and through the European operations' exports of lighters and matches in USD. The largest exposure is in NOK due to the sales of snus in Norway which is produced in Sweden.

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 722 MSEK on an annual basis. It is divided as following: 436 MSEK in NOK (60 percent), 185 MSEK in USD (26 percent), 36 MSEK in GBP (5 percent), 18 MSEK in EUR (3 percent), and in other currencies 47 MSEK (6 percent). As Swedish Match's transaction exposures are limited, few hedging transactions are executed. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. At December 31, 2016, no transaction exposure for 2017 has been hedged. A general rise of 10 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by 70 MSEK (57), of which 44 in NOK, 19 in USD, 4 in GBP, and 3 in other currencies for the year ending December 31, 2016.

### 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. Effects mainly pertain to USD, EUR and BRL. The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The exposures of net investment are 5,172 MSEK in USD (87 percent), 337 MSEK in EUR (6 percent), 266 MSEK in BRL (4 percent) and in other currencies 159 MSEK (3 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 10 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be negative in an amount of approximately 519 MSEK, of which 517 in USD and 2 in other currencies based on the exposure at December 31, 2016.

## NOTE 26 Continued

**Interest-rate risk**

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense.

Swedish Match policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate fixing is to achieve an even and low cost of interest. Interest rate swaps and currency swaps are used mainly to convert our borrowing into SEK and fixed interest rates. At December 31, 2016, the average interest maturity period for Group loans was 4.2 years (3.2 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2016 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2017	2,042	5	2,042	5
2018	902	347	902	347
2019	954	200	954	200
2020	799	-	799	-
2021	497	-	497	-
2022-	4,471	-	4,471	-
<b>Total</b>	<b>9,664</b>	<b>552</b>	<b>9,664</b>	<b>552</b>

At December 31, 2016, a general rise of 1 percent (100bp) in short term interest rates of debt with variable interest rates and cash surplus was estimated to increase consolidated earnings before tax by approximately 2 MSEK (12) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 7,941 MSEK (7,922).

If interest rates were to rise with 1 percent (100bp), there would be an immaterial effect on equity due to cash flow hedges.

**Refinancing risk and liquidity**

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

Swedish Match has a syndicated bank credit facility of 1,500 MSEK, of which one fourth matures in December 2020 and three fourths matures in December 2021. This was unutilized at year-end and contained no financial covenants. At year-end 2016, available cash funds and committed credit facilities amounted to 4,864 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents making up the remaining 3,364 MSEK.

Most of Swedish Match's financing consists of a global medium-term note program (MTN) with a limit amount of 1,500 MEUR. The program is an uncommitted borrowing program and the availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2016, a total of 10,243 MSEK of the global program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2016 was 4.3 years.

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

Year	MTN Loans incl. interest	Negative derivatives	Trade payables	Total value	Total booked value
2017	2,275	35	686	2,996	2,806
2018	1,416	34	-	1,450	1,259
2019	1,272	34	-	1,306	1,164
2020	894	34	-	928	809
2021	582	34	-	616	508
2022-	4,704	122	-	4,826	4,500
<b>Total</b>	<b>11,143</b>	<b>293</b>	<b>686</b>	<b>12,122</b>	<b>11,046</b>

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF is hedged into SEK by currency and interest rate swaps. The average interest cost for outstanding bonds (including derivative instruments) on December 31, 2016 was 3.4 percent (4.2).

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 Group's treasury unit. Exceptions are only allowed when regulations prohibit cash pools or internal deposits.

**Cash flow and fair value hedges****Cash flow hedges**

The table below shows the yearly change of fair value, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2016.

	2016			
	Jan 1	Change of fair value	Allocated to income statement	Dec 31
Hedging instruments, derivatives	-75	-81	15	-141
<b>Total</b>	<b>-75</b>	<b>-81</b>	<b>15</b>	<b>-141</b>

	2015			
	Jan 1	Change of fair value	Allocated to income statement	Dec 31
Hedging instruments, derivatives	-169	86	8	-75
<b>Total</b>	<b>-169</b>	<b>86</b>	<b>8</b>	<b>-75</b>

Maturity profile of interest payments taking part in a cash-flow hedge are shown in the table below.

	2017	2018	2019	2020	2021	2022-
Fixed rate interest on hedging swaps	-257	-155	-155	-116	-116	-351

**Fair value hedges**

At year end there were no fair value hedges outstanding.

**Liquidity risks and credit risks**

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in deposits in banks and institutions. At December 31, 2016, the average interest maturity for the Group's current investments was less than 1 month.

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 category A from Standard & Poor's or equivalent from Moody's.

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterparty is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2016. No collateral has been received or pledged.

## Financial instruments under master netting agreements

	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
<b>2016</b>			
Derivatives – assets	340	-87	252
Derivatives – liabilities	143	-87	56
<b>2015</b>			
Derivatives – assets	304	-131	173
Derivatives – liabilities	176	-131	45

At December 31, 2016, credit exposure in derivative instruments amounted to 252 MSEK, and credit exposure in cash and deposits at banks amounted to 731 MSEK. Swedish Match reduces the risk of its customers failing to fulfill their undertakings with the result that payment is not received for accounts receivable, by dividing accounts receivable among many different customers. At the reporting date, there was no significant concentration of credit risk in the Group's accounts receivable. The total amount of the Group's trade receivables was 1,539 MSEK (1,547). For more information see *Note 18 Trade receivables*.

## Credit ratings

At December 31, 2016, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

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

## Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments including their levels in the fair value hierarchy at December 31, 2016. Items carried at fair value via the income statement consist of derivatives, for which hedge accounting is not applied.

Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income in level 2 of the fair value hierarchy. Financial assets which are classified as available for sale are carried at a fair value via other comprehensive income in level 1 of the fair value hierarchy. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates.

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

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

The items valued at fair value in the balance sheet that are considered to be included in level 2 within the fair value hierarchy are determined by using current official market quotations for similar instruments and discounting future cash flows. The values presented are indicative and may not necessarily be realized.

	Items carried at fair value via the income statement	Loans and receivables	Available for sale financial assets	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value	Fair value level 1	Fair value level 2
<b>2016</b>										
Trade receivables	-	1,539	-	-	-	-	1,539	1,539		
Other non-current financial assets	-	-	2,761 <sup>1)</sup>	-	-	-	2,761	2,761	2,761	
Other non-current receivables	-	-	-	-	328	447	774	774		328
Other current receivables	-	-	-	-	10	206	216	216		10
Prepaid expenses and accrued income	-	-	-	-	2	80	82	82		2
Cash and cash equivalents	-	3,364	-	-	-	-	3,364	3,364		
<b>Total assets</b>	<b>-</b>	<b>4,903</b>	<b>2,761</b>	<b>-</b>	<b>340</b>	<b>733</b>	<b>8,736</b>	<b>8,736</b>		
Loans and borrowings	-	-	-	10,216	-	-	10,216	10,545		10,545
Other liabilities	65	-	-	-	69	1,511	1,645	1,645		134
Accrued expenses and deferred income	-	-	-	96	9	749	854	854		9
Trade payables	-	-	-	686	-	-	686	686		
<b>Total liabilities</b>	<b>65</b>	<b>-</b>	<b>-</b>	<b>10,998</b>	<b>78</b>	<b>2,260</b>	<b>13,401</b>	<b>13,730</b>		

<sup>1)</sup> Available for sale financial assets consist of shares in STG, recognized as a financial asset. See *Note 15*.

	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value	Fair value level 1	Fair value level 2
<b>2015</b>									
Trade receivables	-	1,547	-	-	-	1,547	1,547		
Other non-current receivables	-	-	-	324	397	721	721		324
Other current receivables	-	-	-	-	153	153	153		
Prepaid expenses and accrued income	-	-	-	-	104	104	104		
Cash and cash equivalents	-	1,732	-	-	-	1,732	1,732		
<b>Total assets</b>	<b>-</b>	<b>3,279</b>	<b>-</b>	<b>324</b>	<b>654</b>	<b>4,257</b>	<b>4,257</b>		
Loans and borrowings	-	-	8,266	-	-	8,266	8,713		8,713
Other liabilities	21	-	-	198	1,652	1,871	1,871		219
Accrued expenses and deferred income	-	-	92	18	605	715	715		18
Trade payables	-	-	602	-	-	602	602		
<b>Total liabilities</b>	<b>21</b>	<b>-</b>	<b>8,960</b>	<b>216</b>	<b>2,257</b>	<b>11,454</b>	<b>11,901</b>		

## 27 Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2016 amounted to 57 MSEK (58).

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:

Minimum lease payments	2016	2015
Within one year	51	51
Between 1–5 years	155	171
Later than 5 years	43	31
<b>Total</b>	<b>250</b>	<b>253</b>

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

## 28 Pledged assets

### Pledged assets

As per December 31, 2016 the Group had 63 MSEK (59) in assets pledged, pertaining to endowment insurance policies pledged as security for certain defined contribution obligations. In accordance with IAS19, endowment insurance policies pledged as security for certain defined contribution obligations of 63 MSEK (59) have been netted against the deferred compensation obligations in non-current provisions as of December 31, 2016.

## 29 Commitments and contingent liabilities and assets

### Contingent liabilities

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

Contingent liabilities	2016	2015
Guarantees on behalf of subsidiaries	51	51
Other guarantees and contingent liabilities	179	154
<b>Total</b>	<b>230</b>	<b>205</b>

### Legal disputes

The Company is involved in a number of legal proceedings. 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 North Europe AB (a subsidiary of Swedish Match AB) was named in a claim submitted in 2014 to the Swedish Patent and Market Court by the Swedish Competition Authority which alleged that a standardized labeling system implemented during certain periods in 2012 and 2013 was in breach of the competition rules. Throughout the process, Swedish Match has vigorously contested the claim. On February 8, 2017, the Swedish Patent and Market Court ruled that the uniform labelling system was in breach of competition legislation. The court imposed a fine of approximately 38 MSEK plus legal fees. Swedish Match has appealed the decision.

Pinkerton Tobacco Company (a subsidiary of Swedish Match USA, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been brought before state courts in West Virginia. The cases against Pinkerton, however, have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these cases intend to pursue their claims separately against Pinkerton. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

### Contingent assets

Swedish Match sold two parcels of land adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. For one of these parcels of land the approval was received in January 2013, and Swedish Match received an additional payment of 161 MSEK in the first half of 2013. For the second of these parcels of land the approval was received in January 2017, and Swedish Match received an additional payment in February 2017. The capital gain of 107 MSEK will be recognized in the first quarter 2017.

## 30 Group companies

Subsidiary holdings <sup>1</sup>	Subsidiary's domicile, country	Ownership share, %	
		2016	2015
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99.7	99.7
SM Brazil Holding AB	Brazil	100	100
SM Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Malaysian Holding AB	Malaysia	100	100
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
Swedish Match Fósforos Portugal, SA	Portugal	100	100
Road Cargo Sweden Holding AB	Sweden	100	100
Lysstickan AB	Sweden	100	100
SMD Logistics AB	Sweden	100	100
SM Industries Fastighets AB	Sweden	100	-
SM Industries AB	Sweden	100	100
SM Intellectual Property AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Cigars Holding AB	Sweden	100	100
Swedish Match US AB	Sweden	100	100
SMD Logistics Holding AB	Sweden	100	100
SMD Logistics Ornäs AB	Sweden	100	100
SM (PM) International AB	Sweden	100	100
Svenska Tobaks AB	Sweden	100	100
Svenskt Snus AB	Sweden	100	100
Nyz AB	Sweden	100	-
SM Treasury Switzerland AG	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Holding Inc.	USA	100	100
SM Cigars Inc.	USA	100	100
SM USA Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America LLC <sup>2</sup>	USA	100	100
The Pinkerton Tobacco Co. LLC <sup>2</sup>	USA	100	100

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

<sup>2</sup> SM North America Inc and The Pinkerton Tobacco Co. has changed name as of December 2015 to SM North America LLC and The Pinkerton Tobacco Co. LLC.



## 31 Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is cash and bank and other current investments.

	2016	2015
Interest paid and interest received		
Interest received	48	17
Interest paid	-394	-423
<b>Total</b>	<b>-345</b>	<b>-406</b>

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

	2016	2015
Adjustments for non cash items and other		
Depreciation, amortization and write down	339	317
Change in provisions	-	48
Change in defined benefit plans	164	204
Change in employer contributions of plan assets	-564	-91
Change in accrued interest	53	-28
Change in market value revaluations and unrealized exchange rate differences	217	21
Realized exchange rate differences moved to financing	-284	-35
Capital gain from sale of shares in associated companies	-2,109	-
Capital gain from sale of tangible asset	-145	-
Other	-8	-23
<b>Total</b>	<b>-2,338</b>	<b>412</b>

### Capital gains

Capital gain from sale of shares in associated companies pertains to the partial divestments of STG amounted to 1,208 MSEK (-) and an unrealized gain from revaluing Swedish Match's remaining holding in STG to fair value amounted to 902 MSEK (-).

Capital gain from sale of tangible asset amounted to 145 MSEK (-) related to the sale of a distribution center.

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

Investments in associated companies during 2016 pertain to the investment of 5 MSEK in EB Road Cargo AB. For further information see *Note 14 Investments in associated companies and joint ventures*.

Investments in joint ventures during 2015 pertain to investment of 25 MSEK in SMPM International AB. During 2015, Swedish Match acquired the remaining 50 percent of SMPM International AB, at a price of 6 MSEK, with acquired cash and bank of 19 MSEK. Net cash flow effect for the Group was 13 MSEK.

### Divestment of subsidiaries

No divestments of subsidiaries have been made during 2016 or 2015.

## 32 Related parties

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

## 33 Subsequent events

On January 19, 2017, Swedish Match divested 9 million shares in STG at a price of 118 DKK per share. Swedish Match's proceeds, net of transaction costs, from this divestment amounted to 1,353 MSEK. Following the transaction, Swedish Match owns 9,069,906 shares, corresponding to 9.1 percent of the total number of shares in STG. Swedish Match has agreed to a 60-day lock-up undertaking on the remaining shares held in STG. The tax exempt capital gain from the January divestment amounts to 131 MSEK and equals the difference between the price at divestment and the market value at reclassification in September 2016 less transaction costs and will be recognized in the first quarter 2017.

Swedish Match sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to approval of a changed city plan. This approval was received in January 2017, and Swedish Match has as a result received an additional payment in February 2017. The capital gain of 107 MSEK will be recognized in the first quarter 2017.

On February 8, 2017, the Swedish Patent and Market Court ruled that a uniform labelling system implemented for Swedish Match's and other manufacturers' products in Swedish Match's own snus coolers during parts of 2012 and 2013 was in breach of competition legislation. The court imposed a fine of approximately 38 MSEK plus legal fees. Swedish Match has appealed the decision.

## 34 Information about the Parent Company

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

The Parent Company's shares are listed on Nasdaq Stockholm. The address of the head office is Sveavägen 44, postal address: SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2016 include the Parent Company and its subsidiaries, jointly referred to as "the Group". The Group also comprises the Group's interest in associated companies and joint ventures.

## PARENT COMPANY INCOME STATEMENT

MSEK	Note	2016	2015
Sales	1	52	40
Administrative expenses	2, 7, 26	-262	-184
Other operating income and expenses	3	1	-1
<b>Operating loss</b>		<b>-208</b>	<b>-145</b>
Result from participation in Group companies	4	3,319	2,979
Interest income and similar items	4	6	0
Interest expenses and similar items	4	-715	-796
<b>Profit after financial items</b>		<b>2,401</b>	<b>2,038</b>
Appropriations	5	1,859	1,756
<b>Profit before income tax</b>		<b>4,260</b>	<b>3,794</b>
Income tax expense	6	-218	-180
<b>Profit for the year</b>		<b>4,041</b>	<b>3,614</b>

## PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

MSEK	Note	2016	2015
<b>Profit for the year</b>		<b>4,041</b>	<b>3,614</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Effective portion of changes in fair value of cash flow hedges		-81	86
Reclassification for gains/losses on cash flow hedges included in profit and loss		16	8
Income tax relating to components of other comprehensive income	6	14	-21
<b>Other comprehensive income, net of tax for the year</b>		<b>-51</b>	<b>73</b>
<b>Total comprehensive income for the year</b>		<b>3,990</b>	<b>3,687</b>

## PARENT COMPANY BALANCE SHEET

MSEK	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
Tangible assets	7	2	3
<b>Non-current financial assets</b>			
Participations in Group companies	8	49,344	48,527
Other non-current receivables	9	328	324
Deferred income tax assets	6	47	32
<b>Total non-current financial assets</b>		<b>49,719</b>	<b>48,883</b>
<b>Total non-current assets</b>		<b>49,721</b>	<b>48,886</b>
<b>Current assets</b>			
Receivables on Group companies		2,280	2,214
Receivables on associated companies		-	1
Other receivables	10	10	3
Prepaid expenses and accrued income	11	16	10
<b>Total current assets</b>		<b>2,307</b>	<b>2,227</b>
<b>Other current deposits</b>	25	<b>1,005</b>	-
<b>TOTAL ASSETS</b>		<b>53,032</b>	<b>51,113</b>
<b>Equity</b>			
Restricted equity	12		
Share capital		390	390
Unrestricted equity			
Reserve for fair value		-110	-59
Retained earnings		14,113	17,270
Profit for the year		4,041	3,614
<b>TOTAL EQUITY</b>		<b>18,434</b>	<b>21,215</b>
<b>Untaxed reserves</b>	13	<b>995</b>	<b>675</b>
Other provisions	14	100	48
<b>Total provisions</b>		<b>100</b>	<b>48</b>
<b>Non-current liabilities</b>			
Bond loans	15	8,169	7,613
Liabilities to Group companies	16	18,100	18,100
Other liabilities	17	69	198
<b>Total non-current liabilities</b>		<b>26,338</b>	<b>25,911</b>
<b>Current liabilities</b>			
Bond loans		2,042	650
Trade payables		15	9
Liabilities to Group companies		4,942	2,440
Current income tax liabilities	6	9	19
Other liabilities		3	5
Accrued expenses and deferred income	18	154	141
<b>Total current liabilities</b>		<b>7,165</b>	<b>3,263</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>53,032</b>	<b>51,113</b>

## STATEMENT OF CHANGES IN PARENT COMPANY EQUITY

2015	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	12	<b>390</b>	<b>-132</b>	<b>19,600</b>	<b>989</b>	<b>20,846</b>
Profit for the year		-	-	-	3,614	3,614
Other comprehensive income, net of tax for the year		-	73	-	-	73
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>73</b>	<b>-</b>	<b>3,614</b>	<b>3,687</b>
Allocation of profit		-	-	989	-989	-
Dividend		-	-	-1,464	-	-1,464
Repurchase of own shares		-	-	-1,995	-	-1,995
Stock options exercised		-	-	141	-	141
Cancellation of shares		-8	-	8	-	-
Bonus issue		8	-	-8	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-59</b>	<b>17,270</b>	<b>3,614</b>	<b>21,215</b>

2016	Note	Restricted equity		Unrestricted equity		Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	12	<b>390</b>	<b>-59</b>	<b>17,270</b>	<b>3,614</b>	<b>21,215</b>
Profit for the year		-	-	-	4,041	4,041
Other comprehensive income, net of tax for the year		-	-51	-	-	-51
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-51</b>	<b>-</b>	<b>4,041</b>	<b>3,990</b>
Allocation of profit		-	-	3,614	-3,614	-
Dividend		-	-	-5,522	-	-5,522
Repurchase of own shares		-	-	-1,249	-	-1,249
Cancellation of shares		-15	-	15	-	-
Bonus issue		15	-	-15	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-110</b>	<b>14,113</b>	<b>4,041</b>	<b>18,434</b>

<sup>1)</sup> Reserve for fair value consists of a hedge reserve.

## CASH FLOW STATEMENT FOR THE PARENT COMPANY

MSEK	Note	2016	2015
<b>Operating activities</b>	25		
Profit after financial items		2,401	2,038
Adjustments for non-cash items and other		-717	-1,761
Income tax paid		-230	-156
<b>Subtotal</b>		<b>1,454</b>	<b>121</b>
Increase (-)/Decrease (+) in operating receivables		18	-23
Increase (+)/Decrease (-) in operating liabilities		28	12
<b>Net cash generated from operating activities</b>		<b>1,500</b>	<b>110</b>
<b>Investing activities</b>			
Purchase of tangible assets		0	-2
Proceeds from sale of tangible assets		0	-
Capital redemption by subsidiaries		-	4,166
Proceeds from sale of subsidiaries, net of cash disposed of		-	-4
<b>Net cash from investing activities</b>		<b>0</b>	<b>4,160</b>
<b>Financing activities</b>			
Proceeds from non-current borrowings		3,364	798
Repayment of borrowings		-1,618	-1,435
Repurchase of own shares		-1,249	-1,995
Stock options exercised		-	141
Dividend		-5,522	-1,464
Changes in financial receivables/liabilities Group companies		4,554	-311
Other		-25	-4
<b>Net cash used in financing activities</b>		<b>-495</b>	<b>-4,270</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,005</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at end of year</b>		<b>1,005</b>	<b>-</b>

## NOTES FOR THE PARENT COMPANY

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

The amounts within brackets refer to the preceding year, 2015.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 5 Personnel* for the Group on page 75.

### 1 Sales

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

### 2 Audit fees

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

Audit fees	2016	2015
<b>KPMG</b>		
Audit services	3	4
Audit related services	0	0
Tax services	0	-
Other services	1	1
<b>Total</b>	<b>4</b>	<b>4</b>

Other services include assisting with testing of IT-controls.

### 3 Other operating income and expense

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

### 4 Financial items

Result from participation in Group companies	2016	2015
Dividends received	3,395	2,983
Loss on sale of Group companies	-	-4
Write-downs of participations in subsidiaries	-76	-
<b>Total</b>	<b>3,319</b>	<b>2,979</b>

The impairment loss of 76 MSEK was recognized following a liquidation of a subsidiary.

Interest income and similar items	2016	2015
Interest income relating to Group companies	4	-
Interest income relating to other financial instruments held for trading	-	0
Other interest income	1	-
<b>Total</b>	<b>6</b>	<b>0</b>

Interest expenses and similar items	2016	2015
Interest expense relating to Group companies	-307	-397
Interest expense relating to financial liabilities measured at amortized cost	-336	-364
Realized fair value from repurchase of bonds including hedging derivatives <sup>1)</sup>	-62	-30
Other financial expenses	-10	-4
Net foreign exchange losses	-1	0
<b>Total</b>	<b>-715</b>	<b>-796</b>

<sup>1)</sup> Includes 16 MSEK (8) transferred from equity.

### 5 Appropriations

Appropriations	2016	2015
<b>Difference between reported amortization/ depreciation according to plan</b>		
Equipment, tools and fixtures	0	0
<b>Tax allocation reserve</b>		
Appropriation for the year	-320	-260
<b>Group contributions</b>		
Group contributions received	2,261	2,177
Group contributions granted	-83	-161
<b>Total</b>	<b>1,859</b>	<b>1,756</b>

### 6 Income tax

Income tax reported in income statement	2016	2015
Current tax expense for the period	-220	-181
Deferred tax due to temporary differences	1	1
<b>Total</b>	<b>-218</b>	<b>-180</b>

Income tax reported in other comprehensive income	2016	2015
Effective portion of changes in fair value of cash flow hedges	18	-19
Reclassification for gains/losses on cash flow hedges included in profit and loss	-3	-2
<b>Total</b>	<b>14</b>	<b>-21</b>

	2016		2015	
Reconciliation of effective tax rate	(%)		(%)	
<b>Income before tax</b>		<b>4,260</b>		<b>3,794</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>-937</b>	<b>22.0</b>	<b>-835</b>
Non-taxable dividends	-17.5	747	-17.3	656
Tax exempt income	-0.0	0	-0.0	0
Non-deductible expenses	0.7	-28	0.0	-1
Taxes related to prior years	-0.0	0	0.0	0
Standard interest income, tax allocation reserve	0.0	-1	0.0	-1
<b>Reported effective tax</b>	<b>5.1</b>	<b>-218</b>	<b>4.7</b>	<b>-180</b>

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

	Current income tax assets		Current income tax liabilities	
	2016	2015	2016	2015
<b>Carrying value at beginning of year</b>	<b>-</b>	<b>5</b>	<b>19</b>	<b>-</b>
Current tax expense	-	-	220	181
Paid tax	-	-5	-230	-161
<b>Carrying value at end of year</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>19</b>

Tax liabilities amounts to 9 MSEK and consists of taxes to be paid on income for the year.

NOTE 6 Continued

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

Deferred income tax assets	2016	2015
Hedge reserve	31	17
Provision	16	15
<b>Carrying value at end of year</b>	<b>47</b>	<b>32</b>

The following reconciles the deferred tax assets at the beginning of the year to that at the end of the year.

2016	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	17	-	14	31
Provision	15	1	-	16
<b>Total</b>	<b>32</b>	<b>1</b>	<b>14</b>	<b>47</b>

2015	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	37	-	-21	17
Provision	14	1	-	15
Other	0	0	-	-
<b>Total</b>	<b>51</b>	<b>1</b>	<b>-21</b>	<b>32</b>

## 7 Tangible assets

	Equipment, tools and fixtures		Advances relating to tangible assets	
	2016	2015	2016	2015
<b>Cost at beginning of year</b>	<b>4</b>	<b>3</b>	<b>-</b>	<b>1</b>
Purchases/investments	0	2	-	-
Sales/disposals	-	-2	-	-
Reclassifications	-	1	-	-1
<b>Cost at end of year</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>-</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-1</b>	<b>-2</b>	<b>-</b>	<b>-</b>
Depreciation for the year	-1	-1	-	-
Sales/disposals	-	2	-	-
<b>Accumulated depreciation at end of year</b>	<b>-2</b>	<b>-1</b>	<b>-</b>	<b>-</b>
<b>Net carrying value at end of year</b>	<b>2</b>	<b>3</b>	<b>-</b>	<b>-</b>

Depreciation charges on tangible assets are included in administrative expenses in the income statement and amounts to -1 MSEK (-1).

No borrowing costs have been capitalized during 2016 nor during 2015.

## 8 Group companies

2016	Balance 1 Jan.	Acquisitions	Shareholder's contributions	Liquidation	Impairments	Divestments	Capital redemption	Balance 31 Dec.
Cost	55,021	-	8,613	-76	-	-7,720	-	<b>55,838</b>
Impairments	-6,494	-	-	76	-76	-	-	<b>-6,494</b>
<b>Carrying value</b>	<b>48,527</b>	<b>-</b>	<b>8,613</b>	<b>0</b>	<b>-76</b>	<b>-7,720</b>	<b>-</b>	<b>49,344</b>

2015	Balance 1 Jan.	Acquisitions	Shareholder's contributions	Liquidation	Impairments	Divestments	Capital redemption	Balance 31 Dec.
Cost	57,448	2,587	-	-	-	-849	-4,166	55,021
Impairments	-6,494	-	-	-	-	-	-	-6,494
<b>Carrying value</b>	<b>50,954</b>	<b>2,587</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-849</b>	<b>-4,166</b>	<b>48,527</b>

### Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2016	Ownership, %	2015
Svenskt Snus AB	556367-1261	Stockholm, Sweden	1,000	100	18,875	100	18,875
Swedish Match North Europe AB <sup>1)</sup>	556571-6924	Stockholm, Sweden	960	96	15,120	100	15,750
SMD Logistics AB	556571-7039	Stockholm, Sweden	1,000	100	2,350	100	2,350
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm, Sweden	34,403,000	100	8,949	100	1,006
Swedish Match Cigars Holding AB	556367-1253	Stockholm, Sweden	2,000	100	1,130	100	500
Swedish Match Industries AB	556005-0253	Tidaholm, Sweden	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm, Sweden	96,000	100	49	100	9
Svenska Tändsticks AB	556105-2506	Stockholm, Sweden	1,000	100	0	100	0
Svenska Tobaks AB	556680-3028	Stockholm, Sweden	100,000	100	0	100	0
Swedish Match Treasury Lux S.à.r.l.	B175024	Luxembourg	-	-	-	100	7,090
Swedish Match Treasury SEK SA	0890.171.968	Belgium	-	-	-	99.99	76
Swedish Match USA, Inc	62-1257378	USA	1,000	100	849	100	849
Swedish Match Cigars Holding Inc	81-0733029	USA	1,000	100	1,739	100	1,739
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99,99	171	99,99	171
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	17	100	17
Swedish Match Distribution A/S	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille <sup>2)</sup>		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd <sup>3)</sup>		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd <sup>4)</sup>		Burma	4,000	100	0	100	0
<b>Carrying value at end of year</b>					<b>49,344</b>		<b>48,527</b>

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

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

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

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

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

## 9 Other non-current receivables

Other non-current receivables consists of derivatives including exchange rate differences, accrued interest and fair values of cross currency and interest rate swaps of 328 MSEK (324).

## 10 Other receivables

Other receivables	2016	2015
Derivates	10	-
Tax account	-	3
Other current receivables	0	0
<b>Carrying value at end of year</b>	<b>10</b>	<b>3</b>

## 11 Prepaid expenses and accrued income

Prepaid expenses and accrued income	2016	2015
Accrued interest income	2	-
Prepaid bank charge	5	4
Prepaid rent	4	-
Other prepaid expenses	6	6
<b>Carrying value at end of year</b>	<b>16</b>	<b>10</b>

## 12 Equity

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

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

Number of registered shares	2016	2015
Issued at beginning of year	196,500,000	200,500,000
Cancellation	-7,750,000	-4,000,000
<b>Total shares outstanding at end of year</b>	<b>188,750,000</b>	<b>196,500,000</b>
Of which held by Swedish Match AB	-4,077,313	-7,584,209
<b>Total shares outstanding, net of shares held by Swedish Match AB</b>	<b>184,672,687</b>	<b>188,915,791</b>
<b>Total outstanding shares quota value</b>	<b>2.0637</b>	<b>1.9823</b>

### Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2016, the Parent Company's holding of treasury shares amounted to 4,077,313 shares (7,584,206).

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

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2016	2015	2016	2015
<b>Balance at beginning of year</b>	<b>7,584</b>	<b>4,823</b>	<b>-25,089</b>	<b>-23,235</b>
Repurchase of own shares during the year	4,243	7,473	-1,249	-1,995
Stock options exercised during the year	-	-712	-	141
Allocated to retained earnings by cancellation of shares	-7,750	-4,000	15	8
Bonus issue	-	-	-15	-8
<b>Balance at end of year</b>	<b>4,077</b>	<b>7,584</b>	<b>-26,338</b>	<b>-25,089</b>

The Annual General Meeting on April 28, 2016 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to reduce 7.8 million shares held in treasury, with a simultaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the withdrawn shares or 15.4 MSEK. Furthermore the shareholders approved the proposal that the reduction will be allocated to a fund for use pursuant to a resolution adopted by the Annual General Meeting.

During the year 4.2 million shares were repurchased for 1,249 MSEK at an average price of 294.33 SEK.

Total shares bought back since the buyback program started have been repurchased at an average price of 116.87 SEK.

As per December 31, 2016 Swedish Match held 4.1 million shares in its treasury, corresponding to 2.16 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2016, amounted to 184.7 million.

### Dividend

After the balance sheet date, the Board proposed a dividend for 2016 of 16.00 SEK per share consisting of an increased ordinary dividend per share of 8.50 SEK (8.00) and a special dividend of 7.50 SEK, following the divestment of shares in STG in January 2017. The dividend then amounts to 2,955 MSEK based on the 184.7 million shares outstanding at the end of 2016. During 2016 Swedish Match AB paid dividends totaling to 5,522 MSEK consisting of an ordinary dividend of 1,506 MSEK and two special dividends of 2,258 MSEK and 1,758 MSEK respectively following partial divestments of shares in STG.

### Reserve for fair value

Reserve for fair value consists of a hedge reserve, the change during the year is explained below:

Hedge reserve	2016	2015
<b>Carrying value at beginning of year</b>	<b>-59</b>	<b>-132</b>
Effective portion of changes in fair value of cash flow hedges	-81	86
Reclassification for gains/losses on cash flow hedges included in profit and loss	16	8
Income tax	14	-21
<b>Carrying value at end of year</b>	<b>-110</b>	<b>-59</b>

The hedge reserve includes the accumulated effective portion of changes in fair value of cash flow hedges attributable to interest rate hedges.

## 13 Untaxed reserves

Untaxed reserves	2016	2015
<i>Excess amortization/depreciation:</i>		
<b>Tangible assets</b>		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<i>Tax allocation reserve:</i>		
Carrying value at beginning of year	675	415
Appropriation current year	320	260
<b>Total</b>	<b>995</b>	<b>675</b>
<b>Carrying value at end of year</b>	<b>995</b>	<b>675</b>



## 14 Other provisions

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

Other provisions	2016	2015
Pension obligations	71	24
Deferred compensation	29	25
<b>Carrying value at end of year</b>	<b>100</b>	<b>48</b>
Where of total non-current	98	48
Where of total current	2	1

Movements in provisions during the year were as follows:

2016	Pension obligations	Deferred compensation	Total
<b>Carrying value at beginning of year</b>	<b>24</b>	<b>25</b>	<b>48</b>
Provisions made during the year	2	15	16
Provisions used during the year	-1	-	-1
Provisions reversed during the year and changes in estimates	46	3	50
Provisions reclassified to accrued expenses	-	-13	-13
<b>Carrying value at end of year</b>	<b>71</b>	<b>29</b>	<b>100</b>

2015	Pension obligations	Deferred compensation	Total
<b>Carrying value at beginning of year</b>	<b>26</b>	<b>9</b>	<b>35</b>
Provisions made during the year	1	13	14
Provisions used during the year	-1	0	-1
Provisions reversed during the year and changes in estimates	-2	6	3
Provisions reclassified to accrued expenses	-	-3	-3
<b>Carrying value at end of year</b>	<b>24</b>	<b>25</b>	<b>48</b>

### Pension obligations

Pension obligations pertain to provisions recognized for special income taxes on pension obligations secured in endowment insurances and provisions for post-employment defined benefit obligations. The majority part of the pension provisions pertains to a pension trust for former employees in the divested Swedish Match UK Ltd. Due to a change in the assumption of the discount rate the provision for the UK pension obligations has increased. In addition, a small pension provision has been recognized due to a net deficit in a pension obligation for a Swedish pension trust. Payments relating to the pension obligations later than five years after balance sheet date are calculated to an amount of 11 MSEK.

### Deferred compensation

Deferred compensation refers to long term incentive plans for certain managers which will be settled within three years.

## 15 Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 4,471 MSEK (1,528).

## 16 Liabilities to Group companies

No liabilities are due for payment later than five years after the balance sheet date.

## 17 Other liabilities

Other liabilities mainly consists of the change in fair value of the derivatives, due to increase or decrease of interest rates and currencies. Derivatives with maturity over five years after the balance sheet date amount to 69 MSEK (24).

## 18 Accrued expenses and deferred income

Accrued expenses and deferred income	2016	2015
Accrued interest expenses	105	109
Accrued incentives incl. social security charges	34	18
Accrued social security charges	7	4
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	3	4
Deferred income	2	3
<b>Carrying value at end of year</b>	<b>154</b>	<b>141</b>

## 19 Carrying value and fair value of financial instruments

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2016. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates. Swedish Match applies IFRS 7 for financial instruments measured at fair value on the balance sheet whereby an entity shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

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

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

2016	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Non-current receivables	–	–	328	–	328	328
Receivables on Group companies	2,280	–	–	–	2,280	2,280
Other receivables	–	–	10	0	10	10
Prepaid expenses and accrued income	–	–	2	14	16	16
<b>Total assets</b>	<b>2,280</b>	<b>–</b>	<b>340</b>	<b>14</b>	<b>2,634</b>	<b>2,634</b>
Loans and borrowings	–	10,211	–	–	10,211	10,540 <sup>11</sup>
Liabilities to Group companies (non-current)	–	18,100	–	–	18,100	18,100
Other liabilities	–	–	69	3	72	72
Liabilities to Group companies (current)	–	4,942	–	–	4,942	4,942
Accrued expenses and deferred income	–	96	9	49	154	154
Trade payables	–	15	–	–	15	15
<b>Total liabilities</b>	<b>–</b>	<b>33,364</b>	<b>78</b>	<b>52</b>	<b>33,494</b>	<b>33,823</b>

2015	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Non-current receivables	–	–	324	–	324	324
Receivables on Group companies	2,214	–	–	–	2,214	2,214
Receivables from associated companies	1	–	–	–	1	1
Other receivables	–	–	–	3	3	3
Prepaid expenses and accrued income	–	–	–	10	10	10
<b>Total assets</b>	<b>2,215</b>	<b>–</b>	<b>324</b>	<b>13</b>	<b>2,552</b>	<b>2,552</b>
Loans and borrowings	–	8,263	–	–	8,263	8,709 <sup>11</sup>
Liabilities to Group companies (non-current)	–	18,100	–	–	18,100	18,100
Other liabilities	–	–	198	5	203	203
Liabilities to Group companies (current)	–	2,440	–	–	2,440	2,440
Accrued expenses and deferred income	–	92	18	31	141	141
Trade payables	–	9	–	–	9	9
<b>Total liabilities</b>	<b>–</b>	<b>28,904</b>	<b>216</b>	<b>36</b>	<b>29,156</b>	<b>29,602</b>

<sup>11</sup> The estimated fair value, which is classified as level 2 according to the fair value hierarchy, is the revaluation of the loans and borrowings based on the market rates from banks for December 31, 2016 and 2015.

## 20 Derivatives under netting agreements

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. These agreements grant rights to net market valuations on assets and liabilities if the counterparty is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31. No collateral has been received or pledged.

### Financial instruments under master netting agreements

2016	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	340	–78	262
Derivatives – Liabilities	78	–78	0
2015	Gross amount for financial instruments	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	302	–129	173
Derivatives – Liabilities	153	–129	24

## 21 Operating lease agreements

Total expense for operating lease agreements for 2016 amounted to 15 MSEK (15 MSEK). Operating leasing agreements mainly refer to rental of office and storage premises. The contracts are non-cancellable during the agreed leasing-period and the agreements include indexation clause.

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:

Minimum lease payments	2016	2015
Within one year	13	14
Between 1–5 years	42	60
Later than 5 years	–	–
<b>Total</b>	<b>55</b>	<b>74</b>

Certain parts of the leased premises are sub-leased to one of Swedish Match AB's wholly owned subsidiaries. Rental income for the year relating to items that are being subleased to a subsidiary amounted to 12 MSEK (10 MSEK).

## 22 Pledged assets and contingent liabilities/assets

### Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 59 MSEK (55).

In accordance with IAS 19, endowment insurance policies pledged as securities for certain defined contribution obligations have been netted against the pension obligation in other provisions.

Contingent liabilities	2016	2015
Guarantees on behalf of subsidiaries	51	51
<b>Total</b>	<b>51</b>	<b>51</b>

### Contingent assets

Swedish Match sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to approval of a changed city plan. This approval was received in January 2017, and Swedish Match has as a result received an additional payment in February 2017. The capital gain of 107 MSEK will be recognized in the first quarter 2017.

## 23 Distribution of earnings

### Proposed distribution of earnings

Dividend (16.00 SEK based on 184,672,687 shares)	SEK	2,954,762,992
Retained earnings to be carried forward	SEK	15,089,602,205
<b>Total amount</b>	<b>SEK</b>	<b>18,044,365,197</b>

## 24 Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies	
	2016	2015	2016	2015
<b>Revenues</b>				
Dividends	3,395	2,983	–	–
Group contribution	2,261	2,177	–	–
Interest income	4	–	–	–
Sale of goods/services	52	38	0	2
Rental income	12	10	–	–
<b>Expenses</b>				
Group contribution	–83	–161	–	–
Interest expenses	–307	–397	–	–
Purchase of goods/services	–14	–14	–	–
<b>Receivables</b>	<b>2,280</b>	<b>2,214</b>	<b>–</b>	<b>1</b>
<b>Liabilities</b>	<b>23,042</b>	<b>20,540</b>	<b>–</b>	<b>–</b>
Contingent liabilities	51	51	–	–

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 5 Personnel* for the Group. In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 8 Group companies*.

## 25 Supplementary information to cash flow statement

	2016	2015
Interest paid and received and dividend received		
Dividend received <sup>1)</sup>	2,539	1,245
Interest received, non-Group companies	1	–
Interest paid, non-Group companies	–395	–422
Interest received, Group companies	4	–
Interest paid, Group companies	–307	–397
<b>Total</b>	<b>1,842</b>	<b>426</b>

<sup>1)</sup> Amount for 2016 excludes 856 MSEK (1,739) which refers to dividends in kind.

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

Adjustments for non cash items and other	2016	2015
Depreciation and amortization	1	1
Loss on sale of subsidiaries	–	4
Write-down of subsidiaries	76	–
Dividend in kind	–856	–1,739
Change in accrued interest	13	–24
Change in pension provision	46	–3
Exchange rate differences	3	0
Other	0	0
<b>Total</b>	<b>–717</b>	<b>–1,761</b>

Cash and cash equivalents	2016	2015
Cash and bank	–	–
Other current deposits <sup>2)</sup>	1,005	–
<b>Total</b>	<b>1,005</b>	<b>–</b>

<sup>2)</sup> Other current deposits have been classified as cash and cash equivalents based as they are readily convertible to known amounts of cash.

## 26 Employee benefits

### Post-employment employee benefits

Swedish Match AB has post-employment benefit obligations that are insured by Swedish pension trust arrangements. Swedish Match AB also has assumed the role as sponsor and Principal Employer for a pension trust for former employees in the divested Swedish Match UK Ltd.

As per December 31, 2016 the larger Swedish pension trust arrangement shows a net surplus while a small plan reflects a net deficit. The pension plan for former employees in the UK shows a net deficit.

The tables below specify the pension obligations assumed by Swedish Match AB:

Defined benefit pension plans	2016	2015
Present value of funded obligations	882	861
Fair value of separately held assets	-916	-939
<b>Surplus, net</b>	<b>-33</b>	<b>-79</b>
Net surplus in pension trust not recognized in balance sheet	90	89
<b>Net pension liability recognized in the balance sheet</b>	<b>57</b>	<b>11</b>

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

Net pension liability	2016	2015
<b>Balance at beginning of year</b>	<b>11</b>	<b>14</b>
Benefits paid	11	9
Contribution received from pension trust	-11	-9
Change in pension provision	46	-3
<b>Balance at end of year</b>	<b>57</b>	<b>11</b>

88 MSEK (89) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Defined benefit pension plans	2016	2015
Difference between contribution received from pension trust and benefits paid	3	-1
Interest cost on obligation	-28	-30
Actual return on separately held assets	101	19
Change in pension provision	-46	3
<b>Net income/expense for pension</b>	<b>30</b>	<b>-9</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	-16	-13
Change in surplus in pension trust	-73	11
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>-59</b>	<b>-11</b>

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

The actual return on separately held assets expressed in percentage is 10.8 percent (2.0).

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

Separately held assets	2016	2015
Debt instruments	78	92
Equity securities	134	141
Other <sup>1)</sup>	704	707
<b>Total</b>	<b>916</b>	<b>939</b>

<sup>1)</sup> Large part pertains to the UK annuity policies at the insurance company Aviva.

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 2.6 percent (3.6).

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

## 27 Subsequent events

Swedish Match sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to approval of a changed city plan. This approval was received in January 2017, and Swedish Match has as a result received an additional payment in February 2017. The capital gain of 107 MSEK will be recognized in the first quarter 2017.

# AUDITOR'S REPORT

To the general meeting of the shareholders of Swedish Match AB (publ),  
corp. id 556015-0756

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Swedish Match AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 56–105 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accor-

dance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and

have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Other Matter

#### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the

context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

### Valuation of Goodwill (group) / Participations in group companies (parent company)

See disclosure 11 (group) and disclosure 8 (parent) and accounting principles on pages 70–73 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

As of December 31, 2016 goodwill amounts 710 million for the group. Goodwill shall annually be subject to impairment test which contains both complexity and significant element of judgment from the company. An impairment test must be performed for each of the cash generating units, which for the Group coincides with three business areas.

According to the regulatory framework the impairment test shall be carried out by a specific technique which has to make projections about the businesses internal and external conditions and future plans. Examples of such judgments are future cash flow, which among other things requires assumptions about future market conditions, thus indirectly of how competitors are expected to act. Another important assumption are the discount rates used to estimate future payments and the fact that future payments are subject to risk.

As of December 31, 2016 participations in group companies amounts 49 344 million. For the ownership in subsidiaries in the parent company the trigger is the comparison to the consolidated value for each subsidiary. If consolidated value is lower, then an impairment test is prepared by the parent company where the conditions are the same as described above for goodwill.

#### Response in the audit

We have investigated whether the impairment tests are prepared in accordance with the applicable regulatory framework. We have evaluated the appropriateness of future cash flow and applicable discount rates and terminal growth rates. We have also challenged the company's assumptions used in respect of forecast growth rates by performing retrospective review of forecasts used by the company in prior periods in order to evaluate the precision.

We have involved our valuation specialist to assess the appropriateness of the discount rates used which include comparison to economic and industry forecasts where appropriate.

We have also performed audit procedures on a sample basis of the mathematical appropriateness of the calculations used by the company.

We have applied professional judgment when evaluating the forecasts by stress testing key assumptions, assessing the impact of the sensitivity analysis.

We have examined the facts disclosed in the annual report and if the information is appropriate as description of the assumptions made and the methods used.

### Valuation of defined benefit obligations

See disclosure 22 and accounting principles on pages 71–72 in the annual account and consolidated accounts for detailed information and description of the matter.

#### *Description of key audit matter*

As of December 31, 2016 present value of defined benefit post-employment obligations amounts 4 463 million and the fair value of plan assets amounts 3 012 million. The group's major defined benefit plans cover employees mainly in the US. For other pension plans, plan assets either exceeds the obligations or there are no active members accruing further benefits, and the plan is closed for new members.

According to the regulatory framework pension costs for defined benefit plans shall be calculated by a specific technique which has to make projections about expected future disbursements. Significant estimates are made in valuing the Group's post-retirement defined benefit plan's obligations, including in particular the discount rate, the inflation assumptions and the mortality assumptions. Small changes in the assumptions used in the valuation could have significant effects on other comprehensive income and the financial position of the Group.

#### *Response in the audit*

We have examined whether the post-retirement defined benefit plan's obligations in US are calculated in accordance with the applicable regulatory framework. We have also on a sample basis tested the calculation model in relation to the input parameters.

We have involved our actuarial specialists to assess the appropriateness and challenge the key assumptions applied being the discount rate, inflation rate, mortality and salary growth. We have assessed the competence, independence and integrity of the Group's external actuarial expert.

We have confirmed the completeness of plan assets by obtaining confirmations from independent fund managers. We have also tested the fair value of the plan assets by reviewing a sample of plan asset valuations.

We have examined the facts disclosed in the annual report and if the information is appropriate as description of the assumptions made and the methods used. We have also considered the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to these assumptions.

### Accounting of shares in Scandinavian Tobacco Group

See disclosure 14 and disclosure 15 and accounting principles on pages 69–70 in the annual account and consolidated accounts including the report of the Board of Directors on page 57 for detailed information and description of the matter.

#### *Description of key audit matter*

As of December 31, 2016 financial assets relating to Scandinavian Tobacco Group ("STG") amounts 2 761 million.

The ownership of STG was accounted for as an investment in associated company in prior periods. During 2016, STG was listed on the Nasdaq Copenhagen stock exchange, and Swedish Match ownership was reduced to 18.1 percent. Since the Group no longer had any significant influence in STG, the holding was reclassified from associated companies to other financial assets, being valued at fair value with changes in value reported in other comprehensive income instead of the equity method. At the time of reclassification a gain of 902 MSEK was recognized for the revaluation of the shareholding to fair value.

#### *Response in the audit*

We have evaluated the classification of the investment based on the effective accounting standards.

We have reviewed that the profit share and the gain from the divestment transactions was calculated accurately and properly recognized in the consolidated accounts including the fair value of the STG shares as of December 31, 2016.

We have examined the facts disclosed in the annual report and if the information is appropriate as description of the assumptions made and how transactions have been accounted for during the year.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages ii–55. The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and

consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the Board of Directors and the President

The Board of Directors and the President are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the President are responsible for the assessment of the company's

and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Directors' responsibilities and tasks in general, among other things oversee the company's financial reporting process.

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## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- Conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of Swedish Match AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for

accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things

continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm 16 March 2017

KPMG AB

Cronie Wallquist  
Authorized Public Accountant



# CHAIRMAN'S COMMENT



Conny Karlsson  
Chairman of the Board

This annual report covers our product areas and the financial results, and also highlights some of the directions we are taking in terms of both our products and our markets. The report also covers much of the good work and clearer focus we are achieving on the sustainability front. There is a lot of work to be done in this area, but I believe that we are creating a solid platform and path toward future efforts. Good governance is critical for a reputable, high achieving, and responsible company. Further details on the activities of the Board of Directors, as well as corporate governance and risk assessment during the year are presented on pages 111–117 in the Governance report.

## **Swedish Match is a dynamic and strong company, with clear direction**

I am chairman of a company with a market leading position for snus in Scandinavia, a growing snus business in the US, and a top performer in US cigars. Swedish Match is also a dynamic and innovative company, which bodes well for the future. The Company is active and introduces new products, develops and grows new market segments, and expands its geographic reach for its innovations – all toward the vision of a world without cigarettes.

The Company's premium snus brands have shown resilience in Sweden, the Company's largest snus market. Swedish Match kept up

its success with its *XRANGE* series in Sweden, and has made significant inroads in providing products which are highly appealing to consumers within some of the fastest growing segments in the Norwegian market with its *G.3* range. For cigars, the Company hit a new record in shipments, and, despite increased regulations from the FDA in the US, is well positioned for further growth.

The vast majority of Swedish Match's profit comes from the product area Snus and moist snuff, along with cigars – included in the Other tobacco products product area. Both of these product areas, as well as Lights, delivered good growth in both sales and operating profit. The Company is also highly cash generative. In addition to the generation of cash from its operations, substantial cash flow was generated from the IPO and subsequent share drawdowns of Scandinavia Tobacco Group (STG). Generous cash returns were delivered to shareholders during the year, both from the Company's ordinary dividend and ongoing share repurchase program, and from two payments of special dividends resulting from the sale of STG shares. Further, the strong US dollar has provided a boost to the Company's profit this past year in reported Swedish kronor.

Regulatory changes are part of doing business, especially for businesses engaged in tobacco, and 2016 was an active year, with not only the new European Tobacco Products Directive, but also FDA regulation of cigars coming into force. The Company is managing this changing environment in a positive and proactive way – a clear testament to pride in long term aims.

During 2016, there was a solid growth in earnings per share, and the Board of Directors will propose to the Annual General Meeting to increase the ordinary dividend to 8.50 SEK per share as well as a special dividend of 7.50 SEK per share following the drawdown of shares in STG in January 2017.

I am pleased with the fine work of the Board, their active engagement with Swedish Match's management, and with their contributions on the various board committees.

I would like to express my sincere appreciation of the work this past year to both the Board for their major contributions, the CEO and his management team, and in particular the employees of Swedish Match, whose dedication, hard work, and pride in ownership of their activities make this the great company that it is today.

I would also like to thank you, our shareholders, for providing me with the opportunity to be the Chairman of the Board of this outstanding organization.

# GOVERNANCE REPORT

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

Swedish Match is subject to a variety of rules that affect its governance, including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on Nasdaq Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association. The Annual General Meeting 2016 decided to change the Articles of Association in order to enable the auditors to be appointed for a term between one and four years.

Swedish Match applies the Swedish Code of Corporate Governance (the Code).<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2016, except with regard to the Code's regulation that auditors are to review the

Company's half year or nine month report. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems. This Corporate Governance report has been examined by the Company's auditors but does not represent part of the formal annual report.

## Shareholding

The share capital of Swedish Match was 389,515,417.20 SEK distributed over 188,750,000 shares at the end of 2016. Each share carries one vote. On December 31, 2016, no shareholder<sup>3)</sup> had a shareholding in the Company representing one tenth or more of the votes of all shares of the Company. The Swedish Match share is listed on Nasdaq Stockholm. Further information concerning Swedish Match's ownership structure and share performance are presented on pages 48–49 of the 2016 Annual Report.

## Annual General Meeting 2017

Swedish Match's 2017 Annual General Meeting will be held on May 4, in Stockholm, Sweden. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to participate personally

or by proxy at the General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the Company's website. Information that notice to a General Meeting has been issued, is published in the Swedish daily newspaper, Svenska Dagbladet.

Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the meeting.<sup>4)</sup>

Shareholders may submit proposals to the Company's Nominating Committee at any time, however, no later than two months prior to the Annual General Meeting, so that the Committee can consider proposals received with due care.

## Nominating Committee for the Annual General Meeting 2017

The Nominating Committee for the Annual General Meeting in 2017 was announced on the Company's website on October 28, 2016 in connection with publishing the interim report for the third quarter. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Daniel Ovin (Nordea Asset Management), Mark Husson (Cedar Rock Capital), Ulrika Danielson (Andra AP-fonden), and William James (Standard Life Investments). Daniel Ovin serves as Chairman of the Nominating Committee.

## PROPOSALS TO THE NOMINATING COMMITTEE ARE TO BE SUBMITTED TO:

Swedish Match AB  
The Nominating Committee  
c/o General Counsel Marie-Louise Heiman  
SE-118 85 Stockholm, Sweden  
E-mail: nominating.committee@swedishmatch.com

<sup>1)</sup> Available on Swedish Match's website [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

<sup>2)</sup> Available on Swedish Corporate Governance Board's website [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> Source: Euroclear Sweden AB.

<sup>4)</sup> More information is available on Swedish Match's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

# GOVERNANCE OF THE SWEDISH MATCH GROUP

## External auditors

The auditors are elected by the Annual General Meeting (AGM) for a term of between one and four years. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The duties of the external auditors include auditing the management of the Board and the President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

## General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website [www.swedishmatch.com/aggm](http://www.swedishmatch.com/aggm). There are no special provisions on how the General Meeting works in the Articles of Association or, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved by a qualified majority.

## Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The Committee is also to review and monitor the impartiality and independence of the auditors. The Committee's responsibilities are to large extent set by the EU Audit and Auditor Regulation, which includes responsibility for the audit selection procedure and otherwise to assist the Nominating Committee in preparing proposals regarding election of auditors and recommendations on audit fees. It also keeps itself informed regarding the audit of the annual report and consolidated accounts. In conjunction with the Audit Committee's review of the financial reporting, the members of the Committee also discuss accounting issues relating to the Company's financial reporting. The Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

In consultation with committee members, the Chairman of the Audit Committee is to decide where and how frequently the Committee is to meet.\*

## The Board of Directors

The Board of Directors is the Company's highest administrative body under the General Meeting. The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of company funds. The Board also safeguards the Company's financial accounting, internal controls and the quality of its financial reporting through the internal control system described in detail in the section entitled Risk management and internal control over financial reporting. The Board is primarily responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance of the operations on an ongoing basis, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

## Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases, whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing procedures routines.

## President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of Directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board



The AGM must be held within six months of the close of the fiscal year. At the AGM, resolutions are adopted concerning such matters as dividend, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

### Nominating Committee

The Nominating Committee is established according to the principles resolved by the AGM. The AGM also resolves on instructions for the Nominating Committee and according to the instructions the Nominating Committee shall submit to the AGM proposals regarding any changes to these instructions. The Nominating Committee's duties are to prepare and submit proposals to the AGM concerning the election of the Chairman of the AGM, the election of the Chairman and other members of the Board, the amount of Board fees and their apportionment between the Chairman of the Board and other Board members and any fees for committee work, as well as the election of and fees to be paid to the auditors.

In the autumn of each year, the Board of Directors commissions an external consultant to evaluate the performance and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board members and requirements for the future. The Nominating Committee is to meet as often as necessary to discharge its duties, but at least once per year.

The Board of Directors appoints and issues instructions for the President and monitors the President's work.

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and the guidelines for financial reporting to the Board.

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors and is a body within the Board. The Committee's duties are to prepare and submit to the Board proposals for resolutions relating to remuneration and other terms of employment for the Company's President, principles regarding remuneration to senior executives, which the Board will present to the AGM for a resolution and other remuneration and employment term matters which by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.

The Board of Directors has delegated decision-making authority to the Compensation Committee in certain issues such as calculation and payment of variable salary to the Company's President, salary and other compensation that, within the framework of the guidelines resolved by the AGM, is to be paid to members of the Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan and approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President.

The Committee is to meet as often as necessary but at least twice annually.\*

to reach well-founded decisions. The President also submits proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Group, while also providing the Chairman with ongoing information regarding the operations of the Group.

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



\* Further information regarding for example the committee's respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

LIGHTS  
INTERNATIONAL

SMD LOGISTICS AB

# GOVERNANCE OF THE SWEDISH MATCH GROUP 2016

## ANNUAL GENERAL MEETING 2016

In 2016, the Annual General Meeting was held on April 28. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm). The Annual General Meeting 2016 passed the following resolution, amongst others:

- An ordinary dividend of 8.00 SEK per share and a special dividend of 12.00 SEK per share, in total 20.00 SEK per share for the 2015 fiscal year.
- Re-election of Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Conny Karlsson, Wenche Rolfsen, Meg Tivéus, and Joakim Westh as Board members. Re-election of Conny Karlsson as Chairman of the Board and Andrew Cripps as deputy Chairman of the Board.

- The Chairman shall receive 1,750,000 SEK, the deputy Chairman shall receive 830,000 SEK and the other Board members elected by the Meeting shall each receive 700,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 250,000 SEK to the Chairman of the Compensation Committee as well as to the Chairman of the Audit Committee and to allocate 125,000 SEK to each of the other members of these committees.
- Withdrawal of 7,750,000 repurchased shares in the Company.
- Authorization of the Board of Directors to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired with-

out the Company's holding at any time exceeding 10 percent of all shares in the Company.

- Principles for determining the salary and other remuneration of the President and other members of the Company's management.
- Adoption of income statements and balance sheets for 2015 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.

For information on the utilization of the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 56 of the 2016 Annual Report.

## Nominating Committee

Pursuant to instructions established by the Annual General Meeting 2011, the Nominating Committee is, until further notice, to include the Chairman of the Board of Directors and one member appointed by each of the four largest shareholders who wish to appoint a member to the Nominating Committee. The four largest shareholders are to be identified on the basis of the known numbers of votes on August 31, the year before the forthcoming Annual General Meeting.

## Nominating Committee for the Annual General Meeting 2016

The Nominating Committee for the Annual General Meeting in 2016 comprised the following five members: Karim Ladha (Independent Franchise Partners), Mark Husson (Cedar Rock Capital), Johan Strandberg (SEB Investment Management), and John Hernander (Nordea Asset Management) as well as Conny Karlsson (the Chairman of the Board). Johan Strandberg served as Chairman of the Nominating Committee. The Nominating Committee held three meetings during the period between the 2015 and 2016 Annual General Meetings combined with informal contacts and discussions among the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2016.

## Extraordinary Shareholders' Meeting 2016

On December 16, 2016 an Extraordinary Shareholders' Meeting was held. At the meeting it was resolved, in accordance with the proposal of the Board of Directors, to pay a special dividend of 9.50 SEK per share. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

## Board of Directors

### Composition

According to the Articles of Association, the Company's Board of Directors shall consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2016, the Swedish Match Board of Directors comprised seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

Since Annual General Meeting 2016, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Jacqueline Hoogerbrugge, Wenche Rolfsen, Meg Tivéus, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were Kenneth Ek (up until July 4, 2016), Eva Larsson, and Patrik Engelbrekts-son with Eva Norlén-Moritz (ordinary board member as from July 4, 2016),

Gert-Inge Rang, and Joakim Andersson as deputies. As from July 4, 2016, Dragan Popovic has been a deputy Board member. Detailed information about individual Board members and deputies is provided on pages 118–119 of the 2016 Annual Report.

### Independence of Board members

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

### Meetings

The Board of Directors convenes for at least six scheduled meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is summoned to additional meetings convened at the discretion of any director or of the President. The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also meet with the Board without the presence of the President or any other member of the Group Management Team.

### Evaluation of the work of the Board of Directors

During autumn 2016, the Board's work was evaluated with the assistance of an indepen-

dent consulting company. The Nominating Committee was informed of the result of the evaluation.

*Compensation to the Board of Directors*  
Compensation to the Board for the period from the 2016 Annual General Meeting up to and including the 2017 Annual General Meeting was paid in accordance with the resolution adopted by the 2016 Annual General Meeting. No compensation for directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2016, see *Note 5 Personnel*, page 75 of the 2016 Annual Report.

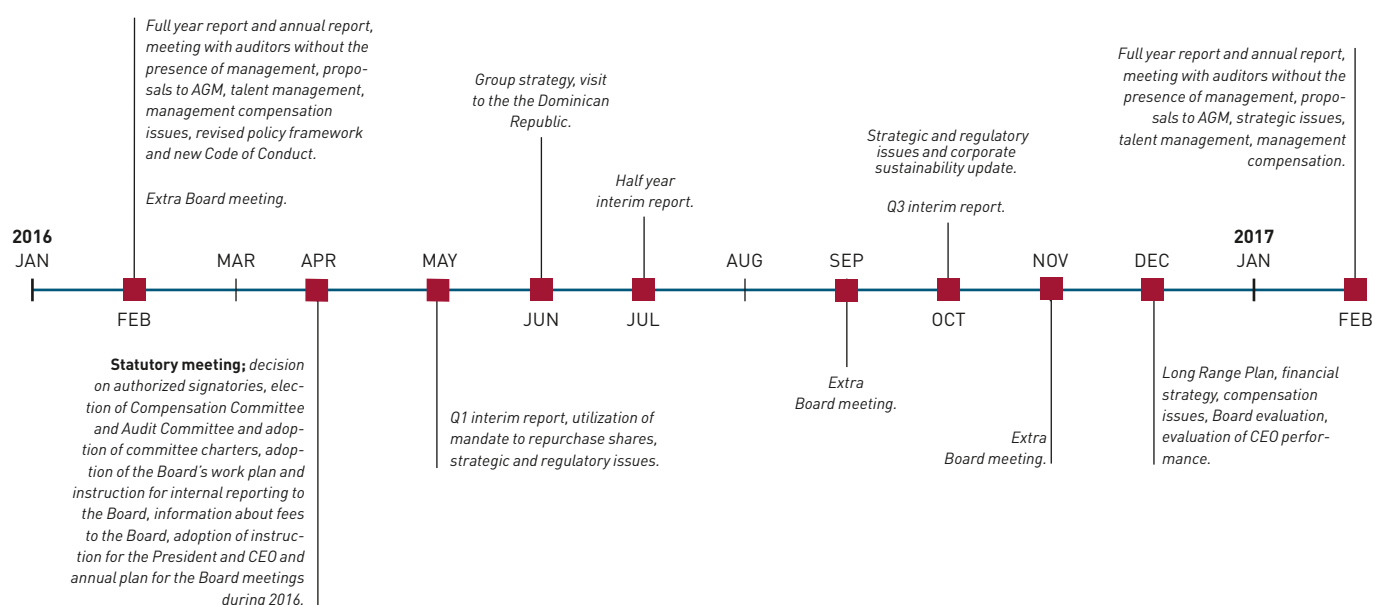
### Activities of the Board of Directors during 2016

During the period from January 1, until December 31, 2016, the Board held ten scheduled meetings and one statutory meeting. During 2017 (until and including March) one Board meeting has been held.

At all scheduled Board meetings, with the exception of the statutory Board meeting, the Board received a general report from

the CEO and discussed the activities and financial results of the Company and the associated companies, as well as other pertinent projects and matters.

All meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February 2016 to present the audit report and observations from the audit. At the Board meeting in June, which was held in Santiago, the Dominican



Composition of the Board and attendance 2016	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Member since	Compensation, TSEK
<b>Total number of meetings</b>	<b>11</b>	<b>8</b>	<b>3</b>			
<b>Members elected by the General Meeting</b>						
Conny Karlsson (Chairman)	11		3	Yes	2006	2,000
Charles A. Blixt	11		3	Yes	2015	825
Andrew Cripps (Deputy Chairman)	11	8		Yes	2006	955
Jacqueline Hoogerbrugge	9		2	Yes	2015	825
Wenche Rolfsen	11	7		Yes	2013	825
Meg Tivéus	11	8		Yes	1999	950
Joakim Westh	11	8		Yes	2011	825
<b>Employee representatives</b>						
Kenneth Ek (until July 4, 2016)	5					
Eva Larsson	8					
Patrik Engelbrektsson	10					
Eva Norlén-Moritz (from July 4, 2016)	6					
<b>Employee representatives (deputies)</b>						
Joakim Andersson	10					
Eva Norlén-Moritz (until July 4, 2016)	4					
Gert-Inge Rang	10					
Dragan Popovic (from July 4, 2016)	5					

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.

Republic, the Board visited Swedish Match's cigar factory and met the local management who presented the business.

The Board has in recent years devoted considerable time to work on the strategic assessment of Scandinavian Tobacco Group (STG). In 2015 the market was informed that Swedish Match, along with the other shareholder of STG, evaluated a possible IPO of the company. In early 2016, the intention to list STG on the Danish stock exchange was announced and in February 2016, STG was listed on Nasdaq Copenhagen. In conjunction with the listing Swedish Match divested part of its holding of STG and in September the same year, Swedish Match divested additional shares in STG. In accordance with Swedish Match's financial policy, the Board proposed that the excess cash derived from these divestments and which were not needed in the Company's operations would be returned to shareholders. The Board therefore proposed to the AGM 2016 that a special dividend of 12 SEK per share should be distributed to the shareholders in addition to the ordinary dividend of 8 SEK per share. Further, the Board proposed to the Extraordinary General Meeting on December 16, 2016 that a special dividend of 9.50 SEK per share would be distributed to the shareholders, which was approved by the shareholders.

#### **Audit Committee**

In 2016, the members of the Audit Committee were Meg Tivéus, (Chairman), Andrew Cripps, Wenche Rolfsen, and Joakim Westh.

Throughout the year, the Chairman of the Audit Committee kept the Board of Directors regularly informed of the committee's work and decisions. A total of eight meetings were held in 2016, of which three were related to the audit tender process. The Company's auditor, as well as the head of the Internal Audit, participated in all of the meetings of the Audit Committee in 2016 and, at two of these meetings, also met with the committee without the presence of the management of the Company.

According to EU Audit and Auditor Regulation<sup>1)</sup>, Swedish Match was obliged to initiate an audit tender process during 2016. According to the Regulation the Audit Committee is responsible for the selection procedure and the tender process. The

proposal to the shareholders at the Annual General Meeting 2017 for the appointment of auditors will include a recommendation and preference made by the Audit Committee.

#### **Compensation Committee**

Following the AGM and the statutory meeting, the members of the Compensation Committee in 2016 were Conny Karlsson (Chairman), Charles A. Blixt, and Jacqueline Hoogerbrugge. The Company's President presents reports on certain issues, but is not a member of the committee and is not present when the committee prepares decisions regarding compensation to the President.

During the year, the Compensation Committee's Chairman kept the Board of Directors regularly informed about the committee's work and decisions. The committee is to meet as often as necessary but at least twice annually. Three meetings were held in 2016.

During 2016, the committee devoted special attention to determination of variable compensation for 2015 to be paid in 2016, and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2017, and determination of salaries and variable compensation for other members of the Group Management Team for 2017. In addition, the committee submitted a proposal to the Board concerning guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

#### **Group Management Team**

In 2016, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division; Marlene Forsell, Senior Vice President and Chief Financial Officer; Marie-Louise Heiman, Senior Vice President Group Legal Affairs; Fredrik Lagercrantz, Senior Vice President Business Control; Lars Olof Löfman, Senior Vice President Product Supply Innovation, Scandinavia Division; Fredrik Peyron, Senior Vice President Regulatory Affairs and Group Communication (as from May 16, 2016); and Joakim Tilly, President Scandinavia Division.

Detailed information about the President and Chief Executive Officer Lars Dahlgren is provided on page 120 of the 2016 Annual Report. Lars Dahlgren has no major shareholdings, nor is he a part owner in companies having significant business relations with Swedish Match.

#### **Compensation to the Group Management Team**

The 2016 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 5 Personnel*, page 75 of the 2016 Annual Report. For information concerning compensation and other benefits to the Group Management Team, see *Note 5 Personnel*, page 75 of the 2016 Annual Report.

#### **Audit and auditors**

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2016 up to and including the Annual General Meeting in 2017. During 2016, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax advice and testing of IT-controls.

Cronie Wallquist, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2016, see *Note 6 Audit fees*, page 78 of the 2016 Annual Report.

#### **Disclosure Committee**

Members of the Disclosure Committee during 2016 were the heads of Business Control, Investor Relations and Corporate Sustainability, Corporate Control, as well as Group Legal Affairs.

<sup>1)</sup> Regulation (EU) no 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities (the "Regulation") and applicable transitional rules regarding appointment of auditors.

## RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act and the Swedish Corporate Governance Code. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal controls regarding financial reporting. This report describes the Group's system for internal control and risk management regarding financial reporting.

### Control environment

The foundation for internal control over financial reporting is the control environment that has been documented and communicated in governing documents. These include internal policies on business ethics, delegation of authority, related party transactions and fraud response. In addition, a set of policies and instructions for accounting and reporting, as well as for internal control and IT security, has been established. All policies are regularly updated and distributed to key individuals who confirm implementation within their area of responsibility. Fundamental to creating an effective control environment is the establishment of clear decision-making and review structures. Swedish Match has established a system of regular review meetings between the Group, operating units and local management during which the Group values are reinforced.

### Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure that essential risks

pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

### Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

### Information and communication

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting.

### Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls.

Internal Audit's work is based on annual risk-focused plans that are updated throughout the year based on changes and events which influence the risks relating to the system for internal control. These plans are reviewed and approved by the Audit Committee and Internal Audit reports regularly on the results directly to the Audit Committee and to company management. The Audit Committee monitors that recommended actions are taken to improve the internal control regarding financial reporting. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO. The Audit Committee also receives regular reports from the external auditor.

Financial accounts are provided on a monthly, quarterly and annual basis to the Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. At these Board meetings the Chairman of the Audit Committee also informs the Board on the work of the Audit Committee relating to the monitoring of the effectiveness of internal controls regarding financial reporting. The Disclosure Committee monitors the sufficiency of financial accounts with regard to disclosure requirements.

Stockholm, February 16, 2017

The Board of Directors of  
Swedish Match AB

## Auditors' report on the Corporate Governance report

To the general meeting of the shareholders in Swedish Match AB (publ.), Corporate Identity Number 556015-0756

### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 111–117 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard *RevU 16 The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

### Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 second paragraph of the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, March 16, 2017

KPMG AB  
Cronie Wallquist  
Authorized Public Accountant



# BOARD OF DIRECTORS

**Conny Karlsson**



**CONNY KARLSSON**

Born 1955. M.Sc. in Economics and Business from Stockholm School of Economics. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.

*Other board assignments:* Chairman of Zeres Capital AB and North Alliance AS. Board member of Scandinavian Tobacco Group AS, Malte Månsson AB and Yrkesakademien AB.

*Previous positions:* Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&S.O.

*Own and related parties' shares:* 30,000

**Andrew Cripps**



**ANDREW CRIPPS**

Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.

*Other board assignments:* Non-Executive Director of the Howden Joinery Group plc, Booker Group plc and the 2 Sisters Food Group.

*Previous positions:* Director of Corporate Finance, Rothmans International; Director of Investments, British American Tobacco; President, Laurens International SA.

*Own and related parties' shares:* 19,200

**Charles A. Blixt**



**CHARLES A. BLIXT**

Born 1951. Jur. Dr. and B.A University of Illinois. Board member since 2015. Member of the Compensation Committee.

*Other board assignments:* Non-Executive Director, Lamb Weston Holdings Inc.

*Previous positions:* Interim General Counsel, Krispy Kreme Doughnuts Inc; Executive Vice President and General Counsel, Reynolds American Inc.

*Own and related parties' shares:* 3,000

**Jacqueline Hoogerbrugge**



**JACQUELINE HOOGERBRUGGE**

Born 1963. M.Sc. Chemical Engineering from the University of Groningen. Board member since 2015. President Operations, Cloetta. Member of the Compensation Committee.

*Other board assignments:* Non-executive Board Member of Ikea Industry Board.

*Previous positions:* President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food, various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales Fluor Daniel.

*Own and related parties' shares:* 3,200

**Wenche Rolfsen**



**WENCHE ROLFSEN**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.

*Other board assignments:* Chairman of Index Pharmaceuticals; Vice Chairman of Moberg Pharma; Board member of Bioarctic AB and Smartfish AS, Norway.

*Previous positions:* Vice President; Director of Quintiles Phase I, Europe; CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn; Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

*Own and related parties' shares:* 3,180

Holdings of own and related parties shares as of December 31, 2016. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 5 Personnel.



Meg Tivéus

**MEG TIVÉUS**

Born 1943. M.Sc. in Economics and Business from Stockholm School of Economics. Board member since 1999. Chairman of the Audit Committee.

*Other board assignments:* Chairman of Arkitektkopia AB and Close AB. Board member of ADDvise Group AB.

*Previous positions:* President and Chief Executive Officer, Svenska Spel AB; Executive Vice President, Posten AB; Division Manager, Holmen AB; Division Manager, Åhléns AB; Director, AB Nordiska Kompaniet; Product Manager, Modo AB; Project Manager, McCann Gunther & Bäck.

*Own and related parties' shares:* 5,200



Joakim Westh

**JOAKIM WESTH**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Member of the Audit Committee.

*Other board assignments:* Board member of Absolent Group AB, Saab AB and CGI Inc.

*Previous positions:* Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman, Absolent AB; Partner, McKinsey & Co. Inc.

*Own and related parties' shares:* 2,500



Cronie Wallquist

**AUDITORS**

**KPMG AB** Lead Auditor:

Cronie Wallquist. Born 1958. Authorized Public Accountant. Swedish Match auditor since 2012. Cronie Wallquist's other auditing assignments include Preem, Qliro Group, AstraZeneca and Svenska Petroleum Exploration.

**Independence of Board members**

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

**Changes in the Board of Directors**

Eva Norlén-Moritz replaced Kenneth Ek as an employee representative from July 2016. Dragan Popovic is a new deputy member from July 2016.

**Secretary to the Board of Directors**

Since 2015, Marie-Louise Heiman, Senior Vice President Group Legal Affairs and General Counsel is secretary to the Board.

**EMPLOYEE REPRESENTATIVES**

Eva Norlén-Moritz

Patrik Engeltbrettsson

Eva Larsson

**PATRIK ENGELTBRETTSSON**

Born 1965. Board member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union Association at the snus factory in Gothenburg, Sweden. Logistic Technician at the Gothenburg factory.

*Previous positions:* Mill worker, Machine Operator, Forklift driver at the Gothenburg snus factory.

*Own and related parties' shares:* 0

**EVA LARSSON**

Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the Trade Union Association at the match factory in Tidaholm, Sweden. Insurance Manager for insurance policies of persons employed under collective agreements at the Swedish Match's match factory in Tidaholm.

*Previous positions:* Line Operator at Swedish Match's match factory in Tidaholm.

*Own and related parties' shares:* 0

**EVA NORLÉN-MORITZ**

Born 1960. Board member since 2016 (deputy until July 2016). Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chemist and works with chemical analysis of tobacco and products as well as quality assurance concerning analytical methods at the R&D department within Swedish Match Scandinavia Division in Stockholm, Sweden.

*Previous positions:* The Customs (and Excise) Department Stockholm; Astra Pharmaceutical Production Södertälje.

*Own and related parties' shares:* 0

**EMPLOYEE REPRESENTATIVES (DEPUTIES)**

Joakim Andersson

Dragan Popovic

Gert-Inge Rang

**JOAKIM ANDERSSON**

Born 1970. Deputy member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Kungsängen, Sweden. Module Technician at SMD Logistics in Kungsängen.

*Previous positions:* Module Technician, Swedish Match Distribution in Solna, Sweden.

*Own and related parties' shares:* 0

**DRAGAN POPOVIC**

Born 1973. Deputy member since July 2016. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus factories in Gothenburg and Kungälv, Sweden. Area Manager Production at Swedish Match's snus factory in Gothenburg.

*Previous positions:* Area Manager loose snus, Area Manager portion snus Original, Area Manager Pilot Plant and Machine Operator, at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**GERT-INGE RANG**

Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match Industries. Production Supervisor at Swedish Match's match factory in Vetlanda, Sweden.

*Previous positions:* Supervisor, Swedish Match's match factory in Vetlanda.

*Own and related parties' shares:* 1,000

# GROUP MANAGEMENT



Lars Dahlgren

## LARS DAHLGREN

President and Chief Executive Officer, Swedish Match since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Board assignments:* Board member of Orkla ASA.  
*Previous positions:* Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg.

*Own and related parties' shares:* 36,900



Richard Flaherty

## RICHARD FLAHERTY

President, US Division, Swedish Match since 2008. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LL.M. Taxation New York University, USA.

*Previous positions:* Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.

*Own and related parties' shares:* 18,125



Marlene Forsell

## MARLENE FORSELL

Chief Financial Officer and Senior Vice President, Group Finance, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2013. Born 1976. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Board assignments:* Board member of Scandinavian Tobacco Group AS.  
*Previous positions:* Vice President Group Reporting, Swedish Match AB; Vice President Business Control, Swedish Match Smokefree Division; Vice President Corporate Control, Swedish Match AB; Analyst, Ernst & Young.

*Own and related parties' shares:* 2,500



Marie-Louise Heiman

## MARIE-LOUISE HEIMAN

Senior Vice President, Group Legal Affairs and General Counsel, Swedish Match since 2015. Joined Swedish Match in 1996. Member of the Group Management Team and Secretary to the Board since 2015. Born 1965. Master of Laws (LL.M.), Uppsala University, Sweden.

*Previous positions:* Vice President Legal Affairs, Swedish Match AB; General Counsel Swedish Match North Europe AB; Legal Counsel, AB Fortos, BCP Branded Consumer Products AB and Procordia AB.

*Own and related parties' shares:* 3,025



**Fredrik Lagercrantz**

**FREDRIK LAGERCRANTZ**

Senior Vice President, Business Control, Swedish Match since 2013. Joined Swedish Match in 2009. Member of the Group Management Team since 2013. Born 1977. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden. *Previous positions:* Vice President Group Business Control, Swedish Match; Management Consultant, McKinsey & Co. *Own and related parties' shares:* 1,595



**Lars Olof Löfman**

**LARS OLOF LÖFMAN**

Senior Vice President, Product Supply Innovation, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM, Sweden. *Previous positions:* Senior Vice President Product Supply and Marketing, Swedish Match Scandinavia Division; President, Swedish Match Smokefree Products Division; President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division. *Own and related parties' shares:* 10,689



**Fredrik Peyron**

**FREDRIK PEYRON**

Senior Vice President, Regulatory Affairs and Group Communications. Joined Swedish Match in 2016. Member of the Group Management Team since 2016. Born 1967. Bachelor of Law (LLB), Lund University. *Previous positions:* Group Vice President, Legal Affairs, General Counsel and Secretary, Autoliv; Senior Vice President, Legal Affairs and General Counsel, Swedish Match AB; Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel; Associate, Mannheimer Swartling law firm. *Own and related parties' shares:* 2,500



**Joakim Tilly**

**JOAKIM TILLY**

President, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden. *Previous positions:* Senior Vice President, Group Finance and IT, and Chief Financial Officer, Swedish Match AB; Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division. *Own and related parties' shares:* 8,240

**CHANGES IN THE GROUP MANAGEMENT TEAM**

Fredrik Peyron was appointed Senior Vice President, Regulatory Affairs and Group Communications in May 2016.

Holdings of own and related parties shares as of December 31, 2016. For a detailed report of remuneration and benefits for senior executives, refer to Note 5 Personnel.

**The Nominating Committee's proposal under item 11 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

The Nominating Committee proposes that the remuneration to the members of the Board of Directors, for the period until the next Annual General Meeting, be paid according to the following (the 2016 resolved remuneration within brackets).

The Chairman shall receive 1,840,000 SEK (1,750,000 SEK), the deputy Chairman shall receive 870,000 SEK (830,000 SEK) and the other Board members elected by the General Meeting shall each receive 735,000 SEK (700,000 SEK). It is further proposed that the Board, as remuneration for committee work, be allotted 260,000 SEK (250,000 SEK) to the Chairmen of the Compensation Committee and the Audit Committee respectively and 130,000 SEK (125,000 SEK) respectively to the other members of these committees. The fees have been unchanged since the 2014 Annual General Meeting.

The remuneration to a board member may, subject to a specific agreement with Swedish Match AB (publ), be invoiced from a company. In order for the Swedish Match to enjoy full cost neutrality, the invoiced remuneration shall be adjusted for social security charges and value added tax.

**The Nominating Committee's proposal under item 12 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

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

Re-election of: Charles A. Blixt  
Andrew Cripps  
Jacqueline Hoogerbrugge  
Conny Karlsson  
Wenche Rolfsen  
Joakim Westh

Election of: Pauline Lindwall

Meg Tivéus has declined re-election.

The Nominating Committee further proposes that Conny Karlsson is elected as Chairman 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 executive management and major shareholders of the Company.

Presentation of proposed Board members

**Conny Karlsson**

Born 1955. M.Sc. in Economics and Business. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.

***Other board assignments:*** Chairman of Zeres Capital AB and North Alliance AS. Board member of Scandinavian Tobacco Group AS, Malte Månsson AB and Yrkesakademin AB.

***Previous positions:*** Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.

*Own and related parties' shares:* 30,000

**Charles A. Blixt**

Born 1951, Jur.Dr. and B.A University of Illinois. Board member since 2015. Member of the Compensation Committee.

***Other board assignments:*** Non-Executive Director, Lamb Weston Holdings, Inc.

**Previous positions:** Interim General Counsel, Krispy Kreme Doughnuts Inc;  
Executive Vice President and General Counsel, Reynolds American Inc.

*Own and related parties' shares:* 3,000

### **Andrew Cripps**

Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.

**Other board assignments:** Non-Executive Director of the Howden Joinery Group plc, Booker Group Plc, and 2 Sisters Food Group.

**Previous positions:** Director of Corporate Finance, Rothmans International Plc; Director of Investments, British American Tobacco; President, Laurens International SA.

*Own and related parties' shares:* 19,200

### **Jacqueline Hoogerbrugge**

Born 1963. M.Sc. Chemical Engineering from the University of Groningen. Board member since 2015. President Operations, Cloetta. Member of the Compensation Committee.

**Other board assignments:** Non-executive Board Member to Ikea Industry AB

**Previous positions** President Operations, Leaf International BV; Vice President Operations, Danone's Medical Nutrition Division; Vice President Procurement, Numico Baby & Medical Food, various positions in engineering, manufacturing and procurement, Unilever; and various positions in engineering and sales, Fluor Daniel.

*Own and related parties' shares:* 3,200

### **Wenche Rolfsen**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology from Uppsala University. Board member since 2013. Member of the Audit Committee.

**Other board assignments:** Chairman of Index Pharmaceuticals; Vice Chairman of Moberg Pharma; Board member of Bioarctic AB and Smartfish AS, Norway.

**Previous positions:** Vice President; Director of Quintiles Phase I, Europe, CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn, Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

*Own and related parties' shares:* 3,180

**Joakim Westh**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Member of the Audit Committee.

*Other board assignments:* Board member of Absolent AB, Saab AB, and CGI Group Inc.

*Previous positions:* Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman, Absolent AB; Partner, McKinsey & Co. Inc.

*Own and related parties' shares:* 2,500

**Pauline Lindwall**

Born 1961. BSc, University of Växjö.

*Other board assignments:* Board member of Celesio AG, Duni AB, and Lantmännen,

*Previous positions:* Category Director Coffee France and Southern Europe Mondelez International, Country Business Manager Nestlé Nutrition Germany & Austria, Country Business Manager Nestlé Nutrition Indonesia, Nordic Marketing Director Nestlé Nordic, Head of Nestlé Innovation Out of Home Coffee UK, Nordic Marketing Manager Nestlé Coffee & Beverages,

*Own and related parties' shares:* 0

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

As members of the Board:

Patrik Engelbrektsson, LO  
Eva Larsson, LO  
Dragan Popovic, PTK

As deputy members of the Board:

Joakim Andersson, LO  
Gert-Inge Rang, PTK



**The Nominating Committee's proposal under items 13-15 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

**Item 13:** The Nominating Committee proposes the number of auditors to be one and no deputy auditor.

**Item 14:** The Nominating Committee proposes that remuneration to the auditor, as previous years, be paid according to approved accounts.

**Item 15:** The Nominating Committee proposes re-election of the auditor company Deloitte AB, for the period as of the end of the Annual General Meeting 2017 until the end of the Annual General Meeting 2019.

**The Board of Directors' proposal under item 16 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2017. The members of the Group management are referred to below as the “**Group Management Team**” or “**GMT**”.

The objective of these principles is to ensure that the Company is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their utmost to safeguard shareholders' interests. Swedish Match takes into account both global remuneration practice and the practice of the country of residence of each member of the GMT. The principles apply in relation to members of the GMT appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements. The annual report for 2016 sets out details of the remuneration and benefits of the GMT during 2016.

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

*1. Fixed salary*

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

*2. Variable salary*

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

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

*3. Profit Sharing System*

All employees in Sweden are participating in Swedish Match profit sharing system (“**PSS**”). For 2017 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

*4. Insurable benefits*

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.

*5. Severance pay, etc*

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

*6. Other benefits*

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

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

*9. Previous undertakings not yet due*

The Company has no previous undertakings not yet due besides what is evident from the annual report 2016.

**The Board of Directors' proposal under items 17 a) and 17 b) on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

**Item 17 a)**

The Board of Directors proposes to reduce the Company's share capital with 14,342,422 SEK by means of withdrawal of 6,950,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with authorization granted by the General Meeting.

**Item 17 b)**

Provided that the General Meeting passes a resolution in accordance with the Board's proposal under item 17 a) above, the Board of Directors proposes an increase in the Company's share capital of 14,342,422 SEK through a transfer from non-restricted equity to the share capital (bonus issue). The share capital shall be increased without issuing any 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 proposal under item 10 a) above, the resolution to reduce the share capital may be passed without obtaining permission from the Swedish Companies Registration Office (sw. *Bolagsverket*), or, in disputed cases, the court.

The effect of the Board of Directors' proposal under item 17 a) is a reduction in the Company's share capital of 14,342,422 SEK. The effect of the Board of Directors' proposal under item 17 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 and in respect of this statement by the Board of Directors, is enclosed in Appendix 12 A.

The resolution of the General Meeting in accordance with the Board's proposal under item 17 a), is only valid if supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.



Translation from the Swedish original

## **Auditor's report pursuant to Chapter 20, Section 14 of the Swedish Companies Act (2005:551) in respect of motions concerning the resolutions under Items 17 a) and 17 b) of the agenda of the Annual General Meeting**

To the Annual General Meeting of Swedish Match AB (publ), Swedish Company Reg No: 556015-0756

We have examined the Board of Directors' statement concerning its motions for resolutions under Items 17 a) and 17 b) of the agenda of the Annual General Meeting on May 4, 2017.

### **Responsibility of the Board of Directors**

It is the Board of Directors that is responsible for the statement and for preparing it in accordance with the Swedish Companies Act and for such internal control as the Board of Directors determine is necessary to enable the preparation of the statement that is free from material misstatement, whether due to fraud or error.

### **Responsibility of the auditor**

Our responsibility is to express an opinion on the statement based on our examination. The examination was performed in compliance with the recommendation RevR 9 issued by Far, The Auditor's Other Statements Pursuant to the Swedish Companies Act and the Companies Ordinance. This standard requires that we plan and perform the examination to obtain reasonable assurance about whether the statement is free from material misstatements. The audit firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of Swedish Match AB (publ) accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The examination involves performing procedures to obtain audit evidence about the amounts and other disclosures in the Board of Directors' statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board of Directors' preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. The examination also includes evaluating the appropriateness of actions taken in connection with the company's restricted equity or share capital as well as the reasonableness of the assessments made by the Board of Directors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the actions that are to be taken and that will result in no reduction of either the restricted equity or share capital of the company are appropriate and the assessments that the Board of Directors has made concerning the effects of these actions are correct.

### **Other information**

The sole purpose of this Auditor's report is to satisfy the requirements of Chapter 20, Section 14 of the Swedish Companies Act and it may not be used for any other purpose.

Stockholm April 6 2017

KPMG AB

Cronie Wallquist  
Authorized Public Accountant

**The Board of Directors' proposal under item 18 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

The Board of Directors proposes that it be authorized to resolve on acquisition of the Company's own shares, on one or several occasions prior to the next Annual General Meeting, provided that the Company's holding does not at any time exceed 10 percent of all shares in the Company. The shares shall be acquired on Nasdaq 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 selling price. Payment for the shares is to be made in cash. The purpose of the repurchasing right is primarily to enable the Company to adapt its capital structure to its capital needs over time, and thereby contribute to an increased shareholder value.

The Board of Directors shall be able to resolve that a purchase of own shares shall be made within a repurchase program in accordance with the Market Abuse Regulation (EU) No 596/2014 ("MAR") and the Commission Delegated Regulation (EU) No 2016/1052 (the "Safe Harbour Regulation"), if the purpose of the purchase only is to decrease the Company's equity.

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

**Previous repurchases\***

<b>Year</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Number of repurchased shares</b>	7,440,302	1,578,627	3,744,788	7 473 046	4 243 104
<b>Holding at year-end</b>	6,591,665	2,954,479	4,822,933	7 584 209	4 077 313
<b>Holding at year-end as a percentage of total share capital</b>	3,2 %	1,46 %	2,41%	3,86 %	2,16%

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

**The Board of Directors' proposal under item 19 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

The Board of Directors proposes that it be authorized to resolve on transfer of the Company's own shares, on one or several occasions prior to the next Annual General Meeting.

The shares may only be transferred in conjunction with the financing of company acquisitions and other types of strategic investments and acquisitions, and the transfers may not exceed the maximum number of treasury shares held by the Company at any given time. Transfer of own shares shall be made either on Nasdaq Stockholm or in another manner. In conjunction with the acquisition of companies or operations, transfer of own shares may be made with deviation from the shareholders' preferential rights and at a price within the price interval registered at any given time (i.e. the interval between the highest bid price and the lowest selling price) at the time of the decision regarding the transfer and in accordance with the rules of Nasdaq Stockholm. Payment for shares transferred in this manner may be made in cash or through a non-cash issue or offsetting of claims against the Company, or on other specific terms.

The reason for the authorization and deviation from the shareholders' preferential rights is, where appropriate, to be able to transfer shares in conjunction with the financing of any company acquisitions and other types of strategic investments and acquisitions in a cost-efficient manner.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 19 requires the support of 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 20 on the Agenda of the Annual General Meeting of Swedish Match AB (publ) on May 4, 2017**

The Board of Directors proposes it be authorized to, for the period until the end of the next Annual General Meeting, to issue new ordinary shares on one or more occasions, with or without deviation from shareholders' preferential rights and against payment in cash, in kind or by set-off.

The number of shares that may be issued may not exceed a maximum dilution effect of 10 percent of the share capital and votes at the time of the Annual General Meeting 2017. The reasons for the authorization and deviation from shareholders' preferential rights are that the Board wishes to increase the Company's financial flexibility and to allow the Company to issue common shares as payment in connection with acquisitions the Company might make. The subscription price shall be determined according to prevailing market conditions at the time the shares are issued.

The resolution of the Annual General Meeting with regard to the Board's proposal under item 20 requires the support of shareholders representing at least two thirds of both the votes cast and the shares represented at the Meeting.