MINUTES
kept at the Annual General Meeting of Shareholders of Swedish Match AB (publ), Swedish company reg. no. 556015-0756, on 2 May, 2012 in Stockholm

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

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

§ 3
Magnus Henjeby and Christina Kusoffsky Hillesöy were appointed to check the minutes together with the Chairman of the Meeting.

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

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

§ 6
The Annual Report and the Audit Report as well as the Consolidated Accounts and the Consolidated Audit Report for the period 1st January – 31st December 2011 were submitted. In addition, the Board of Directors´ proposal regarding the allocation of profit and explanatory statement were submitted, Appendix 4 and 5, as well as the Auditor´s report regarding compliance with the principles for the compensation of senior executives previously adopted, Appendix 6.

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

The Chairman of the Board reported on the work of the Board of Directors and the Chairman of the Audit Committee, Meg Tivéus, reported on the work and functions of the Audit Committee and presented the auditing costs and other fees paid to Swedish Match's auditors in 2011.

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

Questions from the shareholders were answered by the president, the Chairman of the Board, and by the auditor.

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

§ 8
It was resolved
that the funds at the disposal of the Annual General Meeting, i.e.
SEK 19,135,899,079 shall be appropriated as follows: a dividend of SEK 6.50 per share to be paid to the shareholders for each share in Swedish Match AB,
that the remaining earnings be carried forward,
and that the record date for determining who is entitled to receive a cash dividend shall be 7 May 2012.

§ 9
It was resolved to discharge the members of the Board of Directors and the Presidents in office during the relevant period from liability for the period 1st January – 31st December 2011.

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

§ 10
a) The Board of Directors´ proposal according to Appendix 8 was submitted.

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

that the Company's share capital shall be reduced by SEK 12,800,976.15 by means of the withdrawal of 7,000,000 shares in the Company; and
that the reduced amount shall be allocated to a fund for use in repurchasing the Company's own shares.

It was noted that the resolution was supported with at least two thirds of the votes cast and the votes represented at the Meeting, and that the resolution had been passed with the requisite majority.

b) Pursuant to the Board of Directors' proposal, Appendix 8, it was resolved that the Company's share capital shall be increased by SEK 12,800,976.15 through a transfer from non-restricted shareholders' equity to the share capital (bonus issue), whereby the share capital shall be increased without issuing new shares.

§ 11
The Board of Directors´ proposal according to Appendix 9 was submitted.

Question from a shareholder was answered by the Chairman of the Board.

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

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

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

The purpose of the repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programme.

The Board of Directors shall be able to resolve that purchase of own shares shall be made within a repurchase programme in accordance with the Commissions Regulation (EC) no 2273/2003, if the purpose of the authorisation and the purchase only is to decrease the Company´s equity and/or to meet obligations arising from the Company's option programme.

It was noted
that the resolution was supported with at least two thirds of the votes cast and the votes represented at the Meeting; and
that the resolution had been passed with the requisite majority,

§ 12
The Board of Directors´ proposal according to Appendix 10 was submitted.
The Chairman of the Board reported on the work and function of the Compensation Committee.

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

§ 13
Björn Lind, a member of the Nominating Committee, reported on how the work of the Nominating Committee had been conducted.

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

§ 14
It was resolved that the Board of Directors in total, for the period up to and including the date when the next Annual General Meeting is held, shall receive the following fees:

- the Chairman shall receive a fee of SEK 1,710,000, the Deputy Chairman shall receive SEK 810,000 and other Members of the Board elected by the General Meeting of Shareholders shall each receive a fee of SEK 685,000;
- the Chairmen of the Compensation Committee and the Audit Committee shall receive SEK 250,000 respectively and the other members of these committees shall each receive SEK 125,000; and that

- Members of the Board employed by the Swedish Match Group shall not receive any Directors’ fees.

The remuneration to a board member may, subject to a specific agreement with Swedish Match AB, be invoiced from a company. In order for the Company to enjoy full cost neutrality, the invoiced remuneration shall be adjusted for social security charges and value added tax.

§ 15
Pursuant to the Nominating Committee’s proposal according to Appendix 11, it was resolved, for the period lasting until the end of the next Annual General Meeting

that the following persons were elected as ordinary Board members: Andrew Cripps, Karen Guerra, Conny Karlsson, Robert F. Sharpe, Meg Tivéus and Joakim Westh.

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

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

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

§ 16
Pursuant to the Nominating Committee’s proposal according to Appendix 12, it was resolved

that the number of auditors shall be one with no deputy auditor.

§ 17
Pursuant to the Nominating Committee’s proposal according to Appendix 12, it was resolved

that the remuneration to the Auditor is to be paid against approved invoice.

§ 18
Pursuant to the Nominating Committee’s proposal according to Appendix 12, it was resolved

that the accounting firm KPMG AB was re-elected for the period as of the end of the Annual General Meeting 2012 until the end of the Annual General Meeting 2013.
It was noted that KMPG AB had communicated that Cronie Wallquist will be succeeding Thomas Thiel as Auditor in Charge.

§19
Pursuant to the Board of Directors' proposal according to Appendix 13, it was resolved that the Articles of Association be amended as set out below:

"§ 5 The number of shares in the Company shall be not less than one hundred fifty million (150,000,000) and not more than six hundred million (600,000,000)".

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

It was noted
that the resolution was supported with at least two thirds of the votes cast and the votes represented at the Meeting; and
that the resolution had been passed with the requisite majority,

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Minutes checked by:	Minutes kept by:
Claes Beyer Chairman	Fredrik Peyron

Magnus Henjeby

Kristina Kussoffsky Hillesöy

Appendix 2

Annual General Meeting of Swedish Match AB (publ)

The shareholders of Swedish Match AB are hereby notified of the Annual General Meeting of Shareholders to be held on Wednesday May 2, 2012 at 16:30 (CET) at Hotel Rival, Mariatorget 3, Stockholm, Sweden.

Agenda

1. Opening of the Meeting and election of the Chairman of the Meeting.
2. Preparation and approval of the voting list.
3. Election of one or two persons, to verify the Minutes.
4. Determination of whether the Meeting has been duly convened.
5. Approval of the Agenda.
6. Presentation of the Annual Report and the Auditors' Report, the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2011, the Auditors' Statement regarding compliance with the principles for determination of remuneration to senior executives as well as the Board of Directors' motion regarding the allocation of profit and explanatory statements. In connection therewith, the President's address and the report regarding the work of the Board of Directors and the work and function of the Audit Committee.
7. Adoption of the Income Statement and Balance Sheet and of the Consolidated Income Statement and Consolidated Balance Sheet.
8. Resolution in respect of allocation of the Company's profit in accordance with the adopted Balance Sheet and resolution on record day for dividend.
9. Resolution regarding discharge from liability for the Board members and the President.
10. a) Resolution regarding the reduction of the share capital by way of a recall of repurchased shares, and the transfer of the reduced amount to a fund for use in repurchasing the Company's own shares; and
b) Resolution regarding a bonus issue.
11. Resolution regarding the authorization of the Board of Directors to decide on the acquisition of shares in the Company.
12. Adoption of principles for determination of remuneration payable to senior executives. In connection therewith the report regarding the work and function of the Compensation Committee.
13. Determination of the number of members of the Board of Directors to be elected by the Meeting.
14. Determination of the remuneration to be paid to the Board of Directors.
15. Election of members of the Board, the Chairman of the Board and the Deputy Chairman of the Board.
16. Determination of the number of Auditors.
17. Determination of the remuneration to be paid to the Auditors.
18. Election of Auditors.
19. Resolution regarding amendments to the Articles of Association.

Appendix 2

The proposals of the Nominating Committee appointed after the Annual General Meeting of Shareholders in 2011

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

Item 13: The Board of Directors shall comprise six members elected by the Annual General Meeting and no deputies.

Item 14: It is proposed that the fees to the Board of Directors be paid as follows for the period until the close of the next Annual General Meeting: the Chairman shall receive 1,710,000 SEK, the Deputy Chairman shall receive 810,000 SEK and the other Board members elected by the Meeting shall each receive 685,000 SEK. It is further proposed that the Board, as remuneration for committee work carried out, be allotted 250,000 SEK to the Chairmen of the Compensation Committee and the Audit Committee respectively and 125,000 SEK respectively to the other members of these committees. It is proposed that members of the Board employed by the Swedish Match Group not receive any remuneration.

Item 15: The following Board members are proposed for re-election: Andrew Cripps, Karen Guerra, Conny Karlsson, Robert F. Sharpe, Meg Tivéus and Joakim Westh. 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 16: The Nominating Committee proposes the number of auditors shall be one with no deputy auditor.

Item 17: The Nominating Committee proposes that remuneration to the Auditor is to be paid against approved invoice.

Item 18: The Nominating Committee proposes re-election of the accounting firm KPMG AB, for the period as of the end of the Annual General Meeting 2012 until the end of the Annual General Meeting 2013.

The motions of the Board of Directors

Item 8: The Board of Directors proposes that a dividend be paid to the shareholders in the amount of 6.50 SEK per share and that the remaining profits be carried forward. The proposed record date for entitlement to receive a cash dividend is May 7, 2012. The dividend is expected to be paid through Euroclear Sweden AB, on May 10, 2012.

Item 10 a): The Board of Directors proposes a reduction in the Company’s share capital of 12,800,976.15 SEK by means of the withdrawal of 7,000,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorization granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company’s own shares.

Item 10 b): Provided that the Meeting passes a resolution in accordance with the Board's motion under item 10 a) above, the Board of Directors proposes an increase in the Company's share capital of 12,800,976.15 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's motion under item 10 a) above, the resolution to reduce the share capital can be passed without obtaining the permission of the Swedish Companies Registration Office (Bolagsverket), or, in disputed cases, court permission.

The effect of the Board of Directors' motion under item 10 a) entails a reduction in the Company's share capital of 12,800,976.15 SEK. The effect of the Board of Directors' motion under item 10 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

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

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

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

Item 12: The Board of Directors proposes that the Annual General Meeting adopt principles for remuneration and other terms of employment for the President and other members of the Group management whereby remuneration and other terms of employment for the Group management shall correspond to market practise. In addition to the fixed salary, the members of the Group management may be entitled to variable 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, which shall be capped in relation to the fixed salary, shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria and may include an obligation to purchase and hold shares in the Company. Full details on the proposed principles and their application on 2012 variable salary are available on the Company's website www.swedishmatch.com.

Item 19: The Company has 213,000,000 shares. The Articles of Association stipulates that the Company shall have not less than two hundred million (200,000,000) shares and not more than eight hundred million (800,000,000) shares. Following a reduction of shares as proposed under Item 10 a) the Company would have 206,000,000 shares. In order to enable the Company to withdraw any future shares held in treasury the Board of Directors proposes that the Articles of Association be amended as set out below:

§ 5 The number of shares in the Company shall be not less than one hundred fifty million (150,000,000) and not more than six hundred million (600,000,000).

The resolution of the Annual General Meeting with regard to the Board's proposal under item 19 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.

Documents

The Annual Report, the Auditors' Report, full details of the resolutions proposed under items 8, 10 a), 10 b), 11, 12, 15, and 19 as well as statements by the Board of Directors, pursuant to Chapter 18 Section 4 and Chapter 19 Section 22 of the Swedish Companies Act, and the statement by the auditors pursuant to Chapter 8 Section 54 and Chapter 20 Section 14 of the Swedish Companies Act, will be made available at Swedish Match AB's headquarters (Legal Department) at Västra Trädgårdsgatan 15 in Stockholm, Sweden, no later than April 11, 2012. They will also be available on the Company's website, www.swedishmatch.com, on the same date. They can also be ordered from the Company. The documents will also be available at the Meeting.

Number of shares and votes in the Company

The total number of shares and votes in Swedish Match AB on the issue date of this notice amounted to 213,000,000. As per March 22, 2012 Swedish Match owned 9,115,386 repurchased shares and these shares can consequently 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 register of shareholders maintained by Euroclear AB on April 25, 2012. In addition, you need to notify Swedish Match of your intention to participate no later than April 25, 2012, at which time notifications to participate must have been received by Swedish Match. Shareholders who wish to be accompanied by one or two assistants at the Meeting shall also advise Swedish Match thereof within the appointed period of time.

Proxy form

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

Notice of participation
Notice of participation may be submitted in writing to Swedish Match AB, “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/stamman. When giving notice of participation, the shareholder shall state his or her name, address, telephone number (daytime), civic ID/corporate registration number and name of assistants, if any. Receipt of notification will be confirmed by Swedish Match, which will issue an attendance card prior to the Meeting to be presented at the entrance to the venue at which the Meeting is held.

Proxy
Shareholders who are represented by proxy shall issue a power of attorney for the proxy. If the power of attorney is issued by a legal entity, a copy of the corporate registration certificate for the legal entity shall be enclosed (or if no such document is available, an equivalent authorization document). The proxy is valid for one year from the issuance or the longer period of validity stated in the proxy, however not more than five years from the issuance. To facilitate entry at the Meeting, the power of attorney in the original as well as the corporate registration certificate and other authorization documents should be received by the Company at the address provided above no later than Thursday, April 26, 2012.

Share registration
Shareholders whose shares are nominee registered and who wish to participate in the Meeting must re-register the shares in their own name. Such re-registration may be temporarily, known as voting right registration. Requests for re-registration should be submitted to the bank or broker who administers the shares in sufficient time to allow re-registration to be effective on Wednesday, April 25, 2012.

Information at the Annual General Meeting
The Board of Directors and the President shall, if any shareholder so requests and the Board of directors believes that it can be done without material harm to the Company, provide information regarding circumstances that may affect the assessment of an item on the agenda, and circumstances that can 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 15:30 (CET). Coffee will be served before the Meeting.

Stockholm, March 2012
The Board of Directors

Appendix 3

AGENDA
OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF SWEDISH MATCH AB
WEDNESDAY, 2 MAY 2012, AT 4:30 PM

1. Election of Chairman of the Meeting.

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

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

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

    Notice to attend the Meeting has been published in Post- och Inrikes Tidningar on 28 March 2012 and on the Compnay's web site on 26 March 2012. Information that notice has been issued was puplished in Svenska Dagbladet on 28 March 2012.

5. Approval of the Agenda.

6. Presentation of the Annual Report and the Auditors' Report and of the Consolidated Financial Statements and the Auditors' Report on the Consolidated Financial Statements for 2011, the Auditors' Statement regarding compliance with the principles for the compensation of senior executives as well as the Board of Directors' motion regarding the allocation of profit and explanatory statements.

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

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

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

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

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

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

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

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

    In connection therewith the Board of Director's report regarding the work and function of the Compensation Committee.

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

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

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

16. Determination of the number of Auditors.

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

18. Election of auditors.

19. Resolution regarding amendments to the Articles of Association.

Appendix 4

The Board of Directors' proposal under item 8 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

The Board of Directors proposes that a dividend be paid to the shareholders in the amount of 6:50 SEK per share. The Board of Directors proposes that the remaining profits be carried forward.

The proposed record date for entitlement to receive a cash dividend is 7 May 2012. The dividend is expected to be paid through Euroclear Sweden AB on 10 May 2012.

The Board of Directors' statement concerning the justification of the proposed allocation of the Company's profit in accordance with Chapter 18, § 4 of the Swedish Company Act is enclosed in Appendix 5.

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 2012 Annual General Meeting in respect of the 2011 financial year, and the Board's proposal regarding a mandate to buy back the Company's own shares.

Background
The Board of Directors has analyzed and evaluated the proposed dividend payment in respect of the 2011 financial year, and the proposed mandate in respect of the buy-back of the Company's own shares. The analysis has been based, among other things, on a review of the Group's financial strategy and a financial and strategic long-term plan, including a risk analysis. The proposed dividend and exercise of share repurchases under the proposed mandate to buy back the Company's own shares have been assessed in view of the financial policy, including dividend policy, adopted for the Group by the Board of Directors. Please see the Directors' Report for a description of the financial policy and the dividend policy.

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

The financial position of the Company and the Group
The financial position of the Company and the Group on 31st December 2011 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. On 31st December 2011, the consolidated shareholders' equity was negative and amounted to SEK -1.602 million, SEK -49 million of which is attributable to a hedge reserve. 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 2.2, Accounting for Legal Entities. On 31st December 2011, it amounted to SEK 19.525 million. The amount includes market valuation of certain subsidiaries of SEK 18,100 million.

The Group's actual financial position differs from the financial position reported in the most recently published Annual Report in that the companies that make up the corporate Group own a number of assets with market values which exceed the reported values. Based on the closing price of the Swedish Match share on 31st December 2011, the market value of the Group's shareholders' equity was SEK 49.879 million.

As can be seen from the proposed allocation of profits, the Board proposes a dividend of SEK 6.50 per share. Given the number of outstanding shares on 31st December 2011, the total dividend payment is therefore SEK 1.327 million, corresponding to 6.8 per cent of the Parent Company's shareholders' equity and exceeds the Group's reported shareholders' equity by SEK 2.929 million. The ratio of the dividend to the market value of shareholders' equity of the Group on 31st December 2011 is 2.7 per cent.

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 per cent of its registered shares. Assuming 17.1 million shares bought back at a price of SEK 240 total buy backs would amount to 4,104 MSEK. This amount corresponds to 22.6 per cent of the Parent Company's reported shareholders' equity after proposed dividend payments and exceeds the Group's reported shareholders' equity after dividend payments by SEK 7.0 billion. If exercised in full, the buy-back program would correspond to just above 8.2 per cent of the market value of the Group's shareholders' equity on 31st December 2011.

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 Group's interest coverage ratio, based on EBITA (earnings before financial items, adjusted for large non-recurring items, tax and amortization of intangible assets/net interest items) was 7.4 on 31st December 2011, and the net debt in relation to EBITA was 2.4.

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

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

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

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

Stockholm 21st February, 2012

Conny Karlsson Chairman of the Board	Andrew Cripps Deputy Chairman	Kenneth Ek Board member	Karen Guerra Board member
Eva Larsson Board member	Joakim Lindström Board member	Robert F. Sharpe Board member	Meg Tivéus Board member
Joakim Westh Board member			

Unauthorized translation of Swedish original

Auditor's statement pursuant to Chapter 8, Section 54 of the Swedish Companies Act (2005:551) regarding whether the guidelines for remuneration to senior executives adopted by the annual general meeting of shareholders have been complied with

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

Corporate identity number 556015-0756

We have reviewed whether the Board of Directors and the President of Swedish Match AB (publ) have, for the year 2011, complied with the guidelines for remuneration to senior executives adopted by the annual general meetings of shareholders held on April 27, 2010 and May 2, 2011 respectively.

Responsibilities of the Board of Directors and the President
The Board of Directors and the President are responsible for compliance with the guidelines and for such internal control as the Board of Directors and the President determine is necessary to ensure compliance with the guidelines.

Auditor's responsibility
Our responsibility is to express an opinion, based on our review, to the annual general meeting of shareholders regarding whether the guidelines for remuneration to senior executives have been complied with. We conducted our review in accordance with FAR SRS' recommendation, RevR 8 *Review of Remuneration to senior executives of listed companies*. This recommendation requires that we comply with ethical requirements and plan and perform to review to obtain reasonable assurance that the guidelines adopted by the annual general meeting of shareholders have, in all material aspects, been complied with.

The review has involved the company's organization for and documentation of matters pertaining to remuneration to senior executives, recent resolutions regarding remuneration and a selection of payments made to senior executives during the financial year. The procedures selected depend on the auditor's judgment, including the assessment of the risk that the guidelines have not, in all materials aspects, been complied with. In making this risk assessment, the auditor considers the aspects of 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 review provides a reasonable basis for our opinion below.

Opinion
In our opinion, the Board of Directors and the President of Swedish Match AB (publ) have, for the year 2011 complied with the guidelines for remuneration to senior executives adopted by the annual general meetings of shareholders held on April 27, 2010 and May 2, 2011, respectively.

Stockholm, March 8, 2012

KPMG AB

Signature on Swedish original

Thomas Thiel
Authorized Public Accountant

FINANCIAL REPORTS

Solid sales growth

For the full year 2011, Swedish Match delivered strong growth in both comparable sales and operating profit. Comparable Group sales for the full year amounted to 11,666 MSEK (11,222). Comparable Group operating profit amounted to 3,365 MSEK (3,158). In local currencies, comparable sales increased by 8 percent and comparable operating profit increased by 11 percent. Currency translation has affected the sales and operating profit comparison negatively by 461 MSEK and 149 MSEK respectively.

Comparable Group operating margin for the year was 28.8 percent (28.1). Group operating margin, including share of net profit/loss in STG and businesses transferred to STG was 31.7 percent (25.2). Comparable Group EBITDA margin was 31.3 percent (30.7).

Group operating profit, including businesses transferred to STG in 2010, share of net profit in STG and larger one time items amounted to 3,702 MSEK (4,169). The share of net profit from STG amounted to 337 MSEK for the year and includes restructuring charges of 66 MSEK before tax.

EPS (basic) for the full year was 12.14 SEK (9.92, or 13.12 including larger one time items), while diluted EPS was 12.07 SEK (13.09).

Content

Parent Company financial statements

Report of the Board of Directors

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

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

Sales

Comparable sales for the year were 11,666 MSEK (11,222, excluding businesses transferred to STG). In local currencies, comparable sales increased by 8 percent. Currency translation has affected the sale comparison negatively by 461 MSEK. Sales for 2010, including businesses transferred to STG for the first nine months of 2010, amounted to 13,606 MSEK.

For the year, sales of *Snus and snuff* increased to 4,726 MSEK (4,522). In Scandinavia sales increased by 10 percent, while shipment volumes increased by 4 percent compared to 2010. In the United States sales revenues for the year were up 1 percent versus prior year on flat volumes.

For *Other tobacco products* (US mass market cigars and chewing tobacco), total sales for the year amounted to 2,388 MSEK (2,440). In local currencies sales increased by 9 percent compared to the previous year. US mass market cigars sales grew by 23 percent in local currency. The strong growth for US mass market cigars is attributable to the continued success of recent product introductions. The new line of sweets cigars in FoilFresh® packaging, first introduced towards the end of the second quarter of 2010, remains an important contributor to the strong volume growth. Chewing tobacco is mainly sold in the southern states of the country. The market for chewing tobacco shows a declining trend. Higher average prices have compensated for the lower volumes.

Product area *Lights* includes matches and lighters. For the full year sales in the Lights product area amounted to 1,346 MSEK (1,429). Both lighters and matches experienced some decline in sales resulting from somewhat lower volumes and negative currency translation effects.

Sales in *Other operations* were 3,206 MSEK (2,831). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

Operating profit

Full year comparable Group operating profit increased by 7 percent to 3,365 MSEK compared to 3,158 MSEK in 2010. Currency translation has affected the operating profit comparison negatively by 149 MSEK. In local currencies comparable operating profit increased by 11 percent.

Group operating profit, including share of net profit from STG, for the year reached 3,702 MSEK. Group operating profit for 2010 including share of net loss in STG, businesses transferred to STG and larger one time items amounted to 4,169 MSEK. Larger one time items in 2010 relate to a net gain from pension settlements of 59 MSEK, capital gain of 585 MSEK from the transfer of businesses to STG and a positive IFRS adjustment of 93 MSEK relating to amortizations and depreciation for assets held for sale. The share of net profit in STG amounted to 337 MSEK for the year and includes restructuring charges of 66 MSEK before tax. Operating profit increased for all product areas except for *Lights* compared to previous year.

Sales and operating profit/loss by product area

	Sales		Operating profit/loss	
MSEK	2011	2010	2011	2010
Snus and snuff	4,726	4,522	2,181	2,080
Other tobacco products	2,388	2,440	1,049	942
Lights	1,346	1,429	240	279
Other operations	3,206	2,831	–105	–142
Comparable sales and operating profit	**11,666**	**11,222**	**3,365**	**3,158**
Share of net profit/loss in STG			337	–60
Businesses transferred to STG	–	2,385	–	334
Total	**11,666**	**13,606**	**3,702**	**3,433**
Larger one time items:				
Net gain from pension settlements			–	59
Capital gain from transfer of businesses to STG			–	585
Reversals of depreciation and amortization relating to assets held for sale			–	93
Total larger one time items			**–**	**737**
Total			**3,702**	**4,169**

Summary of consolidated income statement

MSEK	2011	2010
Sales	11,666	13,606
Operating profit	3,702	4,169
Net finance cost	–523	–562
Taxes	–642	–649
Profit for the year	**2,538**	**2,958**
Attributable to:		
Equity holders of the Parent	2,538	2,957
Non-controlling interest	1	1
Profit for the year	**2,538**	**2,958**
Earnings per share, basic (SEK)	12.14	13.12

Operating profit for *Snuff and snus* increased by 5 percent to 2,181 MSEK (2,080) compared to prior year. The operating profit for the snus business in Scandinavia as well as the operating profit for the US moist snuff business (in local currency) was higher than the prior year. Operating profit for the combined US moist snuff and snus business was lower, due to significantly increased marketing investments for Swedish snus in the US. Snus marketing investments for Swedish snus in the US as well as for SMPM International increased by 65 MSEK in 2011 compared to 2010.

Operating profit for *Other tobacco products* amounted to 1,049 MSEK (942) representing an increase by 11 percent compared to prior year driven by the strong growth for US mass market cigars. Operating profit for 2010 includes a restructuring charge of 10 MSEK relating to the closure of the production of the Piccanell chewing tobacco brand in Sweden.

Operating profit for *Lights* for the year amounted to 240 MSEK (279). Operating loss for *Other operations* for the year was 105 MSEK (142). During 2011 the operating loss includes redundancy costs following an organizational change and was also positively impacted by a one time pension curtailment gain. The operating loss in 2010 included costs related to the transaction with STG.

Comparable Group operating margin for the year was 28.8 percent (28.1). Group operating margin, including businesses transferred to STG, share of net profit in STG and excluding reversal of depreciation and amortization on assets held for sale, was 31.7 percent (25.2).

Scandinavian Tobacco Group

Swedish Match's 49 percent share of Scandinavian Tobacco Group's net profit after interest and tax amounted to 337 MSEK for the full year. The share of net profit from Scandinavian Tobacco Group includes restructuring charges amounting 66 MSEK before tax. On March 1, 2011, Scandinavian Tobacco Group acquired Lane Limited in the US (Lane) from Reynolds American, Inc., for 205 MUSD. Lane produces pipe tobacco, fine cut tobacco, and little cigars.

Total Scandinavian Tobacco Group net sales for the year amounted to 5,444 MDKK. Excluding restructuring and one time charges, EBITDA amounted to 1,249 MDKK for the year of which 164 MDKK related to Lane. Including restructuring and one time charges, EBITDA for total Scandinavian Tobacco Group in the year amounted to 1,137 MDKK.

Larger one time items

During 2011 there were no larger one time items recognized in the income statement. In 2010 a capital gain of 585 MSEK was recognized in the fourth quarter of 2010 relating to the close of the transaction with Scandinavian Tobacco Group to form a new company, to which Swedish Match contributed all of its cigar business except for the US mass market and the minority stake in the German cigar company Arnold André, and also the pipe tobacco and accessories business. The capital gain was a resulted from the revaluation of the assets Swedish Match contributed to the new STG, including compensation with 30 MEUR to account for the shareholding and the relative differences in enterprise values on a cash and debt free basis. The final purchase price and transaction adjustments were settled during the first half of 2011, with no adjustment to the recognized gain in 2010. Swedish Match holds 49 percent of the shares in the new STG company.

On December 1, 2010, a pension settlement gain of 59 MSEK was recognized in the income statement as a result of the transfer of the Swedish pension obligations to three external insurance companies. The settlement gain was a result of the difference in the obligations settled with the insurance companies and the present value of the pension obligations based on the actuarial assumptions net of the fair value of the plan assets as per the settlement date. In conjunction with the update of the pension obligations to current actuarial assumptions as per settlement date, an actuarial loss of 166 MSEK was recognized in other comprehensive income in the fourth quarter of 2010. In accordance with IAS 19, the transferred pension obligations are treated as defined contribution plans after the transaction date of December 1, 2010.

Summary of consolidated balance sheet

MSEK	2011	2010
Fixed assets	8,943	8,577
Inventories	1,339	1,202
Other current assets	1,692	1,684
Cash and cash equivalents and other investments	2,533	3,276
Total assets	**14,507**	**14,739**
Equity	–1,599	–482
Non-current financial liabilities and provisions	2,857	2,527
Non-current loans	8,535	9,209
Current liabilities and provisions	3,431	2,960
Current loans	1,283	525
Total equity and liabilities	**14,507**	**14,739**

Summary of consolidated cash flow statement

MSEK	2011	2010
Net cash from operating activities	2,608	2,616
Net cash used in investing activities	–151	959
Net cash transferred to shareholders	–3,456	–4,050
Net cash from other financing activities	237	1,403
Net increase/decrease in cash and cash equivalents	**–763**	**928**
Cash and cash equivalents at beginning of the year	3,275	2,530
Effects of exchanges rate fluctuations on cash and cash equivalents	21	–183
Cash and cash equivalents at end of year	**2,533**	**3,275**

2010 included an IFRS adjustment of 93 MSEK relating to reversals of depreciation and amortization of assets reported as held for sale to STG.

Net finance cost
Net finance cost for the year decreased to 523 MSEK (562). The net finance cost of 2010 included bondholder consent fees of 21 MSEK in the second quarter related to the STG transaction and 77 MSEK of realized value of discounted interest as a result of the repurchase of bond loans of 171 MEUR, maturing 2013, during the fourth quarter. Excluding these one time items during 2010, the net finance cost has increased by 59 MSEK. The underlying increase in the finance cost was mainly a result of a higher net debt and higher interest rates.

Taxes
For the full year, the reported tax expense amounted to 642 MSEK (649), corresponding to a tax rate of 20.2 percent (18.0). The reported tax rate excluding one time items as well as profit and loss impact from associated companies and joint ventures is 22 percent (22).

Earnings per share
For the full year basic earnings per share amounted to 12.14 SEK (9.92 and 13.12 including larger one time items). Diluted earnings per share was 12.07 SEK (13.09).

Liquid funds
Cash and cash equivalents amounted to 2,533 MSEK at the end of the year, compared with 3,275 MSEK at the beginning of 2011. As of December 31, 2011, Swedish Match had 1,426 MSEK in unutilized committed credit lines.

Financing and cash flow
Cash flow from operating activities for 2011 amounted to 2,608 MSEK compared with 2,616 MSEK for the previous year. The cash flow for 2010 included businesses transferred to STG on October 1, 2010. Excluding businesses transferred to STG the cash flow from operations increased compared to 2010 mainly as a result of higher EBITDA.

The net debt as per December 31, 2011 amounted to 8,886 MSEK compared to 7,650 MSEK at December 31, 2010. In May a loan repayment of 140 MSEK was received from STG net of final transaction adjustments.

During the year new bond loans of 1,000 MSEK were issued. Repayment of loans for the same period amounted to 853 MSEK including repurchase of 310 MSEK of bond loans with shorter maturities. As at December 31, 2011 Swedish Match had 10,038 MSEK of interest bearing debt excluding retirement benefit obligations compared to 9,885 MSEK at December 31, 2010. During 2012, 1,281 MSEK of this debt falls due for payment.

Capital expenditures and investments
Investments in property, plant and equipment during the year amounted to 245 MSEK (311). Investments in intangible assets during 2011 amounted to 22 MSEK (51) mainly pertaining to investments in new ERP systems.

Depreciations and amortizations
During the year, total depreciation and amortization amounted to 290 MSEK (288), of which depreciation on property, plant and equipment amounted to 233 MSEK (235) and amortization of intangible assets amounted to 57 MSEK (53).

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

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

Proposed dividend per share
The Board proposes an increased dividend of 6.50 SEK (5.50), equivalent to 54 percent of the earnings per share for the year. The proposed dividend amounts to 1,327 MSEK based on the 204.2 million shares outstanding at the end of the year.

Share structure
The Annual General Meeting on May 2, 2011 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, 18 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 213.0 million shares with a quotient value of 1.8287 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy 11.1 million shares were repurchased during 2011 for 2,371 MSEK at an average price of 212.66 SEK, following authorization from the Annual General Meetings held in 2010 and 2011. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programs. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 99.82 SEK. During the year the Company sold 0.5 million treasury shares at an average price of 127.10 SEK, totaling 67 MSEK, as a result of option holders exercising options. As per December 31, 2011 Swedish Match held 8.8 million shares in treasury, corresponding to 4.14 percent of the total number of shares. The number of shares outstanding, net after repurchases and after the sale of treasury shares, as per December 31, 2011 amounted to 204.2 million. In addition, the Company has call options outstanding as of December 31, 2011 corresponding to 5.0 million shares exercisable in gradual stages from 2012 to 2015.

In January 2012, a further 210,500 shares have been repurchased for 50 MSEK at an average price of 236.90 SEK.

The Board will propose to the Annual General Meeting in May 2012 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares of the Company until the next Annual Meeting in 2013.

In addition a proposal will be made to cancel 7 million shares held in treasury with a contemporaneous bonus issue without issuing new shares of an amount equivalent to the reduction of share capital through the cancellation of shares.

Average number of Group employees

The average number of employees in the Group during the year was 3,880 compared with 3,908 for the full year 2010, excluding employees transferred to STG. The average number of employees during 2010, including the employees transferred to STG, was 8,822.

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 92 and is also available on the Company's website www.swedishmatch.com.

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 97.

Corporate sustainability

Sustainability is an important part of the Group's strategy for growth and value creation. Sustainability activities make Swedish Match more competitive and help to reduce long term costs and risks. Much of the focus is on the manufacturing, purchasing, transport, and distribution level, as Swedish Match sees these areas as having some of the greatest impacts on the Group's business, cost structure, flexibility, and competitiveness. The Swedish Match sustainability strategy involves using a systematic approach, in order to provide improved transparency and a focus on business operations. In 2011, following the approach set in 2010, the Company has reported its sustainability information according to the standards set forth by GRI (the Global Reporting Initiative) G3 guidelines, in order to reach measurable, transparent, clear, and comparable results.

Environmental impact

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

To support its environmental efforts, Swedish Match has adopted a Group Environmental Policy that encompasses all aspects of its operations. The policy is designed to ensure that Swedish Match achieves a balance whereby the Group consistently reaches its commercial objectives while fulfilling the environmental requirements of shareholders, customers, and other stakeholders.

The main purpose of the Group Environmental Policy is to ensure that the Group commits itself to continuous environmental improvement with the aim of prevention/reduction of pollution in its activities. The policy also ensures that the Group operates an Environmental Management System (EMS), applicable on corporate, operating unit and factory levels, which will safeguard that this commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental indicators. The environmental policy further demonstrates commitment by the Group to comply with all relevant environmental legislation, regulations and other requirements to which it subscribes. Also, the policy ensures that the Group commits itself to continual correspondence and documentation of any changes of environmental impact due to its activities, products and services. Under the environmental policy, the Group will undertake appropriate remedial actions and improvements based on financial and environmental criteria.

The vast majority of Swedish Match production facilities are certified according to the environmental management standards of ISO 14001 as well as the quality management systems standards of ISO 9001. Of 12 production facilities, ten have ISO 9001 certification and nine have ISO 14001 certification.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2011. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

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

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

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

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 units: Smokefree Products Division, Scandinavia Division, US Division, Lights International, Lights Latin America, and Swedish Match Distribution AB.

The Group is dedicated to maintain its employee focus and development and will continue to improve and adjust performance, talent, and employee processes to fit Swedish Match in the years to come.

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

In September 2011, a worldwide cross organizational employee survey was conducted on a global scale for the first time, enabling the Group to identify common improvement areas. A few of the areas covered were leadership, innovation, and how Swedish Match fosters a shared understanding of its core values as well as how well the Group inspires and encourages employees to perform and stay with the Company. The survey was conducted in seven countries in six different languages. The results of the survey were shared with all employees in November.

Over 50 percent of the Group's employees are covered by collective bargaining agreements.

Risk factors

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

Swedish Match has a substantial part of its production and sales in the US as well as in Brazil, Norway and EMU member countries. Consequently, changes in exchange rates of euro, Norwegian krona, Brazilian real and the US dollar in particular may adversely affect the Group's results of operations, cash flow, financial condition or relative price competitiveness in the future. Such effects may occur both in local currencies and when such local currencies are translated into Swedish currency for purposes of financial reporting. Tobacco products are also subject to substantial taxes in most countries where Swedish Match has significant sales. In many of those countries, the taxes on tobacco are generally increasing but the rate of increase varies between different types of tobacco products. Increased excise taxes or changes in relative tax rates for different tobacco products may impact overall sales volume for the Group's products.

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

The Group is involved in legal and regulatory proceedings including pending lawsuits related to alleged injuries caused by tobacco products. There can be no assurance that the Company's defenses will be successful in trial and substantial costs may be incurred in defending lawsuits. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Groups results of operations.

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

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

Swedish Match aims to limit credit risks through transactions only to be made for derivative instruments with counterparties having high credit ratings. Swedish Match exposure to credit risks in customer related receivables is low considering the diverse customer portfolio.

Currency transaction exposures are limited and therefore currency hedging is only done case-by-case. Swedish Match does not have any trading activities, i.e. take specific positions to gain on market fluctuations, in any financial instruments. For a more detailed description of the Group's financial risk management and holdings of financial instruments, see *Note 25, Financial instruments and financial risks*.

Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 1,250 MEUR Global Medium Term Note Program and the Swedish 4,000 MSEK Medium Term Note Program as well as the 160 MEUR Revolving Credit Facility have covenants that can force the Company to payback loans in a change of control situation. Some distribution agreements with third parties in the Swedish tobacco distribution business can be cancelled should there be a change of control of Swedish Match. The agreement with Philip Morris International to jointly commercialize Swedish snus and other smokefree products worldwide outside Scandinavia and the United States also includes a change of control clause.

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

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

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2012. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

The objective of these principles is to ensure that the Group is able to recruit and retain employees with appropriate skills and qualifications for their respective duties. The remuneration structures shall encourage employees to do their outmost 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 2011.

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 2012 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 2011.

Application of principles on variable salary for 2012

The Board has not proposed any long term share related incentive program for 2012.

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the GMT the variable salary will include a short term cash incentive and a long term cash incentive program where the short term program will include an incentive for the GMT members to purchase and retain shares in the Company while the long term program shall include an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively. No payments will be made under the programs if the employment has been terminated by the employee or by the Company for cause during the performance period.

1. *Short term variable salary*
   The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2012 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 70 percent of the 2012 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 2012 are estimated[1)] to range between 0 MSEK and 13 MSEK.

2. *Long term variable salary*

The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be 45 percent of the 2012 base salary. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on two criteria determined at the beginning of 2012 but measured over the full performance period 2012–2014. The predominant criterion (75 percent) is total Group operating profit in constant currencies and excluding income or loss related to the Swedish snus business outside Scandinavia and excluding share of profit/loss from Scandinavian Tobacco Group for the years 2012–2014. There will not be any pay-out at all related to this criterion unless there is an improvement in relation to the comparable performance of the Group in 2011.

The second criterion (25 percent) is a qualitative and quantitative evaluation performed by the Board of Directors of the Group's progress with Swedish snus outside Scandinavia during 2012–2014.

Accruals for the GMT long term incentive programs are estimated[1)] to range between 0 MSEK below minimum level and 11 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in May 2011, see *Note 5 Personnel*.

Outlook

During 2011 Swedish Match delivered a record operating profit on a comparable basis. For the full year 2012, we expect continued growth in revenues and comparable operating profit led by a solid development for Snus and snuff and Other tobacco products.

During 2011, we increased our investments for Swedish snus outside Scandinavia. In the US, the trends for General snus are strong, and through our joint venture, SMPM International, we generated valuable insights and witnessed some early but encouraging signs in the market place. During 2012, we will continue to invest for growth. In the US we will expand distribution and invest further in marketing activities to build awareness and generate trial. In SMPM International, the plan is to add at least one additional test market during the year.

We expect both the Scandinavian snus market and the US market for moist snuff to continue to grow in volume terms in 2012. In the US mass market cigar business, we will launch additional innovative products and we expect to continue to grow faster than the overall market and generate increased sales and profits in local currency. The trend for US chewing tobacco of declining volumes is expected to continue.

The tax rate from continuing operations, excluding one time items as well as impacts from associated companies, for 2011 was 22 percent and is expected to be at a similar level in 2012.

The Company maintains its long term financial strategy and dividend policy, and we remain committed to returning cash not needed in operations to shareholders.

Swedish Match AB (publ)

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

Sales in the Parent Company, for the full year amounted to 51 MSEK (57). Profit before income tax amounted to 1,526 MSEK (2,556) and net profit for the year amounted to 1,419 MSEK (2,359).

The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. During the period the Parent Company received dividends amounting to 2,492 MSEK (4,286) and Group contributions net amounting to 1,839 MSEK (1,894). An impairment loss on shares in subsidiaries of 1,241 MSEK (2,757) was recognized during the year as a result of dividends paid out of retained earnings from subsidiaries.

Part of the Group's treasury operations are included in the operations of the Parent Company and include the major part of the Group's external borrowings. The majority of these loans have fixed interest rates and hence any changes in interest rates would have an immaterial impact on the result of the Parent Company.

No capital expenditures on tangible fixed assets have been recognized during the year compared to 2 MSEK during 2010. During the year, 22 MSEK (42) have been capitalized in intangible assets as an investment in software development on an ERP system for the Group. A shareholder contribution was provided to the joint venture, SMPM International, in the amount of 15 MSEK. Since the joint venture company is in a phase of build up and therefore not generating any profit, an impairment loss of 12 MSEK was recognized during the year. During the third quarter of 2011 the shares of SMPM International were transferred to a Group company at book value.

The total cash flow for both 2011 and 2010 was zero as the Parent Company does not hold any cash and bank balances.

During the year, new bond loans of 1,000 MSEK were issued and repayment of loans amounted to 853 MSEK, including repurchase of 310 MSEK of bond loans with shorter maturities. During the year the Parent Company made share repurchases of 2,371 MSEK (3,014) and sold 0.5 million (0.5) treasury shares for 67 MSEK (53). A dividend to the shareholders of 1,152 MSEK (1,089) has been paid during the year.

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

1) Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs.USD of 7.00.

Consolidated income statement

MSEK	Note	2011	2010
Sales, including tobacco tax		23,662	25,062
Less tobacco tax		–11,997	–11,456
Sales	3	**11,666**	**13,606**
Cost of goods sold		–5,774	–6,662
Gross profit		**5,892**	**6,944**
Selling expenses		–1,769	–2,483
Administrative expenses		–736	–866
Other operating income and expenses	4	–12	–7
Share of profit/loss in associated companies and joint ventures	14	327	–62
Net gain from pension settlements	21	–	59
Capital gain from transfer of businesses to STG		–	585
Operating profit	3, 5, 6, 7, 21, 26	**3,702**	**4,169**
Finance income		37	27
Finance costs		–560	–590
Net finance cost	8	**–523**	**–562**
Profit before income tax		**3,180**	**3,607**
Income tax expense	9	–642	–649
Profit for the year		**2,538**	**2,958**
Attributable to:			
Equity holders of the Parent		2,538	2,957
Non-controlling interests		1	1
Profit for the year		**2,538**	**2,958**
Earnings per share, basic, SEK	10	12.14	13.12
Earnings per share, diluted, SEK	10	12.07	13.09

Consolidated statement of comprehensive income

MSEK	Note	2011	2010
Profit for the year		**2,538**	**2,958**
Other comprehensive income	19		
Translation differences related to foreign operations		–57	–504
Translation differences included in profit and loss		0	278
Effective portion of changes in fair value of cash flow hedges		–22	58
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		0	–24
Actuarial gains and losses attributable to pensions, incl. payroll tax		–353	–193
Other comprehensive income in associated companies and joint ventures		90	55
Income tax relating to components of other comprehensive income	9	143	39
Other comprehensive income, net of tax for the year		**–199**	**–291**
Total comprehensive income for the year		**2,340**	**2,668**
Attributable to:			
Equity holders of the Parent		2,339	2,667
Non-controlling interests		1	1
Total comprehensive income for the year		**2,340**	**2,668**

Consolidated balance sheet

MSEK	Note	December 31, 2011	December 31, 2010
Assets			
Intangible assets	11	992	1,027
Property, plant and equipment	12	1,950	1,971
Forest plantations	13	125	126
Investments in associated companies and joint ventures	14	4,481	4,085
Other non-current receivables	15	617	716
Deferred income tax assets	9	778	652
Total non-current assets		**8,943**	**8,577**
Inventories	16	1,339	1,202
Trade receivables	17	1,398	1,181
Prepaid expenses and accrued income		76	78
Income tax receivables		132	96
Other current receivables	15	86	329
Other investments	18	–	1
Cash and cash equivalents	18	2,533	3,275
Total current assets		**5,564**	**6,162**
TOTAL ASSETS		**14,507**	**14,739**
Equity	19		
Share capital		390	390
Reserves		–19	–7
Retained earnings		–1,972	–867
Equity attributable to equity holders of the Parent		**–1,602**	**–484**
Non-controlling interests		2	2
TOTAL EQUITY		**–1,599**	**–482**
Liabilities			
Loans and borrowings	20, 25	8,535	9,209
Other liabilities	23	338	320
Provision for pensions and similar obligations	21	1,449	1,158
Other provisions	22	572	577
Deferred income tax liabilities	9	498	472
Total non-current liabilities		**11,392**	**11,737**
Loans and borrowings	20, 25	1,283	525
Trade payables		651	555
Income tax liabilities		95	104
Other liabilities	23	1,786	1,449
Accrued expenses and deferred income	24	815	754
Provisions	22	84	98
Total current liabilities		**4,714**	**3,485**
TOTAL LIABILITIES		**16,107**	**15,221**
TOTAL EQUITY AND LIABILITIES		**14,507**	**14,739**

For information on the Group's pledged assets and contingent liabilities, see *Note 27 Pledged assets* and *Note 28 Commitments and contingent liabilities and assets*.

Consolidated statement of changes in equity

MSEK 2010	Note	Equity attributable to equity holders of the Parent: Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Equity at beginning of year	19	**390**	**194**	**315**	**899**	**4**	**903**
Profit for the year		–	–	2,957	2,957	1	2,958
Other comprehensive income, net of tax for the year[1)]		–	– 201	–90	–291	0	–291
Total comprehensive income for the year		**–**	**–201**	**2,868**	**2,667**	**1**	**2,668**
Transfer of non-controlling interest to STG of partly owned subsidiary		–	–	–	–	–2	–2
Dividend		–	–	–1,089	– 1,089	0	–1,089
Repurchase of own shares		–	–	–3,014	– 3,014	–	–3,014
Stock options exercised		–	–	53	53	–	53
Cancellation of shares		–31	–	31	0	–	0
Bonus issue		31	–	–31	0	–	0
Equity at end of year		**390**	**–7**	**–867**	**– 484**	**2**	**– 482**

2011	Note	Equity attributable to equity holders of the Parent: Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Equity at beginning of year	19	**390**	**–7**	**–867**	**–484**	**2**	**–482**
Profit for the year		–	–	2,538	2,538	1	2,538
Other comprehensive income, net of tax for the year[1)]		–	–73	–125	–199	0	–199
Total comprehensive income for the year		**–**	**–73**	**2,412**	**2,339**	**0**	**2,340**
Dividend		–	–	–1,152	–1,152	0	–1,152
Repurchase of own shares		–	–	–2,371	–2,371	–	–2,371
Stock options exercised		–	–	67	67	–	67
Cancellation of shares		–30	–	30	0	–	0
Bonus issue		30	–	–30	0	–	0
Equity at end of year		**390**	**–81**	**–1,911**	**–1,602**	**2**	**–1,599**

1) Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to defined pension plans in an amount of –215 MSEK (–145), net after payroll taxes and income taxes.

Consolidated cash flow statement

MSEK	Note	2011	2010
Operating activities	30		
Profit before income tax		3,180	3,607
Adjustment for share of net profit/loss in associated companies and joint ventures		–327	–359
Adjustments for other non-cash items and other		254	62
Income tax paid		–662	–733
Cash flow from operating activities before changes in working capital		**2,445**	**2,576**
Cash flow from changes in working capital			
Increase (–)/ Decrease (+) in inventories		–191	–30
Increase (–)/ Decrease (+) in operating receivables		–247	122
Increase (+)/ Decrease (–) in operating liabilities		602	– 52
Net cash generated from operating activities		**2,608**	**2,616**
Investing activities			
Purchase of property, plant and equipment		–245	–311
Proceeds from sale of property, plant and equipment		3	6
Purchase of intangible assets		–22	–51
Net proceeds from businesses transferred to STG		–	1,439
Investments in associated companies and joint ventures		–28	–123
Investments in other companies		–4	–
Proceeds from sale of subsidiaries, net of cash disposed of		143	–
Changes in financial receivables, etc.		1	–1
Changes in other current investments		1	–
Net cash used in investing activities		**– 151**	**959**
Financing activities			
Proceeds from non-current borrowing		1,002	4,242
Repayment of borrowings		–853	–2,961
Repurchase of own shares		–2,371	–3,014
Stock options exercised		67	53
Dividend paid to equity holders of the Parent		–1,152	–1,089
Other		88	122
Net cash used in financing activities		**–3,219**	**–2,646**
Total net decrease/increase in cash and cash equivalents		**–763**	**928**
Cash and cash equivalents at the beginning of the year		3,275	2,530
Effect of exchange rate fluctuations on cash and cash equivalents		21	–183
Cash and cash equivalent at end of year		**2,533**	**3,275**

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, 2010.

Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission for application within the EU. In addition, RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Accounting principles for the Parent Company". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on February 21, 2012.

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

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

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

Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

Use of the assessments in the financial reports

Preparing financial reports in accordance with IFRS requires that management make assessments and assumptions that affect the accounting principles and reported amounts for assets, liabilities, revenues and costs. The assessments and assumptions are based on historical experience and a number of other factors that may be considered relevant under the prevailing conditions. The actual outcome may deviate from these assessments and assumptions. Assessments and assumptions are reviewed on a regular basis with changes in assessments recognized in the applicable period.

Assessments made by management on the application of IFRS that have a significant impact on financial reports, and estimations made that could entail material adjustments in subsequent years' financial reports, are described in greater detail in *Note 2 Critical estimates and judgments*.

Significant accounting principles applied

The below described accounting principles have been applied consistently in all periods that are presented in the Group's financial statements. If exceptions would exist to the accounting principles outlined below such are clearly described enclosed to the financial statements that include such exception.

New standards, amendments and interpretations

For 2011 there are no new or changed accounting principles and basis for calculations applied in this annual report. A number of new standards, amendments to standards and interpretations of accounting standards which became effective as of January 1, 2011 have not had any impact on the financial result or position of the Group for 2011. The changes in IFRS applicable for 2011 are: amendments to *IAS 24 Related Party Disclosures*, amendments to *IAS 32 Financial Instruments Presentation concerning Classification of Rights Issues*, amendments to *IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IFRIC19 Extinguishing Financial Liabilities with Equity Instruments*.

New IFRSs and interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2012 or later and have not been applied in these financial reports:

Amendments to *IAS 1 Presentation of Financial Statement*s provide changes in regards to the presentation of Other comprehensive income and expense. Such items are to be presented into two categories *1) Items that will be reclassified subsequently to profit and loss* and *2) Items that will not be reclassified subsequently to profit and loss*. The revised standard is effective as of July 1, 2012 and will be applied in Swedish Match reports as of January 1, 2013.

Revised *IAS 19 Employee Benefits* bring about changes for the accounting of defined benefit plans which is effective as of January 1, 2013. The revised standard will not have a significant impact on the Group's financial statements.

Amendments to *IFRS 7 Financial Instruments: Disclosures* bring about new disclosures for financial assets that have wholly or partly been derecognized from the financial statements. The revised standard is effective as of July 1, 2011 and is implemented as of January 1, 2012. The revised standard will not have any significant impact on the Group's disclosures of financial instruments.

IFRS 9 Financial Instruments which is expected to replace *IAS 39 Financial Instruments: Recognition and Measurement* brings about changes regarding classification and measurement of financial assets and liabilities. IFRS 9 is likely to be effective in 2015. The impact from IFRS 9 on the Group's financial statement has not been assessed.

The following new IFRS standards, amendments and interpretations to existing standards applicable in 2012 or later are not expected to have a significant impact on the financial result or position of the group: *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurements*, amendments to *IAS 12 Income taxes*, amendments to *IAS 27 Separate Financial Statements*, amendments to *IAS 28 Investments in associates* and amendments to *IAS 32 Financial Instruments Presentation*.

Consolidation principles

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

Subsidiaries

Consolidated financial statements include all subsidiaries that are defined as companies in which Swedish Match holds shares carrying more than 50 percent of the votes or in which Swedish Match has control in some other way.

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

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

Joint ventures and associates

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

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

Non-controlling interest

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity of the owners of the Parent company. The non-controlling interest includes profit or loss and components of other comprehensive income that are attributable to the non-controlling interests.

Discontinued operations

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

Classification etc.

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

Reporting by segment

The Group's reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are *Snus and snuff*, *Other tobacco products* (US mass market cigars and chewing tobacco), *Lights* and *Other operations*. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. Following the transaction with STG on October 1, 2010 and the divestment of the South Africa operations in 2009 the Group's segment reporting was changed and for comparison reasons prior periods have been restated to reflect the Group's continuing operation. There is no internal sale between operating segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis.

Foreign currencies

(i) Transactions in foreign currencies

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

(ii) Financial reports of foreign operations

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

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

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

		Average exchange rate January–December		Exchange rate on December 31	
Country	**Currency**	**2011**	**2010**	**2011**	**2010**
USA	USD	6.50	7.20	6.89	6.79
Euro zone	EUR	9.03	9.54	8.91	9.01
Brazil	BRL	3.88	4.09	3.69	4.06
Norway	NOK	1.16	1.19	1.15	1.15

Revenues

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

Financial income and expenses

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

Interest income and interest expense is calculated in accordance with the effective interest method which is a method of calculating the amortized cost of the financial asset or the financial liability and of allocating the interest income or interest expense over the relevant period. Interest income or expense include accrued amounts of transaction costs and, if applicable, discounts, premiums and other differences between the original value of the receivable or liability and the amount received or paid at maturity.

Financial instruments

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

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

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

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

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

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

The fair value of unlisted financial assets is based on a calculation of the net present value of future cash flows. IAS 39 classifies financial instruments into categories. The classification depends on the purpose for which the instruments were acquired and is determined when they are first acquired. The categories are as follows:

Financial assets and liabilities at fair value through profit and loss

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

Loans and receivables

Loan receivables and trade receivables are carried in the balance sheet at accrued cost.

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

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

Other financial liabilities

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

Derivatives used for hedge accounting

All derivatives are reported at their fair value on the balance sheet. Changes in the fair value of the hedging instruments, when fair value hedge accounting is applied, are recognized in the income statement. Hedge accounting is described in greater detail below.

Financial assets available for sale

The financial assets in this category include financial assets that are not classified in any other category or financial assets that the company initially chose to classify in this category. Assets in this category for which fair value can be reliably measured are valued continuously at their fair value with changes in value reported in other comprehensive income. At the time when the investments are removed from the balance sheet previously recognized gains and losses reported in other comprehensive are reclassified to profit and loss. Assets in this category which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost and regularly tested for impairment. Any impairment losses are recognized as operating expenses. Swedish Match presently does not have any assets available for sale reported at fair value.

Derivatives and hedge accounting

Derivative instruments such as forward contracts, options and swaps are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in fair value affecting derivative instruments are reported in the income statement based on the reason for the holding. If hedge accounting is not applied, increases or decreases in the value of the derivative are reported as a revenue or expense item under operating profit or under net finance cost, based on the reason for using the derivative 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 derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39.

Receivables and liabilities in foreign currency

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

Cash flow hedges

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

Fair value hedges

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value change arising from revaluation of derivatives are recognized directly in earnings, and the related value change from the hedge item is similarly recognized in earnings thus offsetting the effective portion in the hedge relationship. Swedish Match presently has no fair value hedges.

Derivatives not used for hedge accounting

Some derivatives cannot be used for hedge accounting. For those derivatives to which hedge accounting cannot be applied, changes in fair value are recognized directly in the income statement.

Leased assets

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

Intangible assets

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

Goodwill is valued at acquisition value less any accumulated impairments. Goodwill is allocated to cash-generating units and is instead tested annually, or upon indication, for impairment. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies.

(ii) Trademarks and other intangible assets

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

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

(iii) Amortization

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

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

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

Tangible assets

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

Depreciation

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

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

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

Forest plantations

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

Inventory

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

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

Impairment

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

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

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

Provisions

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

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

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

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

Pension fees for defined contribution plans are reported as an expense in the income statement as incurred. Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These assumptions are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. In the Swedish Match consolidated balance sheet, the pension commitments for funded plans are reported net after deductions for the fair value of plan assets. Funded plans with net assets, that is, assets in excess of obligations, are reported as non-current receivables. When the calculation leads to a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the lower of the surplus in the plan and the present value of future service cost to be borne by the Company. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to actuarial gains and losses. These arise when actual outcome deviate from projected outcome or when assumptions earlier made are changed. Actuarial gains and losses that arise during the year are reported in full in other comprehensive income.

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

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

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

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

For 2010, a new long term incentive plan for executives was introduced by the Board of Directors which replaces the option program. Under the new plan eligible executives may, after a three year performance period, receive a cash bonus based on the established performance targets for the performance period. Costs for the incentive plan are expensed during the service year, which is the first year, including social security fees applicable for each country where the executives work. Costs for the incentive plan are reported as personnel costs with corresponding amount reported as a long term deferred compensation liability on the balance sheet. The accrual will be subject to review based on actual performance during the performance period with any changes in the estimate taken through the income statement.

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.

The Swedish Financial Reporting Board has withdrawn its statement UFR 2 dealing with group and shareholders contributions. As from 2011 the Parent Company reports not only group contributions received but also group contributions granted directly in the income statement. Comparable amounts for 2010 have been restated.

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

Employee benefits

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

Taxes

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

Group and shareholder contributions

The Parent Company reports Group and shareholder contributions in accordance with the opinion from the Swedish Financial Accounting Standards Council's Emerging Issues Task Force. Shareholder contributions are transferred directly to the recipient's equity and are capitalized in shares and participations by the donor, to the extent that an impairment loss is not required. Group contributions, received and granted, and its current tax effects are reported in the income statement.

2. Critical estimates and judgements

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

Intangible assets

According to IFRS intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks have been deemed to have definite useful lives and are in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of the intangible asset is impaired. The impairment tests include significant judgments made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2011 amounted to 992 MSEK and amortization amounted to 57 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 580 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, 2011 the Group's investments in associated companies and joint ventures amounted to 4,481 MSEK. For further information on the Group's investments in associated companies and joint ventures see *Note 14 Investments in associates and joint ventures*.

Legal disputes

The Company is involved in a number of legal proceedings. Although the Group is convinced that it has a strong position in these disputes, an unfavorable outcome cannot be ruled out, and this could have a significant effect on the Group's earning capacity. Further details of the Group's legal disputes are explained in *Note 28 Commitments and contingent liabilities and assets*.

Post employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations requires management to make assumptions on the discount rate, expected return on plan assets, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined-benefit-pension plans and post employment medical benefit plans as of December 31, 2011 were estimated to exceed the fair value of plan assets by 1,382 MSEK. Further details of the Group's defined benefit plans are presented in *Note 21 Employee benefits*.

3. Segment information

Swedish Match reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. In the fourth quarter of 2010, the Group's reportable segments were changed as a result of the transaction with STG on October 1, 2010. In the new segment reporting US mass market cigars and chewing tobacco have been combined and are presented as one reportable segment named *Other tobacco products*. Hence, the Group's reportable segments are *Snus and snuff*, *Other tobacco products*, *Lights*, and *Other operations*.

Snus and snuff are smokeless tobacco products that are produced and sold primarily in Sweden, Norway and the US. Sweden is the world's largest snus market measured by per capita consumption. The Norwegian market is smaller than the Swedish market but has in recent years experienced strong volume growth. The U.S. moist snuff market is the world's largest, and is nearly five times larger in volume terms than the Scandinavia snus market. Some of the best known brands in Sweden include *General*, *Göteborgs Rapé*, *Ettan*, *Grovsnus*, *Catch*, and *Kronan*. In the US well known brands are *Longhorn*, *Timber Wolf*, and *Red Man*.

Other tobacco products represent chewing tobacco and mass market cigars manufactured and sold on the US market. Chewing tobacco is a smokeless tobacco product. Chewing tobacco shows a declining trend. Well known brands include *Red Man* and *Southern Pride*. Mass market cigars are machine made cigars that during 2011 have had a positive development relative to prior year. Well known brands are *White Owl*, *Garcia y Vega*, and *Game by Garcia y Vega*.

Lights include manufacturing and distribution of matches and lighters. The main markets for lights products for Swedish Match include Russia, Brazil, Sweden, France, the UK, Australia, and Spain, but products are also widely available in other parts of Europe, Asia, and Africa. The consumption of matches shows a declining trend in most developed markets, while for lighters consumption trends vary. Worldwide sales are generally stable, with declines in Europe partially offset by gains in other markets. Important brands for matches include *Solstickan* in Sweden, *Fiat Lux* in Brazil, *Swan* in the UK, *Tres Estellas* in Spain, *Feudor* in France, and *Redheads* in Australia. For lighters, the most important Swedish Match brand is *Cricket*.

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

There are no internal sales between reportable segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS. However, financials separated as business transferred to STG are presented including depreciation and amortization relating to assets held for sale. In order to arrive at the Group's operating profit, depreciation and amortizations related to assets held for sale need to be added back to the operating profit for 2010.

Operating segments	Snus and snuff 2011	Snus and snuff 2010	Other tobacco products 2011	Other tobacco products 2010	Lights 2011	Lights 2010	Other operations 2011	Other operations 2010	Sub total reportable segments 2011	Sub total reportable segments 2010	Share of net profit/loss in STG 2011	Share of net profit/loss in STG 2010	Businesses transferred to STG[1] 2011	Businesses transferred to STG[1] 2010	Swedish Match Group 2011	Swedish Match Group 2010
External sales	4,726	4,522	2,388	2,440	1,346	1,429	3,206	2,831	**11,666**	**11,222**	–	–	–	2,385	**11,666**	**13,606**
Depreciations and amortizations	–156	–146	–81	–91	–41	–41	–12	–4	**–290**	**–282**	–	–	–	–98	**–290**	**–381**
Reversals of depreciation and amortization relating to assets held for sale[2]	–	–	–	–	–	–	–	–	**–**	**–**	–	–	–	–	**–**	**93**
Income from associated companies and joint ventures	–30	–20	18	11	2	2	0	–	**–11**	**–7**	337	–60	–	4	**327**	**–62**
Operating profit	**2,181**	**2,080**	**1,049**	**942**	**240**	**279**	**–105**	**–142**	**3,365**	**3,158**	**337**	**–60**	**–**	**334**	**3,702**	**3,526**
Net gain from pension settlements	–	–	–	–	–	–	–	59	**–**	**59**	–	–		–	**–**	**59**
Capital gain from transfer of businesses to STG	–	–	–	–	–	–	–	585	**–**	**585**	–	–		–	**–**	**585**
Operating profit, including larger one time items	**2,181**	**2,080**	**1,049**	**942**	**240**	**279**	**–105**	**502**	**3,365**	**3,802**	**337**	**–60**		**334**	**3,702**	**4,169**
Finance income															37	27
Finance costs															–560	–590
Profit before income tax															**3,180**	**3,607**

Restructuring costs and results from sale of fixed assets

	Snus and snuff 2011	Snus and snuff 2010	Other tobacco products 2011	Other tobacco products 2010	Lights 2011	Lights 2010	Other operations 2011	Other operations 2010	Sub total reportable segments 2011	Sub total reportable segments 2010	Share of net profit/loss in STG 2011	Share of net profit/loss in STG 2010	Businesses transferred to STG[2] 2011	Businesses transferred to STG[2] 2010	Swedish Match Group 2011	Swedish Match Group 2010
Restructuring charges	–	–	–	–10	–	–	–	–	**–**	**–10**	–66	–175	–	–	**–66**	**–185**
Gains/losses from sale of fixed assets	1	–2	0	–1	0	1	0	–	**0**	**–3**	–	–	–	–2	**0**	**–5**
Investments																
Property, plant and equipment[3]	123	192	61	30	56	52	5	1	**245**	**275**	–	–	–	36	**245**	**311**
Intangible assets	–	–	–	–	–	–	22	47	**22**	**47**	–	–	–	4	**22**	**51**

1) 2010 has reference to the period up until October 1, 2010 when the transaction with STG was closed and businesses were transferred to STG.
2) For segment reporting purposes depreciations and amortizations related to assets held for sale, amounting to MSEK 93 in total, continued to be charged to the reportable segments during the period assets to be transferred to STG were reported as assets held for sale i.e. from January 15 until October 1, 2010. The reason for this was that management for internal purposes continued to follow up these businesses in the same way as before despite the intention to transfer the businesses to STG. As IFRS requires that assets held for sale should be measured at the lower of their carrying amount and fair value less cost to sell, amortization and depreciation should cease as from the moment these assets were reclassified as held for sale. In order to reconcile the Group's operating income in accordance with IFRS based on the operating income from reportable segments an amount equal to the depreciation and amortization charged to the businesses to be transferred to STG, have been reversed on a separate line in Group's income statement.
3) Investments in property, plant and equipment for Lights operations include investments in forest plantations.

During 2011 as well as in 2010, there were no impairment losses for intangible assets.

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 2011 MSEK	2011 Percent	2010 MSEK	2010 Percent	Fixed assets[1] 2011 MSEK	2011 Percent	2010 MSEK	2010 Percent
Sweden	6,313	54	5,683	42	6,348	79	5,874	76
USA	3,417	29	4,682	34	951	12	900	12
Rest of the world	1,935	17	3,242	24	737	9	945	12
Total	**11,666**	**100**	**13,606**	**100**	**8,036**	**100**	**7,719**	**100**

1) 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 to the Group's largest single external customer constituted 9 percent of the Group's total sales, whereof 4 percent in Snus and snuff and 5 percent in Other operations.

4. Other operating income and expenses

Other operating income and expenses are specified below:

	2011	2010
Foreign exchanges gains	10	6
Foreign exchanges losses	–19	–8
Result from sale of fixed assets	0	–5
Other	–3	–1
Total	**–12**	**–7**

5. Personnel

The average number of employees in the Parent Company during 2011 was 43, and in the Group 3,880. The corresponding numbers in 2010 were 50 and 8,822, respectively. As per October 1, 2010 6,461 employees were transferred to STG. Excluding employees transferred to STG, the average number of employees in the Group during 2010 was 3,908.

Group employees by country are summarized in the table below:

	2011		2010	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	43	52	50	54
Subsidiaries				
Australia	–	–	44	61
Belgium	3	–	265	36
Brazil	712	66	718	68
Bulgaria	41	39	92	38
Dominican Republic	831	52	2,511	36
France	–	–	59	68
Honduras	–	–	858	55
Indonesia	–	–	1,524	22
Italy	–	–	4	50
Netherlands	101	95	203	78
New Zealand	–	–	5	37
Norway	47	70	47	72
Philippines	150	69	170	54
Poland	–	–	11	54
Portugal	–	–	14	86
Slovenia	–	–	11	91
Spain	–	–	39	82
Sweden	954	61	953	58
Turkey	15	73	16	69
United States	981	69	1,225	67
Other countries	2	100	4	51
Total	**3,880**	**63**	**8,822**	**47**

Board and Management by gender[1]:

	2011		2010	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	9	67	10	60
President and other management	6	83	6	83
Group				
Board members	66	86	83	82
President and other management	53	89	61	80

1) 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:

	2011			2010		
	Wages, salaries and other remunerations	Social costs	of which, pension costs[1)]	Wages, salaries and other remunerations	Social costs	of which, pension costs[1)]
Parent Company	77	39	14	83	41	10
Subsidiaries	1,143	490	160	1,583	619	173
Total	**1,220**	**528**	**173**	**1,666**	**660**	**182**

1) Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding payroll taxes).

The pension costs for the Parent Company include 6 MSEK (6) attributable to the President and other management consisting of six persons during 2011 and six persons in 2010.

The pension costs for the subsidiaries include 13 MSEK (13) attributable to Board members, Presidents and other management consisting of 34 persons in 2011 (42 persons in 2010, whereof 10 persons was transferred to the new STG company as of October 1, 2010). The defined benefit obligations related to Board members, Presidents and other management as of December 31, 2011 amounted to 61 MSEK (55).

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

	2011			2010		
	Board, President and other Management[1)]	of which, variable salaries	Other employees	Board, President and other Management[1)]	of which, variable salaries	Other employees
Parent Company						
Sweden	42	18	35	44	17	39
Subsidiaries						
Total in subsidiaries	92	38	1,051	103	35	1,480
Total	**134**	**56**	**1,086**	**147**	**52**	**1,519**

1) The Board, President and other management employed by the Parent Company consisted in average of 12 persons (13) and in the subsidiaries of 34 persons (42) , whereof of in average three persons were members of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team.

During 2011, 49 MSEK (37) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on May 2, 2011 decided, for the period up to and including May 2, 2012 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,710,000 SEK, the deputy Chairman shall receive 810,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 685,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 250,000 SEK respectively and the other members of these committees shall each receive 125,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2011. In 2011 a study fee in the amount of 54,720 SEK was paid to each of the three employee representatives on the Board, and in the amount of 40,957 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 that were paid out during 2011 and 2010 are shown in the tables below:

Fees to Board members

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

	2010			
TSEK	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson *Board chairman*	1,575	230	–	1,805
Charles A. Blixt *Board member*	630	115	–	745
Andrew Cripps *Deputy chairman*	745	–	115	860
Karen Guerra *Board member*	630	115	–	745
Arne Jurbrant *Board member*	630	–	–	630
Kersti Strandqvist *Board member*	630	–	115	745
Meg Tivéus *Board member*	630	–	230	860
Total	**5,470**	**460**	**460**	**6,390**

Remuneration and other benefits to Group Management Team

The Annual General Meeting on May 2, 2011 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 longterm 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. A maximum of 25 percent of the short term variable salary may be based on individual objectives established 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").
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.

Application of principles on variable salary for 2011

In order to ensure alignment with long term shareholder interests, to strengthen the retention element of the variable salary and to promote company shareholding among the GMT the variable salary will include a short term cash incentive and a long term cash incentive program where the short term program will include an incentive for the GMT to purchase and retain shares in the Company while the long term program shall include an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively. No payments will be made under the programs if the employment has been terminated by the member or by the Company for cause during the performance period.

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 per cent respectively of their 2011 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 70 percent of the 2011 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped, shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT and by the Board of Directors in relation to the President.

Long term variable salary: The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be 45 percent of the 2011 base salary. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of the GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

Remuneration and other benefits to Group Management Team

TSEK	Year	Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance Costs
President	**2011**	**5,723**	**6,729**	**167**	**2,089**	**14,708**	**–**	**–**
	2010	5,399	6,287	142	1,977	13,805	–	–
Other members of Group Management Team employed by the Parent Company	**2011**	**11,041**	**11,711**	**621**	**3,438**	**26,810**	**–**	**–**
	2010	10,869	10,120	643	3,201	24,833	–	4,921
Other members of Group Management Team employed by subsidiaries	**2011**	**7,014**	**6,948**	**851**	**2,237**	**17,050**	**8,050**	**4,434**
	2010	11,924	13,920	2,182	3,988	32,014	26,023	–
Total	**2011**	**23,778**	**25,388**	**1,638**	**7,764**	**58,568**	**8,050**	**4,434**
	2010	28,192	30,327	2,967	9,166	70,652	26,023	4,921

Comments to the table

- At the end of 2011, the Group Management Team consisted of eight persons including the President. During 2011, nine persons, including the President, have been assigned to the Group Management Team. The President and five other members of the Group Management Team are employed by the Parent Company and two members are employed by subsidiaries.

  At the end of 2010, the Group Management Team consisted of ten persons including the President. During 2010, twelve persons, including the President, were assigned to the Group Management Team. The President and five other members of the Group Management Team were employed by the Parent Company and four members were employed by subsidiaries.
- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive program based on achieved results.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).

Variable salary

In 2011, Group Management Team participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The performance criterion for the CEO and the heads of corporate functions in the short term and long term incentive programs 2011 was Group operating profit (excluding share of net profit in STG) less 12 percent charge for the average operating capital (excluding shares in STG). The CEO and two heads of corporate functions also had an additional criterion, constituting a maximum of 10 percent of the short term incentive, based on individual objectives established by the Compensation Committee. Other members of the Group Management Team had the same performance criterion as the CEO in the long term incentive program. In the short term incentive program, those members of Group Management Team who were division Presidents had partly the same criterion as the CEO and partly incentive criteria linked to the division.

The result of the performance criterion Group operating profit (excluding share of net profit in STG) less 12 percent charge for the average operating capital (excluding shares in STG) in relation to 2011 was established to 3,144 MSEK by the Compensation Committee. The threshold for any payout and target for maximum payout, in the short term as well as in the long term program for 2011, were 2,783 MSEK and 3,080 MSEK respectively.

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 options under the 2009 program were granted at the beginning of 2010 and vested immediately. In 2010, 713,670 options were allotted. These can be exercised between March 1, 2013 and February 28, 2015. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 197.45 SEK per share.

Number and weighted average of exercise prices for shares under options SEK	2011		2010	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	156.63	5,504,234	145.48	5,321,190
Granted during period	–	–	197.45	713,670
Exercised during period	127.10	523,817	99.75	530,625
Expired during period	–	–	99.75	1
Outstanding at period-end	**159.74**	**4,980,417**	**156.63**	**5,504,234**
Exercisable at period-end	161.64	2,549,799	138.34	1,464,836

The average share price for share options exercised in 2011 was 195.74 SEK (164.26).

The options outstanding at December 31, 2011 and which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2010-03-01–2012-02-29	144.60	941,019	–	931,702
2011-03-01–2013-02-28	171.60	1,608,780	–	1,592,851
2012-03-01–2014-02-28	141.24	1,716,948	–	1,716,948
2013-03-01–2015-02-28	197.45	713,670	–	713,670
Total		**4,980,417**		**4,955,171**

Pensions

President

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

Other members of Group Management Team

For members of Group Management Team who are residents in Sweden, all are subject to terms and conditions in accordance with the principles noted above under the principles for remuneration. In addition to the ITP plan, the Company pays a pension premium amounting to 35 percent of fixed salary above 30 times the income base amount. To one member of the Group Management Team resident in Sweden the Company contributes 35 percent of the fixed salary to a defined contribution plan. 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 (bonus) is capped at 50 percent of the fixed salary in the calculation of retirement benefits.

Other employment conditions

Severance pay etc.

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

The President is entitled to terminate his employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts his position. One member of the Group Management Team, who reside abroad, is entitled to terminate his employment in a change in control situation, provided his employment conditions are significantly changed, with 6 months notice and up to 18 months severance pay.

6. Audit fees

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

Audit fees	2011	2010
KPMG		
Audit services	8	13
Audit related services	0	1
Tax services	1	4
Other services	3	12
Total	**11**	**30**

Other services include assisting with testing of IT-controls. In addition, 2010 includes costs for due diligence reports.

7. Operating expenses classified by nature

Operating expenses	2011	2010
Personnel expenses	1,749	2,326
Depreciation and amortization	290	288
Other operating expenses	6,251	7,405
Total	**8,290**	**10,019**

Expenses for research and development are recognized in the income statement as other operating expenses. During 2011 expenses for research and development amounted to 80 MSEK (96).

8. Net finance cost

Financial income	2011	2010
Interest income relating to pension receivables	1	6
Interest income relating to financial instruments held for trading	17	8
Interest income relating to financial liabilities pertaining to fair value hedge	–	8
Interest income relating to cash and bank	17	14
Net gain on financial liabilities revalued to fair value	2	4
Total	**37**	**40**

Financial expenses	2011	2010
Interest expense relating to pension liabilities	–56	–69
Interest expense relating to financial liabilities measured at amortized cost	–476	–396
Interest expense relating to cash flow hedges transferred from equity[1)]	0	–77
Interest expense relating to financial liabilities held for trading	–8	–
Net foreign exchange losses	–1	–11
Other financial expenses	–19	–49
Total	**–560**	**–602**
Net finance cost	**–523**	**–562**

1) The total realized value of interest as a result from repurchase of 50 MSEK bonds maturing 2012. For 2010 the result pertains to repurchase of 171 MEUR.

9. Income tax

The major components of income tax expense/income for the years ended 31 December 2011 and 2010 are:

Income tax expense reported in the income statement	2011	2010
Current tax:		
Current tax on earnings for the year	–612	–647
Adjustments in respect of prior years	16	19
Total current tax	**–596**	**–628**
Deferred tax:		
Origination and reversal of temporary differences	–28	–20
Adjustments in respect of prior years	–18	–
Total deferred tax	**–46**	**–20**
Income tax expense	**–642**	**–649**

Income tax reported outside of the income statement	2011	2010
Deferred tax	143	39
Total	**143**	**39**
This comprises:		
Tax reported in other comprehensive income		
Actuarial net gains/losses attributable to pensions	138	49
Revaluation of cash flow hedges net gain/loss	6	–9
Total tax reported in other comprehensive income	**143**	**39**

The deductible and taxable temporary differences for the years ended 31 December 2011 and 2010 are summarized below:

Deferred tax assets and deferred tax liabilities	2011 Deferred tax assets	2011 Deferred tax liabilities	2011 Net balance	2010 Deferred tax assets	2010 Deferred tax liabilities	2010 Net balance
Trade receivables	2	–	2	4	–	4
Pensions and other post-employment benefits	588	23	565	470	39	431
Employment benefits	98	–	98	90	–	90
Intangible assets	–	232	–232	–	242	–242
Fixed assets	14	192	–178	14	165	–151
Tax allocation reserve	–	30	–30	–	–	–
Inventory	2	70	–68	2	63	–61
Unremitted earnings in foreign subsidiaries	–	8	–8	–	12	–12
Financial assets	18	–	18	14	–	14
Other	114	–	114	115	8	107
Total	**835**	**555**	**280**	**708**	**528**	**180**
Netting of assets and liabilities	–57	–57	–	–56	–56	–
Net deferred tax balances	**778**	**498**	**280**	**652**	**472**	**180**

The net of deferred tax liabilities and assets for the years ended 31 December 2011 and 2010 are summarized below:

Movement in deferred tax liabilities and assets, net	2011	2010
Opening balance, net	–180	102
Deferred tax income in the income statement	46	20
Deferred tax in other comprehensive income	–143	– 39
Disposals of subsidiaries	–	–280
Translation differences	–3	17
Closing balance, net	**–280**	**– 180**

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, 2011 the Group's non-recognized deductible temporary differences are in total 20 MSEK whereof non-recognized tax losses carried forward are 11 MSEK and expire as follows:

Year	Amount
2012	7
2013	3
Thereafter	–
Total tax losses carried forward recognized	**–**
Total tax losses carried forward not recognized	**11**

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended 31 December 2011 and 2010 is as follows:

Reconciliation of effective tax rate	2011 %	2011 MSEK	2010 %	2010 MSEK
Accounting profit before income tax		**3,180**		**3,607**
Swedish statutory tax rate	**26.3**	**836**	**26.3**	**949**
Effect of tax rates in foreign jurisdictions	–2.5	–81	–2.7	–99
Results from associated companies reported net of tax	–2.7	–86	0.5	17
Current income tax in respect of prior years	0.2	6	–0.5	–19
Income not subject to tax	–1.5	–47	–5.3	–190
Expenses not deductible for tax purposes	0.5	15	0.3	11
Utilization of previously unrecognized tax losses	0.0	0	–0.6	–21
Other items	0.0	–1	0.0	1
Reported effective tax	**20.2**	**642**	**18.0**	**649**

10. Earnings per share

Basic	2011	2010
Profit for the year attributable to equity holders of the Parent	2,538	2,957
Weighted average number of shares outstanding, basic	209,001,190	225,331,835

Diluted	2011	2010
Profit for the year attributable to equity holders of the Parent	2,538	2,957
Weighted average number of shares outstanding, basic	209,001,190	225,331,835
Effect of issued options	1,295,728	637,212
Weighted average number of shares outstanding, diluted	**210,296,918**	**225,969,047**

Earnings per share, SEK	2011	2010
Basic	12.14	13.12
Diluted	12.07	13.09

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

All of the options issued have an exercise price below the average market price during 2011. As of December 31, 2011 the Company has call options corresponding to 5.0 million shares outstanding. These call options can be exercised in gradual stages between 2012 and 2015 at exercise prices varying between 144.60 SEK and 197.45 SEK. For a table detailing options outstanding at December 31, 2011, see *Note 5 Personnel*.

11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets 1)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Cost at beginning of year	**620**	**2,658**	**988**	**1,984**	**86**	**202**	**1,694**	**4,844**
Purchases/investments	–	–	–	1	22	50	22	51
Acquisitions2)	–	29	–	–	–	–	–	29
Divestments	–	–1,871	–	–958	0	–150	0	–2,980
Sales/disposals	–	–	–	–	–	–1	–	–1
Translation differences, etc.	–1	–196	4	–38	0	–15	3	–250
Cost at end of year	**619**	**620**	**992**	**988**	**108**	**86**	**1,719**	**1,694**
Accumulated amortization and impairment losses at beginning of year	**–39**	**–49**	**–599**	**– 859**	**–28**	**–144**	**–667**	**–1,052**
Amortization for the year3)	–	–	–47	–50	–10	–3	–57	–53
Divestments	–	9	–	296	0	104	0	410
Sales/disposals	–	–	–	–	–	1	–	1
Translation differences, etc.	–	1	–4	14	0	13	–4	28
Accumulated amortization and impairment losses at end of year	**–39**	**–39**	**–650**	**–599**	**–38**	**–28**	**–727**	**–667**
Net carrying value at end of year	**580**	**581**	**343**	**389**	**69**	**57**	**992**	**1,027**

1) Other intangible assets mainly consist of software and licenses.
2) During 2010 goodwill increased by 29 MSEK (4 MUSD) relating to an earn-out based on pre-determined performance targets pertaining to the acquisition of Cigars International in 2007.
3) Amortization charges for 2010 include an adjustment of 41 MSEK pertaining to reversals of amortization charges on assets reported as held for sales to STG from January 15, 2010 when Swedish Match announced the agreement to form a strategic partnership with STG, until October 1, 2010 when the transaction was finalized.

No borrowing costs have been capitalized during 2011 for intangible assets.

The Group's intangible assets are deemed to have definite useful lives, except for goodwill, which according to the IFRS definition has an indefinite useful life. Amortization has been charged to the income statement as stated below;

	Amortization1)	
	2011	2010
Cost of goods sold	–1	–1
Selling expenses	–49	–51
Administrative expenses	–6	–1
Total	**–57**	**–53**

1) During 2010, the adjustments for assets held for sale has affected cost of goods sold by 1 MSEK, selling expenses by 32 MSEK and administrative expenses by 8 MSEK.

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 products groups and geographical markets, at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their values in use. If the carrying value is higher, the difference is charged to the income statement. The value in use is calculated using a valuation model based on discounted expected future cash flows. The cash flows used in the valuation model are projected considering current market conditions and historical market performance, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new facts become known. The cash flows underlying the value in use calculation of a cash generating unit is explicitly forecasted for the coming five years, after which a terminal growth factor is applied to calculate the terminal value. The first year in the forecast for the 2011 testing is based on the budget for 2012. Sales growth and cost structure, which are the key assumptions for the projected cash flows during the explicit forecast period, are in line with historical development. The discount rates are calculated by weighting cost of debt and cost of equity with Swedish Match's target debt ratio. The calculation of cost of debt is based on local risk-free interest rates with a country specific risk premium for applicable markets, local tax rates and a Swedish Match specific interest margin. Cost of equity is computed 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 computation of the discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill was tested for impairment in 2011, the value in use exceeded the carrying values for all cash generating units. For US mass market cigar operations and match operations, which represent the majority of the Group's goodwill, a terminal growth rate of 1.5 percent (1.5) and –1.0 percent (–1.0) respectively has been applied to calculate the cash flows after the explicitly forecasted period. Combined, these two cash generating units correspond to approximately 70 percent of the Groups total reported goodwill. For further information, see table below. When performing sensitivity analysis by increasing the discount rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. However, for the match operations, the value in use was close to the carrying value when the discount rate was increased by 2 percentage points.

		Goodwill in cash generating units			
Cash generating units	Operating segment	Pre-tax WACC 2011, %	2011	Pre-tax WACC 2010, %	2010
US chewing tobacco operations	Other tobacco products	11.7	59	13.1	66
US mass market cigar operations	Other tobacco products	7.2	292	8.1	273
Lighter operations	Lights	12.8	35	12.7	36
Match operations	Lights	17.6	134	22.7	136
US snuff operations	Snus and snuff	9.3	59	10.0	65
Other	–		–		5
Total			**580**		**581**

12. Property, plant and equipment

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

	Buildings and land[1]		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Cost at beginning of year	**901**	**1,268**	**2,755**	**3,603**	**650**	**723**	**362**	**402**	**4,668**	**5,995**
Purchases/investments[2]	92	13	190	124	88	39	–148	111	221	287
Acquisitions	–	–	–	–	–	–	–	–	–	–
Divestments	–2	–339	–4	–865	0	–57	–1	–25	–7	–1,286
Sales/disposals	–2	–17	–74	–35	– 10	–41	–1	–	–87	–93
Reclassifications	7	24	113	96	1	3	–120	–124	0	0
Translation differences, etc.	–4	–48	–9	–169	–4	–17	0	–1	–17	–234
Cost at end of year	**990**	**901**	**2,971**	**2,755**	**724**	**650**	**93**	**362**	**4,779**	**4,668**
Accumulated depreciation and impairment losses at beginning of year	**–338**	**–516**	**–1,901**	**–2,569**	**–458**	**–500**	**0**	**–1**	**–2,697**	**–3,587**
Depreciation for the year[3]	–24	–26	–158	–153	–51	–56	–	–	–233	–235
Impairment losses during year	–	–	–	–	–	–	–	–	–	–
Divestments	0	164	3	650	0	46	0	1	4	861
Sales/disposals	2	16	73	27	9	40	–	–	85	83
Reclassifications	–	–	0	–	0	–	–	–	0	–
Translation differences, etc	1	25	9	145	4	11	0	0	13	180
Accumulated depreciation and impairment losses at end of year	**–358**	**–338**	**–1,973**	**–1,901**	**–497**	**–458**	**0**	**0**	**–2,828**	**–2,697**
Net carrying value at end of year	**632**	**563**	**998**	**854**	**228**	**192**	**92**	**362**	**1,950**	**1,971**

1) Buildings and land include land and land improvements at a book value of 111 (117).
2) Capital expenditures for 2010 includes 36 MSEK pertaining to businesses transferred to STG up until October 1 2010, when the transaction was completed.
3) Depreciation charges for 2010 includes an adjustment of 52 MSEK pertaining to reversals of depreciation charges on assets reported as held for sale to STG during the period January 15, 2010 when Swedish Match announced the agreement to form a strategic partnership with STG, up until October 1, 2010 when the transaction was finalized.

Construction in progress primarily relates to investments in production facilities.

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

Depreciation for the year totaling 233 MSEK (235) was charged to cost of goods sold in the income statement in an amount of 183 MSEK (174), to administrative expenses of 11 MSEK (8), and to selling expenses of 40 MSEK (52).

13. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2011	2010
Carrying value at beginning of year	**126**	**116**
Purchases/investments/new planting	24	24
Sales/disposals during the year	–	–1
Change in fair value	–3	1
Transfer to inventories	–9	– 12
Translation differences, etc.	–12	–2
Carrying value at end of year	**125**	**126**

The Group's forest plantations comprise poplar and pine forests with a total area of 5,600 hectares at December 31, 2011. The age of the trees varies from newly planted seedlings up to 35 years. The forests are held to ensure the supply of wood for parts in the product area Lights.

Timber felled during 2011 had an estimated value of 9 MSEK at the time of felling, and made up 81,000 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area. Volume growth during 2011 had a negative effect of 4 MSEK on fair value, while higher market prices for timber had a positive effect of 1 MSEK on fair value.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2011, 98 hectares (86) pine forest were replanted. At present, there is no corresponding requirement for poplar.

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

14. Investments in associated companies and joint ventures

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

Investments in associated companies

On October 27, 2011 Swedish Match acquired 49 percent of the shares in VMSM Holding AB. Through its subsidiaries, the company provides road transportation services with Swedish Match Distribution AB as a major client.

On October 1, 2010 the transaction between Swedish Match and Scandinavian Tobacco Group to form a new company was finalized. Swedish Match contributed its cigar business (excluding the US mass market cigar business and the holding in Arnold André) as well as the pipe tobacco and accessories businesses to the new company and acquired 49 percent of the shares. As Swedish Match continues to own 49 percent of the net assets transferred to the new company, 49 percent of the total capital gain has been deferred. Hence, in the Group's accounts, the carrying value of the STG investment is adjusted by the deferred capital gain.

On March 16, 2010 Swedish Match acquired 20 percent of the shares in Caribbean Cigar Holding Group S.A. (Caribbean Cigar) for 110 MSEK (15.6 MUSD) from San Cristobal Holdings S.A. The Swedish Match portion of the net profit during 2010 was 4 MSEK and a dividend of 1 MSEK was received during the year. The company was transferred to STG on October 1, 2010.

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

Associates	2011	2010
Carrying value at beginning of year	**4,079**	**119**
Investments in associated companies	0	4,155
Share of net profit/loss in associated companies[1]	357	–42
Share of other comprehensive income in associated companies	90	55
Dividends from associated companies	–3	–12
Associated companies transferred to STG	–	–114
Translation differences	–45	–82
Carrying value at end of year	**4,478**	**4,079**

[1] 2010 includes share of net profit from Caribbean Cigars up until October 1, 2010 when the transaction with STG was closed.

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

	VMSM Holding AB		Arnold André GmbH & Co. KG		Malaysian Match Co. SDN. BHD.		Scandinavian Tobacco Group A/S		Total	
Country (share of ownership)	Sweden (49%)		Germany (40%)		Malaysia (32%)		Denmark (49%)			
MSEK	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Sales	11	–	249	233	24	22	3,235	851	3,519	1,106
Profit/loss (excluding other comprehensive income)	0	–	18	12	2	2	337	–60	357	–46
Assets	52	–	184	167	15	12	8,184	7,446	8,435	7,625
Liabilities	52	–	82	79	5	4	3,278	2,924	3,416	3,007
Equity interest	**1**	–	**102**	**88**	**10**	**8**	**4,906**	**4,522**	**5,018**	**4,618**
Goodwill	–	–	–	–	3	4	–	–	3	4
Deferred capital gain, net of tansaction costs	–	–	–	–	–	–	–543	–543	–543	–543
Carrying value at end of year	**1**	–	**102**	**88**	**13**	**12**	**4,362**	**3,979**	**4,478**	**4,079**

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 ventures agreement is a 50 percent holding of SMPM International. Swedish Match share of the net loss for 2011 was 30 MSEK.

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

Joint ventures	2011	2010
Carrying value at beginning of year	**6**	**13**
Investment in joint ventures	28	13
Net loss of joint ventures	–30	–20
Carrying value at end of year	**3**	**6**

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

	2011	2010
Sales	1	0
Expenses	–31	–20
Loss	**–30**	**–20**
Total assets	14	12
Total liabilities	10	7
Equity interest	**3**	**6**

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 35 MSEK (290). Total sales to associated companies and joint ventures amounted to 171 MSEK (108). Payables to these companies totaled 30 MSEK (11). Total purchases from associated companies and joint ventures amounted to 139 MSEK (103).

15. Other non-current receivables and other receivables

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

Non-current receivables	2011	2010
Non-current financial receivables	340	384
Finance lease[1)]	–	3
Net assets in pension plans	67	117
Other non-current receivables	209	212
Total	**617**	**716**

1) The finance lease amount pertained to a sale-lease back agreement of a production line. During the year this lease agreement has generated an income of 1 MSEK. The agreement was terminated during 2011 as a result from sale of the underlying assets.

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

Other non-current receivables mainly pertain to deposits for disputed VAT claims in a non-Swedish subsidary.

Other current receivables at December 31 comprised the following items:

Other current receivables	2011	2010
Current financial receivables	9	274
VAT receivables	11	11
Other current receivables	66	44
Total	**86**	**329**

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

16. Inventories

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

	2011			2010		
Inventories	Current	Non-current	Total	Current	Non-current	Total
Finished goods	535	–	535	409	–	409
Work in progress	42	–	42	36	–	36
Leaf tobacco	314	254	568	294	272	567
Other input materials and consumables	195	–	195	190	0	191
Total	**1,085**	**254**	**1,339**	**929**	**272**	**1,202**

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

17. Trade receivables

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

Trade receivables	2011	2010
Trade receivables	1,416	1,202
Less provision for impairment of trade receivables	–18	–21
Net total	**1,398**	**1,181**

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

Trade receivable provision	2011	2010
Carrying value at beginning of year	**–21**	**–39**
Provision	–9	–11
Recovery	9	6
Write-off	2	9
Companies divested	0	12
Translation differences, other deductions or additions, etc.	1	1
Carrying value at end of year	**–18**	**–21**

As of December 2011, trade receivables of 37 MSEK (27) were past due but not impaired. The aging of these trade receivables is as follows:

Age of trade receivables	2011	2010
Current	1,360	1,154
Overdue <31 days	28	17
Overdue 31–60 days	6	5
Overdue >60 days	3	5
Total	**1,398**	**1,181**

Swedish Match does not generally hold collateral against trade receivables. The Group has a diverse customer base and the customer concentration level is insignificant. The ten largest customers represent percent 39 percent (29) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables are deemed to be low. For more information see *Note 25 Financial instruments and financial risks.*

18. Cash and cash equivalents, and other investments

Other investments have been classified as cash and cash equivalents when:
- There is an insignificant risk of change in fair value.
- They can easily be converted into cash.
- Maturity is less than three months from time of acquisition.

	2011	2010
Other investments		
Other financial investments	–	1
Cash and cash equivalents		
Cash and bank	2,533	3,275
Total	**2,533**	**3,276**

19. Equity

Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. The Board of Directors has further concluded that the strategic position of Swedish Match supports a dividend policy with a targeted pay-out ratio to 40 to 60 percent of the earnings per share for the year, subject to adjustments for larger one time items. The Board of Directors proposes a dividend of 6.50 SEK, equivalent to 54 percent of the earnings per share for the year. Based on the number of shares outstanding at the end of the year, the total proposed dividend amounts to 1,327 MSEK. The dividend for 2010, paid in 2011, amounted to 1,152 MSEK corresponding to 5.50 per share, which was equivalent to 55 percent of the earnings per share for the year, excluding larger one time items.

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

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2011	2010	**2011**	2010
Balance at beginning of year	**16,203**	**19,700**	**–18,398**	**–15,437**
Repurchase of own shares during the year	11,149	17,034	–2,371	– 3,014
Stock options exercised during the year	–524	–531	67	53
Allocated to retained earnings by cancellation of shares	–18,000	–20,000	30	31
Bonus issue	–	–	–30	–31
Balance at end of year	**8,828**	**16,203**	**–20,702**	**–18,398**

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 209.4 million shares and the total number of cancellation of shares amounts to 190.9 million shares. Total number of shares sold as a result of option holders exercising options amounts to 9.7 million shares.

The Annual General Meeting on May 2, 2011 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 18 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 30.4 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. The total number of registered shares of the Company, after the cancellations, is 213.0 million shares with a quotient value of 1.8287 SEK.

During the year 11.1 million shares were repurchased for 2,371 MSEK at an average price of 212.66 SEK. As at December 31, 2011 Swedish Match held 8.8 million shares in its treasury, corresponding to 4.14 percent of the total number of shares. During the year the Company has also sold 0.5 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 204.2 million. In addition, the Company has call options outstanding at year end corresponding to 5.0 million shares exercisable in gradual stages from 2012–2015.

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

2010	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	**–59**	**252**	**4**
Profit for the year pertaining to non-controlling interest	–	–	1
Transfer of non-controlling interest to STG of partly owned subsidiary	–	–	–2
Translation differences related to foreign operations for the year	–	–504	0
Translation differences included in profit and loss	–	278	–
Effective portion of changes in fair value cash flow hedges	58	–	–
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	–24	–	–
Income tax relating to components of other comprehensive income[1]	–9	–	–
Balance at end of year	**–34**	**26**	**2**

2011	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	**–34**	**26**	**2**
Profit for the year pertaining to non-controlling interest	–	–	1
Translation differences related to foreign operations for the year	–	–57	0
Translation differences included in profit and loss	–	0	–
Effective portion of changes in fair value cash flow hedges	–22	–	–
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	0	–	–
Income tax relating to components of other comprehensive income[1]	6	–	–
Balance at end of year	**–50**	**–31**	**2**

[1] For further details on tax components relating to the various items recognized in other comprehensive income, see *Note 9 Income tax*.

Hedge reserve

The hedge reserve includes the accumulated effective portion of changes in fair value of cashflow hedges attributable to exchange and interest rate hedges.

Translation reserve

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

20. Interest bearing liabilities

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

Year	2011	2010
2011	–	1
2012	1	1,596
2013	1,160	1,176
2014	1,266	1,294
2015	1,997	1,996
2016	453	–
2017 and later	3,658	3,146
Total	**8,535**	**9,209**

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

Current interest-bearing liabilities	2011	2010
Current portion of non-current loans	1,281	525
Bank overdraft facilities used	2	–
Total	**1,283**	**525**

See further information on interest-bearing liabilities in *Note 25 Financial instruments and financial risks.*

21. Employee benefits

Post-employment employee benefits

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

Provisions for post-employment defined benefit plans are reported based on actuarial valuations. The Group recognizes the full amount of actuarial gains and losses in other comprehensive income, i.e. the net pension liability in the balance sheet includes all cumulative actuarial gains and losses.

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

Post-employment defined benefits	2011	2010
Defined benefit plans, net liabilities	598	445
Post-employment medical benefits, net liabilities	844	705
Other long term employee benefits, net liabilities	7	8
Provision for pensions and similar obligations	**1,449**	**1,158**
Defined benefit plans, net assets	–67	–117
Included in non-current receivables	**–67**	**–117**
Net post-employment liability	**1,382**	**1,041**

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

	Defined-benefit plans		Post-employment medical benefits	
Post-employment defined benefits	**2011**	**2010**	**2011**	**2010**
Present value of funded obligations	2,242	2,025	–	–
Fair value of plan assets	–1,808	–1,845	–	–
Deficit(+)/Surplus(–), net	**434**	**180**	**–**	**–**
Present value of unfunded obligations	81	99	843	704
Unrecognized past service costs	–	–	1	1
Unrecognized assets due to recoverability limit	15	49	–	–
Net asset(–)/liability(+) in the balance sheet	**530**	**328**	**844**	**705**
Amounts in the balance sheet				
Liabilities	598	445	844	705
Assets	–67	–117	–	–
Net asset(–)/liability(+) in the balance sheet	**530**	**328**	**844**	**705**

Actuarial assumptions

The post-employment defined benefits have been calculated based on actuarial assumptions. The discount rate is set per country with reference to high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. The assumptions for expected return on plan assets are based on the asset groups as defined in each investment policy. The assumptions for expected rate of return are estimated in each country respectively based on the portfolio as a whole considering both historical performance and future outlook given the long term perspective. For the post-employment defined benefit plans all actuarial gains and losses are recognized in other comprehensive income as they occur in accordance with the actuarial valuation.

The year 2011 was characterized by an overall decrease in discount rates. Conseqently, the Group experienced an increase in the net pension liability, and has recognized an actuarial loss during the year.

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

	Defined-benefit pension plans		Post-employment medical benefits	
Actuarial assumptions	**2011**	**2010**	**2011**	**2010**
Discount rate, %	4.5	5.1	4.5	5.2
Expected return on plan assets, %	7.0	5.3	–	–
Future salary increases, %	3.2	3.5	3.1	3.5
Future pension increases, %	2.7	3.0	–	–
Medical cost trend rate, %	–	–	8.5	8.5

Sensitivity analysis for medical benefit schemes

For the post-employment medical plans, a 1 percent increase in the medical cost trend rate would increase the aggregate of the current service and interest costs by 11 MSEK (12) and the defined benefit obligation by 75 MSEK (73). A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 9 MSEK (10) and the defined benefit obligation by 95 MSEK (93).

Change in the defined benefit obligations and plan assets

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

	Defined-benefit pension plans		Post-employment medical benefits	
Defined benefit obligations	**2011**	**2010**	**2011**	**2010**
Balance at beginning of year	**2,124**	**4,505**	**704**	**704**
Current service cost	40	83	30	31
Interest cost	103	201	34	39
Contributions by plan participants	–	0	2	2
Past service cost	–	77	–	–1
Actuarial losses (+)/gains (–)	124	328	108	11
Benefits paid	–114	–269	–29	–26
Settlements (liability)	6	–2,618	–24	–33
Translation differences	40	–183	18	–22
Balance at end of year	**2,323**	**2,124**	**843**	**705**

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

	Defined-benefit pension plans		Post-employment medical benefits	
Plan assets	**2011**	**2010**	**2011**	**2010**
Fair value at beginning of year	**1,845**	**4,197**	**0**	**0**
Expected return on plan assets	117	209	–	–
Actuarial losses (–)/gains (+)	–154	139	–	–
Employer contributions	94	178	27	24
Employee contributions	–	1	2	2
Benefits paid	–114	–269	–29	–26
Assets distributed on settlements	–6	–2,468	–	–
Translation differences	25	–143	–	–
Fair value at end of year	**1,808**	**1,845**	**0**	**0**

The actual return on plan assets in 2011 was a loss of 36 MSEK (gain 349).

Plan assets at December 31 are comprised as follows:

Plan assets	**2011**	**2010**
Equity securities	771	755
Debt instruments	468	818
Real estate	54	61
Other	515	211
Total	**1,808**	**1,845**

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

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

	Defined-benefit plans		Post-employment medical benefits	
Post-employment defined benefits income and expenses	**2011**	**2010**	**2011**	**2010**
Current service costs	40	83	30	31
Interest on obligation	103	201	34	39
Expected return on plan assets	–117	–209	–	–
Recognized past service costs	6	77	0	–1
Gain from transfer of defined benefit obligations[1]	–	–150	–	–33
Gains on curtailments	–	–	–24	–
Cost for settlement[2]	6	–	–	–
Net income(–)/expense(+) reported in the income statement	**37**	**2**	**40**	**36**

[1] Effect from net book values of defined benefits obligations transferred to STG and net book values of the Swedish pension plans transferred to external insurance companies.
[2] Relates to final settlement cost for Swedish plans transferred to insurance companies in 2010.

During the year a curtailment gain has been recognized in the income statement in an amount of 24 MSEK relating to post employment medical plan in the US.

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

	Defined-benefit pension plans		Post-employment medical benefits	
Post-employment defined benefits income and expenses	**2011**	**2010**	**2011**	**2010**
Cost of goods sold	12	22	13	13
Administrative expenses	–12	8	–20	3
Selling expenses	18	21	13	13
Larger one time items	–	–73	–	–33
Interest income	–1	–6	–	–
Interest expense	19	30	35	40
Net income(–)/expense(+) reported in the income statement	**37**	**2**	**40**	**36**

Actuarial gains and losses

The Group's cumulative actuarial gains and losses at December 31 are as follows:

Cumulative actuarial gains and losses recognized in other comprehensive income[1]	**2011**	**2010**
Cumulative actuarial losses (+)/gains (–), beginning of year	**588**	**1,415**
Actuarial losses (+)/gains (–) during year	386	200
Cumulative actuarial gains and losses transferred on settlements	–	–987
Translation differences	30	–39
Cumulative losses (+)/gains (–), end of year	**1,004**	**588**

[1] Cumulative actuarial gains and losses exclude effects from asset limits and payroll taxes.

Expected contribution next year

Expected contributions for post-employment benefit plans for the year ending December 31, 2012 amounts to 126 MSEK (126).

Five year summary

Historical information	**2011**	**2010**	**2009**	**2008**	**2007**
Present value of funded defined benefit obligations	2,242	2,025	4,405	4,180	3,329
Fair value of plan assets	–1,808	–1,845	–4,197	–3,908	–3,506
Deficit (+)/surplus(–)	**434**	**180**	**208**	**272**	**–176**
Present value of unfunded obligations	924	803	804	730	518
Total net post-employment asset (–)/liability(+)	**1,358**	**983**	**1,012**	**1,002**	**342**
Experience adjustments on plan liabilities losses (–)/gains (+)	–56	–185	–54	–35	3
Experience adjustments on plan assets losses (–)/gains (+)	4	77	252	–768	–35

Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 101 MSEK (69). The increase in the cost is mainly relating to the transfer of the Swedish pension obligations in December 2010, see below.

Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan which commenced in 2010, when the pension obligations for salaried personnel in Sweden, were transferred to Alecta. Alecta is not able to provide specific information for each customer's obligation and fair value of related assets, and therefore it has been accounted for as a defined contribution plan. As a result of the transaction of last year, in 2010 a settlement gain of 59 MSEK was recognized in the income statement and an actuarial loss of 166 MSEK, including payroll taxes, was recognized in other comprehensive income of last year.

22. Provisions

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

Non-current provisions	2011	2010
Income tax	93	104
Restructurings	0	1
Other operating provisions	169	178
Deferred compensation	250	230
Other provisions	60	65
Total non-current provisions	**572**	**577**

Current provisions	2011	2010
Restructurings	0	2
Other operating provisions	83	97
Total current provisions	**84**	**98**
Total non-current and current provisions	**656**	**676**

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other provisions	Total
Carrying value at beginning of year	**104**	**3**	**275**	**230**	**65**	**676**
Provisions made during the year	3	0	25	62	–	89
Provisions used during the year	–	–2	–29	–13	–4	–48
Provisions reversed during the year and changes in estimates	–6	0	–3	0	–	–10
Companies divested	–	–	0	–	–	0
Reclassifications	–2	–	–	–30	–	–32
Translation differences, etc.	–5	0	–15	1	–	–19
Carrying value at end of year	**93**	**1**	**252**	**250**	**60**	**656**

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 of up to five years.

Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. Whilst coupons and returns are expected to be realized within the year, these are replaced within the year, and as such the provisions are classified as non-current. Another large part of the operating provisions are provisions for disputed sales tax. The timing of settlement is hard to predict and may be beyond five years.

Deferred compensation

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

Other Provisions

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

For further information about provisions for pensions, see *Note 21 Employee benefits*.

23. Other liabilities

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

Other non-current liabilities	2011	2010
Non-interest bearing non-current liabilities	17	26
Non-current financial liabilities, derivatives	321	294
Total	**338**	**320**

Other current liabilities at December 31 comprised the following:

Other current liabilities	2011	2010
Tobacco taxes	1,235	896
VAT liabilities	382	288
Current financial liabilities, derivatives	33	18
Other	135	248
Total	**1,786**	**1,449**

24. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2011	2010
Accrued wage/salary-related expenses	199	138
Accrued vacation pay	56	54
Accrued social security charges	57	56
Accrued interest	198	192
Other	305	312
Total	**815**	**754**

25. Financial instruments and financial risks

Operations

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

Financial instruments

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

Outstanding derivatives

	2011			2010		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	207	–	0	13	0	0
Interest-rate derivatives *	8,687	62	313	9,297	78	242
Total	**8,894**	**62**	**313**	**9,310**	**78**	**242**
***Of which hedge accounting**						
Cash flow risk in financing						
Cash flow hedges	6,846	–	279	7,081	–	205

Currency risks

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

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

The consolidated income statement includes exchange rate losses of 11 MSEK (7) in the operating profit and 1 MSEK (11) in the net finance cost.

Transaction exposure

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

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 900 MSEK on an annual basis. It is divided as following; 600 MSEK in NOK (67 percent), 94 MSEK in EUR (10 percent), 47 MSEK in PHP (5 percent), 38 MSEK in GBP (4 percent), 34 MSEK in JPY (4 percent) and in other currencies 90 MSEK (10 percent). Swedish Match’s policy for managing the Group’s transaction exposure is to hedge within certain limits. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. Transactions are mainly initiated via currency forward contracts with durations of up to 12 months, and relate to forecasted currency flows. At December 31, 2011, no transaction exposure for 2012 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 90 MSEK (70), which of 60 in MNOK, 9 in MEUR, 5 in MPHP, and 16 in other currencies for the year ending December 31, 2011.

Translation exposure

The most significant effect of currency movements on consolidated earnings arises from the translation of subsidiaries’ earnings. Earnings in Group companies are translated at average exchange rates. Significant effects mainly pertain to USD, EUR and BRL. The single most important currency is the USD.

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The exposures of net investment are 1,972 MSEK in USD (62 percent), 711 MSEK in EUR (22 percent) and in other currencies 490 MSEK (16 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 10 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be positive in an amount of approximately 320 MSEK, which of 200 in MUSD, 70 in MEUR, and 50 in other currencies based on the exposure at December 31, 2011.

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, 2011, the average interest maturity period for Group loans was 3.6 years (4.0 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2011 was as follows:

	Loans		Loans and effects from derivatives	
Year	Fixed	Variable	Fixed	Variable
2012	330	952	1,015	267
2013	1,160		1,160	
2014	598	668	1,043	223
2015	1,997		1,997	
2016	453		453	
2017–	3,658		3,658	
Total	**8,196**	**1,620**	**9,326**	**490**

At December 31, 2011, a general rise of 1 percent (100bp) in interest rates was estimated to increase consolidated earnings before tax by approximately 20 MSEK (25) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 8,886 MSEK (7,650). The assumption is based on the present level of net debt and average interest maturity period.

If interest rates were to rise with 1 percent (100bp), the total effect on equity due to cash flow hedges would increase the amount by 206 MSEK (254).

Refinancing risk and liquidity

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

Swedish Match has a syndicated bank credit facility of 160 MEUR, which matures in Jan 2016. This was unutilized at year-end and contained no financial covenants. At year-end 2011, available cash funds and committed credit facilities amounted to 3,959 MSEK. Of this amount, confirmed credit lines amounted to 1,426 MSEK and cash and cash equivalents making up the remaining 2,533 MSEK.

Most of Swedish Match's financing consists of a Swedish medium-term note program (MTN) with a limit of 4,000 MSEK, and a global medium-term note program with a limit amount of 1,250 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2011, a total of 453 MSEK of the Swedish program and 9,310 MSEK of the global program were outstanding. The average maturity of the Group's bond borrowing at December 31, 2011 was 3,6 years.

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

Year	MTN Loans incl. interest	Negative derivatives	Trade payables	Total value	Total booked value
2012	1,668	152	653	2,473	2,058
2013	1,509	112		1,621	1,228
2014	1,522	103		1,625	1,311
2015	2,266	45		2,311	2,027
2016	613	45		658	483
2017–	3,800	232		4,032	3,685
Total	**11,378**	**689**	**653**	**12,720**	**10,792**

Under the Swedish bond program, Swedish Match has issued bonds in SEK, and under the global program, in EUR and SEK. Borrowing in EUR is hedged by currency swaps and currency interest rate swaps. The average interest costs for outstanding borrowings (including derivative instruments) on December 31, 2011 were as follows:

	2011	2010
Swedish MTN, %	4.6	4.2
Global MTN, %	4.9	4.8

Liquidity within Swedish Match is handled centrally through local cash pools. Group companies are required to deposit liquid funds in cash pool accounts or, if these are not available, with the Parent Company's treasury 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 market value, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2011.

	2011				2010			
Changes in hedge reserve	Jan. 1	Change of market value	Allocated to earnings	Dec. 31	Jan. 1	Change of market value	Allocated to earnings	Dec. 31
Hedging instruments, derivatives	–46	–21	0	–67	–80	10	24	–46
Total	**–46**	**–21**	**0**	**–67**	**–80**	**10**	**24**	**–46**

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

	2012	2013	2014	2015	2016	2017–
Interest payment for loans	287	250	191	165	165	165
Market-value derivatives	–17	–14	–16	–7	–7	–6

Fair value hedges

The table below shows the change of fair value hedges during the year recognized in earnings. At yearend there were no fair value hedges outstanding.

	2011			2010		
	Jan. 1	Earnings	Dec. 31	Jan. 1	Earnings	Dec. 31
Hedged item	–	–	–	–9	9	–
Hedging instruments, derivatives	–	–	–	9	–9	–
Total	**–**	**–**	**–**	**0**	**0**	**–**

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in government bonds, treasury bills and bank and mortgage certificates, as well as in certain approved securities with approved counterparties. At December 31, 2011, the average interest maturity for the Group's current investments was approximately 0.2 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least A from Standard & Poor's or equivalent from Moody's. To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2011, credit exposure in derivative instruments amounted to 24 MSEK, and credit exposure in cash and deposits at banks amounted to 2,533 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 1,398 MSEK. For more information see *Note 17 Trade receivables*.

Credit ratings

At December 31, 2011, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

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

Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2011. All items, except loans and borrowings, have a short duration and are non interest-bearing, and therefore, the total carrying value and the estimated fair value are reported the same. All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy presented in IFRS 7. The values presented are indicative and may not necessarily be realized.

2011	Items carried at fair value via the income statement [1]	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	–	1,398	–	–	–	1,398	1,398
Non-current receivables	58	–	–	18[4]	541[3]	617	617
Other receivables	0	–	–	–	86	86	86
Prepaid expenses and accrued income	11	–	–	–	65	76	76
Other investments	–	–	–	–	–	–	–
Cash and cash equivalents	807	1,726	–	–	–	2,533	2,533
Total assets	**876**	**3,124**		**18**	**692**	**4,710**	**4,710**
Loans and borrowings	–	–	9,818	–	–	9,818	10,252[2]
Other liabilities	27	–	–	336	1,761	2,124	2,124
Accrued expenses and deferred income	–	–	173	24	618	815	815
Trade payables	–	–	651	–	–	651	651
Total liabilities	**27**	**–**	**10,642**	**360**	**2,379**	**13,408**	**13,842**

2010	Items carried at fair value via the income statement [1]	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	–	1,181	–	–	–	1,181	1,181
Non-current receivables	83	–	–	34[4]	599[3]	716	716
Other receivables	0	–	–	–	329	329	329
Prepaid expenses and accrued income	11	–	–	–	67	78	78
Other investments	1	–	–	–	–	1	1
Cash and cash equivalents	619	2,656		–	–	3,275	3,275
Total assets	**714**	**3,837**	**–**	**34**	**995**	**5,580**	**5,580**
Loans and borrowings	–	–	9,734	–	–	9,734	10,011[2]
Other liabilities	38	–	–	276	1,455	1,769	1,769
Accrued expenses and deferred income	–	–	162	30	562	754	754
Trade payables	–	–	555	–	–	555	555
Total liabilities	**38**	**–**	**10,451**	**306**	**2,017**	**12,812**	**13,089**

1) All items relates to instruments held for trading.
2) The estimated fair value is the revaluation of the loans and borrowings to the fair values based on the market rates for December 31, 2011 and 2010.
3) Includes shares in other companies amounting to 16 MSEK (13) that are classified as available for sale, measured at cost.
4) 0 MSEK (24) are allocated to earnings and 18 MSEK (10) are changes of market value. The instruments are interest rates swaps at nominal amount of 5,403 MSEK (5,529). There are no conditions in these transactions that can cause any differences in amounts and maturities between these derivatives and their underlying liabilities.

26. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2011 amounted to 45 MSEK (79, including 32 MSEK pertaining to businesses transferred to STG as of October 1, 2010).

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

Minimum lease payments	2011	2010
Within one year	45	44
Between 1–5 years	97	113
Later than 5 years	29	36
Total	**172**	**193**

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

27. Pledged assets

As per December 31, 2011 the Group had 33 MSEK (29) in assets pledged, pertaining to endowment insurance policies pledged as security for pension obligations. The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

28. Commitments and contingent liabilities and assets

Contingent liabilities

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

Contingent liabilities	2011	2010
Guarantees on behalf of subsidiaries	52	61
Guarantees to associated companies	61	171
Guarantees to external companies	0	–
Other guarantees and contingent liabilities	170	208
Total	**282**	**440**

Legal disputes

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

Swedish Match subsidiaries in the US are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (a subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been brought before state courts in West Virginia. The cases against Pinkerton, however, have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these cases intend to pursue their claims separately against Pinkerton. Swedish Match North America, Inc. and Pinkerton Tobacco Company are named as defendants in a lawsuit filed in Florida in November 2002 against several companies active in the American market for smokeless tobacco and their joint interest association. The claim was originally instituted as a class-action suit, but was changed during 2005 to an individual claim. Swedish Match North America, Inc. is also named as one of the defendants in an individual claim filed in federal court in Mississippi in October, 2011, related to alleged health effect from use of chewing tobacco. Although management cannot in any meaningful way estimate the damages that might be awarded, if any, in any on-going or unasserted disputes of this nature, there are in the opinion of management good defenses against all claims and each claim will be vigorously defended.

Contingent assets

As per December 31, 2011, the Group had no contingent assets.

29. Group companies

Subsidiary holdings[1]	Subsidiary's domicile, country	Ownership share, % 2011	2010
SM Treasury SEK SA	Belgium	100	100
SM Treasury EUR SA	Belgium	100	100
SM Treasury USD SA	Belgium	100	100
SM Comercio Importacao e Exportacao Ltda	Brazil	100	100
SM da Amazonia S.A.	Brazil	100	100
SM do Brazil S.A.	Brazil	99.4	99.4
SM Plam Bulgaria JSC[2]	Bulgaria	–	99.9
SM Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Dominicana BV[3]	Netherlands	–	100
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Sales.com[4]	Netherlands	–	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

Subsidiary holdings[1]	Subsidiary's domicile, country	Ownership share, % 2011	2010
SM Distribution AB	Sweden	100	100
SM Industries Aktiebolag	Sweden	100	100
SM North Europe AB	Sweden	100	100
Svenska Tändsticks Aktiebolaget	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Cigars Holding	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100

1) The designation includes both directly and indirectly owned companies. Dormant companies are not included.
2) Company divested.
3) Company liquidated.
4) Company liquidated.

30. Supplementary information to cash flow statement

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

Interest paid and interest received	2011	2010
Interest received	35	32
Interest paid	–479	–477
Total	**–444**	**–445**

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

Adjustments for non cash items and other	2011	2010
Depreciation and amortization	290	288
Share of profits/loss in associated companies and joint ventures	–327	62
Dividend received from associated companies and joint ventures	14	3
Capital gain/loss from sale of non-current assets	0	5
Capital gain on businesses transferred to STG	–	–585
Capital gain on divested companies	–1	–
Net gain from pension settlement	–	–59
Change in fair value of forest plantations	3	–1
Change in provisions	–43	–75
Change in accrued interest	8	–2
Change in market value revaluations and unrealized exchange rate differences	88	158
Realized exchange rate differences moved to financing	–94	–80
Other	–11	–12
Total	**–73**	**–297**

Investments in associated companies, joint ventures and other companies

Investments in joint ventures during 2011 pertain to investment of 28 MSEK (12) in Swedish Match´s and Philip Morris International´s joint venture company and 1 MSEK in VMSM Holding AB. Investments in other companies pertain to acquisition of 13 percent of the shares in Secure Vending AB in an amount of 4 MSEK. During 2010 investments in associated companies pertain to purchase of 20 percent of the shares in Caribbean Cigar Holdings Group, S.A in an amount of 110 MSEK. For further information see *Note 14 Investments in associated companies and joint ventures.*

No acquisitions of subsidiaries have been made during 2011 nor 2010.

Divestment of subsidiaries

The cash flows from sale of subsidiaries during 2011 pertain to repayment of loans from STG of 140 MSEK net of final transaction adjustment. Furthermore in June 2011, the subsidiary SM Plam Bulgaria was divested for a total purchase price of 12 MSEK, whereof at completion of the transaction, 6 MSEK was received in cash.

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

No divestments of subsidiaries and other business units were made 2010.

STG transaction

On October 1, 2010 the transaction between Swedish Match and Scandinavian Tobacco Group to form a new company was finalized. Swedish Match contributed its cigar business (excluding the US mass market cigar business and the holding in Arnold André) as well as the pipe tobacco and accessories businesses to the new company. Swedish Match acquired 49 percent of the shares in the new STG company.

The numbers in the tables below represent the assets and liabilities that were transferred to STG and the analysis of cash flow effect from the transaction with STG.

Assets and liabilities transferred to STG	2010
Non-current financial assets	9
Other non-current assets	3,148
Current operating assets	2,335
Cash and cash equivalents	103
Inter-company financial receivables	591
Other inter-company receivables	22
Total assets transferred	**6,207**
Non-current liabilities	406
Current liabilities	404
Inter-company financial liabilities	2,381
Other inter-company liabilities	1,442
Total liabilities transferred	**4,634**
Transferred assets, net	**1,573**

Analysis of cash flow effect from transaction with STG	2010
Repayment of loans, received from STG[1)]	1,560
Less cash and cash equivalents in transferred operations	–103
Effect on cash and cash equivalents from net assets transferred	**1,457**
Transaction costs relating to 49% investment in STG	–19
Effect on cash and cash equivalents from net investment[2)]	**–19**
Net cash effect from transaction with STG	**1,439**

1) As per October 28, 2010 STG made a repayment of loans of 170 MEUR (1 560 MSEK) to Swedish Match. Additional loans amounting to 16 MEUR (140 MSEK) were repayed during 2011. The loans were provided from Swedish Match to STG in connection with the formation of the new company and include the 30 MEUR cash consideration as compensation for the relative differences in enterprise values of the businesses contributed from the former Scandinavian Tobacco Group and Swedish Match. Final purchase price adjustments were determined and settled in the second quarter of 2011.

2) For further information about the 49 percent investment in STG, see *Note 14 Investments in associated companies and joint ventures.*

31. Related parties

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

32. Information about the Parent Company

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

The Parent Company's shares are listed on NASDAQ OMX Stockholm. The address of the head office is Västra Trädgårdsgatan 15, post address: Box 7179 SE-103 88 Stockholm, Sweden.

The consolidated financial statements for 2011 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	2011	2010
Sales	1	51	57
Administrative expenses	2, 7, 8, 26	–165	–358
Other operating income and expenses	3	–1	0
Operating loss		**–115**	**–301**
Result from participation in group companies	4	2,974	3,722
Result from participation in joint venture	4	–12	–20
Interest income from receivables carried as non-current assets	4	133	213
Interest income and similar items	4	0	18
Interest expenses and similar items	4	–1,330	–1,076
Profit after financial items		**1,650**	**2,556**
Appropriations	5	–124	0
Profit before income tax		**1,526**	**2,556**
Income tax expense	6	–107	–197
Profit for the year		**1,419**	**2,359**

Parent Company statement of comprehensive income

MSEK	Note	2011	2010
Profit for the year		**1,419**	**2,359**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		–22	58
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		0	–24
Income tax relating to components of other comprehensive income	6	6	–9
Other comprehensive income, net of tax for the year		**–16**	**25**
Total comprehensive income for the year		**1,403**	**2,384**

Parent Company balance sheet

MSEK	Note	December 31, 2011	December 31, 2010
Assets			
Intangible assets	7	58	43
Tangible assets	8	2	2
Non-current financial assets			
Participations in group companies	9	49,234	41,626
Participation in joint venture	10	–	6
Receivables on group companies	11	–	8,850
Other non-current receivables	12	109	146
Deferred income tax assets	6	30	39
Total non-current financial assets		**49,373**	**50,667**
Total non-current assets		**49,433**	**50,711**
Current assets			
Receivables on group companies		2,051	2,058
Receivables on associated companies		2	258
Receivables on joint venture		1	1
Current income tax receivables	6	88	–
Other receivables	13	3	4
Prepaid expenses and accrued income	14	27	32
Total current assets		**2,172**	**2,353**
TOTAL ASSETS		**51,605**	**53,064**
Equity	15		
Restricted equity			
Share capital, 213,000,000 shares at 1.8287 and 231,000,000 at 1.6862 respectively		390	390
Unrestricted equity			
Hedge reserve		–49	–34
Retained earnings		17,766	18,863
Profit for the year		1,419	2,359
TOTAL EQUITY		**19,525**	**21,578**
Untaxed reserves	16	**124**	**1**
Provision for pensions and similar obligations	26	–	37
Other provisions	17	71	77
Total provisions		**71**	**114**
Non-current liabilities			
Bond loans	18	8,535	9,209
Liabilities to group companies	19	18,101	18,100
Other liabilities	20	324	297
Total non-current liabilities		**26,960**	**27,606**
Current liabilities			
Bond loans		1,281	525
Trade payables		17	25
Liabilities to group companies		3,348	2,918
Liabilities to associated companies		3	–
Current income tax liabilities	6	–	41
Other liabilities		49	26
Accrued expenses and deferred income	21	225	231
Total current liabilities		**4,924**	**3,765**
TOTAL EQUITY AND LIABILITIES		**51,605**	**53,064**
Pledged assets	22	33	29
Contingent liabilities	22	112	232

Statement of changes in Parent Company equity

MSEK 2010	Note	Restricted equity Share capital	Unrestricted equity Hedge reserve	Retained earnings	Profit for the year	Total equity
Equity at beginning of year	15	**390**	**–59**	**18,321**	**4,578**	**23,229**
Profit for the year		–	–	–	2,359	2,359
Other comprehensive income, net of tax for the year		–	25	–	–	25
Total comprehensive income for the year		**–**	**25**	**–**	**2,359**	**2,384**
Allocation of profit		–	–	4,578	–4,578	–
Dividend		–	–	–1,089	–	–1,089
Repurchase of own shares		–	–	–3,014	–	–3,014
Stock options exercised		–	–	53	–	53
Cancellation of shares		–31	–	31	–	–
Bonus issue		31	–	–31	–	–
Share-based payments, contributions from subsidiaries		–	–	14	–	14
Equity at end of year		**390**	**–34**	**18,863**	**2,359**	**21,578**

2011	Note	Restricted equity Share capital	Unrestricted equity Hedge reserve	Retained earnings	Profit for the year	Total equity
Equity at beginning of year	15	**390**	**–34**	**18,863**	**2,359**	**21,578**
Profit for the year		–	–	–	1,419	1,419
Other comprehensive income, net of tax for the year		–	–16	–	–	–16
Total comprehensive income for the year		**–**	**–16**	**–**	**1,419**	**1,403**
Allocation of profit		–	–	2,359	– 2,359	–
Dividend		–	–	–1,152	–	–1,152
Repurchase of own shares		–	–	–2,371	–	–2,371
Stock options exercised		–	–	67	–	67
Cancellation of shares		–30	–	30	–	–
Bonus issue		30	–	–30	–	–
Equity at end of year		**390**	**–49**	**17,766**	**1,419**	**19,525**

Cash flow statement for the Parent Company

MSEK	Note	2011	2010
Operating activities	23		
Profit after financial items		1,650	2,556
Adjustments for non-cash items and other		–475	–1,397
Income tax paid		–221	–301
Cash flow from operating activities before changes in working capital		**954**	**858**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		48	–23
Increase (+)/Decrease (–) in operating liabilities		–13	34
Net cash generated from operating activities		**989**	**869**
Investing activities			
Purchase of property, plant and equipment		–	–2
Purchase of intangible assets		–22	–42
Proceeds from sale of subsidiaries, net of cash disposed of		140	18
Capital redemption subsidiaries		–	2,500
Shareholders contribution paid		–	–558
Shareholders contribution paid to joint venture		–15	–12
Proceeds from sale of joint venture, net of cash disposed of		9	–
Investments in other companies		–4	–
Proceeds from sale of other companies, net of cash disposed of		4	–
Net cash from investing activities		**111**	**1,904**
Financing activities			
Repurchase of own shares		–2,371	–3,014
Stock options exercised		67	53
Proceeds from non-current borrowings		1,000	4,242
Repayment of borrowings		–853	–2,961
Dividend		–1,152	–1,089
Share-based payments, contributions from subsidiaries		–	14
Changes in financial receivables/liabilities group companies		2,205	–51
Other		3	33
Net cash used in financing activities		**–1,100**	**–2,773**
Net increase/decrease in cash and cash equivalents		**–**	**–**
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at end of year		**–**	**–**

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, 2010.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 5 Personnel* for the Group on page 58.

1. Sales

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

2. Audit fees

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

Audit fees	2011	2010
KPMG		
Audit services	4	4
Audit related services	–	0
Tax services	0	3
Other services	3	12
Total	**7**	**19**

Other services include assisting with testing of IT-controls. In addition, 2010 includes costs for due diligence reports.

3. Other operating income and expense

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

4. Financial items

	Result from participation in Group companies		Result from participation in joint ventures	
	2011	2010	2011	2010
Dividends received	2,492	4,286	–	–
Group contribution received	2,038	1,952	–	–
Group contribution granted	–199	–58	–	–
Impairment losses	–1,241	–2,757	–12	–20
Loss/gain on sale of Group companies	–116	299	–	–
Total	**2,974**	**3,722**	**–12**	**–20**

The impairment loss of 1,241 MSEK (2,757) was recognized following dividends paid from subsidiaries. Loss/gain on sale of shares in Group companies amounting to –116 MSEK (299) relates to subsidiaries sold to STG in 2010.

Result from participation in joint venture are reported in the Group accounts in accordance with the acquisition method.

The result of –12 MSEK (–20) relates to SMPM International AB, a joint venture together with Philip Morris International. During the year the participation has been transferred to another Group company.

	Interest income from receivables carried as non-current assets		Interest income and similar items	
	2011	2010	2011	2010
Interest income relating to group companies	133	213	0	16
Interest income relating to financial instruments held for trading	–	–	0	0
Interest income relating to other financial instruments held for trading	–	–	–	1
Net foreign exchange gains	–	0	0	1
Total	**133**	**213**	**0**	**18**

Interest expenses and similar items	2011	2010
Interest expense relating to group companies	–847	–572
Interest expense relating to financial liabilities measured at amortized cost	–475	–393
Interest expense relating to cash flow hedges transferred from equity [1]	0	–77
Interest expense relating to financial liabilities pertaining to fair value hedge	0	9
Net gains on financial liabilities held for trading	2	4
Other financial expenses	–11	–44
Net foreign exchange losses	–	–3
Total	**–1,330**	**–1,076**

[1] The total realized value of interest as a result from repurchase of 50 MSEK bonds maturing 2012. For 2010 the result pertains to repurchase of 171 MEUR.

5. Appropriations

Appropriations	2011	2010
Difference between reported amortization/depreciation and according to plan		
Software and licenses	–9	–
Equipment, tools and fixtures	0	0
Subtotal	**–9**	**0**
Change in tax allocation reserve		
Tax allocation 2011	–115	–
Subtotal	**–115**	**–**
Total	**–124**	**0**

6. Income tax

Income tax reported in income statement	2011	2010
Current tax expense for the period	–92	–216
Deferred tax due to temporary differences	–15	19
Total	**–107**	**–197**

Income tax reported in other comprehensive income	2011	2010
Effective portion of changes in fair value of cash flow hedges	6	–15
Reclassification adjustments for gains/losses on cash flow hedges incuded in profit and loss	0	6
Total	**6**	**–9**

Reconciliation of effective tax rate	2011 (%)	2011	2010 (%)	2010
Income before tax		**1,526**		**2,556**
Swedish statutory tax rate	**26.3**	**–402**	**26.3**	**–672**
Non-taxable dividends	–42.9	655	–44.1	1,127
Tax exempt items	–0.1	1	–3.1	79
Non-deductible impairment losses	21.6	–330	28.6	–730
Other non-deductible items	2.1	–31	0.1	–2
Taxes related to prior years	0.0	0	–0.0	1
Reported effective tax	**7.0**	**–107**	**7.7**	**–197**

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

	Current income tax assets		Current income tax liabilities	
	2011	2010	2011	2010
Opening balance at beginning of year	**–**	**–**	**41**	**126**
Current tax expense	–98	–	–5	216
Paid tax	186	–	–35	–301
Closing balance at end of year	**88**	**–**	**–**	**41**

Tax asset amounts to 88 MSEK and consists of taxes to be received on income for the year. The previous year tax liability of 41 MSEK consisted of taxes to be paid on income for the year.

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

	Deferred income tax assets		Deferred income tax liabilities	
	2011	2010	2011	2010
Hedge reserve	18	12	–	–
Provision	11	13	–	–
Provision for pension and similar obligations	–	12	–	–
Other	1	2	–	–
Total	**30**	**39**	**–**	**–**

The following reconciles the net balance of deferred tax assets (+)/liabilities (–) at the beginning of the year to that at the end of the year.

2011	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	12	–	6	18
Provision	13	–2	–	11
Provision for pension and similar obligations	12	–12	–	–
Other	2	–1	–	1
Total	**39**	**–15**	**6**	**30**

2010	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	21	–	–9	12
Provision	7	6	–	13
Provision for pension and similar obligations	–	12	–	12
Other	1	1	–	2
Total	**29**	**19**	**–9**	**39**

7. Intangible assets

Other intangible assets	2011	2010
Cost at beginning of year	**45**	**3**
Purchase	22	42
Cost at end of year	**68**	**45**
Accumulated amortization at beginning of year	**–3**	**–2**
Amortization for the year	–6	–1
Accumulated amortization at end of year	**–9**	**–3**
Net carrying value at end of year	**58**	**43**

Amortization is included in administrative expenses in the income statement in the amount of 6 MSEK (1).

All intangible assets are acquired.

Other intangible assets consist of licenses and software and are amortized over five to seven years. During the year an investment in software development on an ERP system for the Group has been capitalized.

No borrowing costs have been capitalized during 2011 nor during 2010.

8. Tangible assets

Equipment, tools and fixtures	2011	2010
Cost at beginning of year	**3**	**2**
Purchase	–	2
Sales/disposals	–	–1
Cost at end of year	**3**	**3**
Accumulated depreciation at beginning of year	**–1**	**–2**
Depreciation for the year	0	0
Sales/disposals	–	1
Accumulated depreciation at end of year	**–1**	**–1**
Net carrying value at end of year	**2**	**2**

Depreciation of tangible assets is included in administrative expenses in the income statement in the amount of 0 MSEK (0).

No borrowing costs have been capitalized during 2011 nor during 2010.

9. Group companies

2011	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	**51,025**	–	8,850	–	–5,158	–	–	**54,717**
Impairments	**–9,399**	–	–	–	5,158	–1,241	–	**–5,483**
Carrying value	**41,626**	**–**	**8,850**	**–**	**–**	**–1,241**	**–**	**49,234**

2010	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	**53,418**	2,036	5,145	–2,500	–	–	–7,074	**51,025**
Impairments	**–9,410**	–	–	–	–	–2,757	2,768	**–9,399**
Carrying value	**44,008**	**2,036**	**5,145**	**–2,500**	**–**	**–2,757**	**–4,306**	**41,626**

Impairments are reported in the result from participation in group companies in the income statement.

The impairment loss of 1,241 MSEK (2,757) was recognized following dividends paid from subsidiaries.

Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2011	Ownership, %	2010
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	100	15,750
Swedish Match Distribution AB	556571-7039	Stockholm	1,000	100	2,350	100	2,350
Swedish Match Cigars Holding AB	556367-1253	Stockholm	2,000	100	500	100	500
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm	34,403,000	100	236	100	286
Swedish Match Industries AB	556005-0253	Tidaholm	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm	96,000	100	9	100	9
Svenska Tändsticks AB	556105-2506	Stockholm	1,000	100	7	100	1,100
Svenskt Snus AB	556367-1261	Stockholm	1,000	100	1	100	1
Svenska Tobaks AB	556337-4833	Stockholm	8,000	100	1	100	1
GC Sweden AB	556680-3028	Stockholm	100,000	100	0	100	0
Swedish Match Treasury SEK SA [1]	0890.171.968	Belgium	9,999,999	99.99	22,688	99.99	13,838
Swedish Match Treasury USD SA [1]	0894.153.126	Belgium	999,999	99.99	5,065	99.99	5,065
Swedish Match Treasury EUR SA [1]	0440.934.581	Belgium	20,169	99.99	429	99.99	429
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	1,083	100	1,174
Swedish Match North America Inc	62-1257378	USA	100	100	849	100	849
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Distribution A/S [2]	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille [3]		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd [4]		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd [5]		Burma	4,000	100	0	100	0
Swedish Match Sales.com B.V.[6]	17154863	Netherlands	–	–	–	100	7
Carrying value at end of year					**49,234**		**41,626**

1) Remaining shares owned by subsidiary.
2) Change of company name from Nitedals Taendstiker A/S.
3) Nationalized in 1963.
4) Nationalized in 1968.
5) Nationalized in 1969.
6) Company liquidated.

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

10. Joint ventures

2011	Balance at beginning of year	Shareholder's contribution	Impairments	Divestment	Balance at end of year
Cost	**35**	15	–	–50	**–**
Impairments	**–29**	–	–12	41	**–**
Carrying value	**6**	**15**	**–12**	**–9**	**–**

2010	Balance at beginning of year	Shareholder's contribution	Impairments	Divestments	Balance at end of year
Cost	**23**	12	–	–	**35**
Impairments	**–9**	–	–20	–	**–29**
Carrying value	**14**	**12**	**–20**	**–**	**6**

Impairments for the year are reported in the result from participation in joint venture in the income statement. During the year the participation has been transferred to another Group company.

Company name/Corp. Reg.No./Domicile	Number of shares	No. of votes & Ownership, %	2011	No. of votes & Ownership, %	2010
SMPM International AB, 556771-7128, Stockholm	–	–	–	50%	6
Carrying value at end of year			**–**		**6**

11. Receivables from Group companies

Receivables from Group companies	2011	2010
Carrying value at beginning of year	**8,850**	**6,424**
Increase of lending	–	2,500
Repayments	–8,850	–74
Carrying value at end of year	**–**	**8,850**

12. Other non-current receivables

Other non-current receivables	2011	2010
Endowment insurances	33	29
Derivatives	76	117
Carrying value at end of year	**109**	**146**

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

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

13. Other receivables

Other receivables	2011	2010
VAT receivables	2	0
Other current receivables	1	4
Carrying value at end of year	**3**	**4**

14. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2011	2010
Accrued interest income	11	11
Prepaid bank charge	8	6
Accrued compensation for pension costs	–	4
Prepaid rent	1	1
Prepaid insurance premiums	0	1
Other prepaid expenses	7	9
Carrying value at end of year	**27**	**32**

15. Equity

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

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

Number of registered shares	2011	2010
Issued at beginning of year	231,000,000	251,000,000
Cancellation	–18,000,000	–20,000,000
Total shares outstanding at end of year	**213,000,000**	**231,000,000**
Of which held by Swedish Match AB	–8,827,859	–16,202,894
Total shares outstanding, net of shares held by Swedish Match AB	**204,172,141**	**214,797,106**

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2011, the Parent Company's holding of treasury shares amounted to 8,827,859 shares (16,202,894).

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

Effect on equity	2011	2010
Cumulative effect on equity at beginning of year	**–18,398**	**–15,437**
Repurchase of own shares during the year	–2,371	–3,014
Stock options exercised during the year	67	53
Cancellation of shares	30	31
Bonus issue	–30	–31
Cumulative effect on equity at end of year	**–20,702**	**–18,398**

The Annual General Meeting on May 2, 2011 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 18 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 30.4 MSEK. With the latter transaction the Company's share capital did not decrease through the cancellation of shares. The total number of registered shares of the Company, after the cancellations, is 213 million shares with a quotient value of 1.8287 SEK.

During the year 11.1 million shares were repurchased for 2,371 MSEK at an average price of 212.66 SEK. As at December 31, 2011 Swedish Match held 8.8 million shares in its treasury, corresponding to 4.14 percent of the total number of shares. During the year the Company has also sold 0.5 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end, amounted to 204.2 million. In addition, the Company has call options outstanding at year end corresponding to 5.0 million shares exercisable in gradual stages from 2012–2015.

Dividend

After the balance sheet date, the Board proposed a dividend for 2011 of 6.50 SEK (5.50) per share. The dividend then amounts to 1,327 MSEK based on the number of shares outstanding at the end of 2011. Prior year total dividend amounted to 1,152 MSEK and corresponded to 209,408,074 number of shares.

Hedge reserve

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

Hedge reserve	2011	2010
Carrying value at beginning of year	**–34**	**–59**
Effective portion of changes in fair value of cash flow hedges	–22	58
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	0	–24
Income tax	6	–9
Carrying value at end of year	**–49**	**–34**

16. Untaxed reserves

Excess amortization/depreciation	2011	2010
Intangible assets		
Carrying value at beginning of year	0	0
Excess amortization for the year	9	–
Total	**9**	**0**
Tangible assets		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
Total	**0**	**0**
Tax allocation reserve		
Carrying value at beginning of year	–	–
Tax allocation 2011	115	–
Total	**115**	**–**
Carrying value at end of year	**124**	**1**

17. Other provisions

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

Other provisions	2011	2010
Endowment insurances	41	36
Long term incentives	29	15
Other provisions	1	26
Carrying value at end of year	**71**	**77**
Where of total non-current	70	59
Where of total current	1	18

Movements in provisions during the year were as follows:

2011	Endowment insurance	Long term incentives	Other provisions	Total
Carrying value at beginning of year	**36**	**15**	**26**	**77**
Provisions made during the year	6	15	–	21
Provisions used during the year	–	–1	–13	–14
Provisions reversed during the year and changes in estimates	–1	0	–12	–13
Carrying value at end of year	**41**	**29**	**1**	**71**

2010	Endowment insurance	Long term incentives	Other provisions	Total
Carrying value at beginning of year	**25**	**–**	**–**	**25**
Provisions made during the year	11	15	26	52
Carrying value at end of year	**36**	**15**	**26**	**77**

Endowment insurance

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

Long term incentives

The long term incentive plan is the long term portion of the variable salary for certain managers which will be settled within three years.

Other provisions

Provisions of operating characters and not related to personnel compensation.

18. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 3,658 MSEK (3,186).

19. Liabilities to Group companies

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

20. Other liabilities

Other liabilities consist 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 215 MSEK (161).

21. Accrued expenses and deferred income

Accrued expenses and deferred income	2011	2010
Accrued interest expenses	197	191
Personnel expenses	4	7
Accrued incentives incl. social security charges	18	18
Accrued vacation pay	2	2
Other accrued expenses	4	13
Carrying value at end of year	**225**	**231**

22. Pledged assets and contingent liabilities/assets

Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 33 MSEK (29). The corresponding amount is recognized as an operating provision in the balance sheet includes payroll tax.

Contingent liabilities	2011	2010
Guarantees on behalf of subsidiaries	52	61
Guarantees to associated companies	61	171
Total	**112**	**232**

Contingent assets

As per December 31, 2011, the Parent Company had no contingent assets.

23. Supplementary information to cash flow statement

Interest paid and received and dividend received	2011	2010
Dividend received [1]	2,492	2,250
Interest received, non-Group companies	1	11
Interest paid, non-Group companies	–468	–473
Interest received, Group companies	181	240
Interest paid, Group companies	–847	–572
Total	**1,359**	**1,456**

[1] Amount for 2010 excludes 2,036 MSEK which refers to dividends in the form of subsidiaries.

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

Adjustments for non cash items and other	2011	2010
Depreciation and amortization	7	1
Impairment losses	1,253	2,777
Change in accrued interest	54	9
Change in market value revaluations	–2	–4
Exchange rate differences	0	2
Dividends in kind	–	–2,036
Group contributions	–1,839	–1,894
Loss/gain on sale of subsidiaries	96	–299
Change in pension provision	–46	46
Other	2	1
Total	**–475**	**–1,397**

24. Related parties

	Subsidiaries		Associated companies		Joint ventures	
Summary of transactions with related parties	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Revenues						
Dividend	2,492	4,286	–	–	–	–
Group contribution	2,038	1,952	–	–	–	–
Interest income	133	229	–	1	–	–
Sale of goods/ services	44	37	1	–	5	5
Expenses						
Group contribution	–199	–58	–	–	–	–
Interest expenses	–847	–572	–	–	–	–
Purchase of goods/ services	–13	–20	–	–	–	–
Receivables	**2,051**	**10,908**	**2**	**258**	**1**	**1**
Liabilities	**21,450**	**21,018**	**3**	**–**	**–**	**–**
Guarantees	**52**	**61**	**61**	**171**	**–**	**–**

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 5 Personnel* for the Group. In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 9 Group companies*.

25. Carrying value and fair value of financial instruments

Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2011. All items, except loans and borrowings, have a short duration and are non interest-bearing, and therefore, the total carrying value and the estimated fair value are reported the same. All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy presented in IFRS 7. The values presented are indicative and may not necessarily be realized.

2011	**Items carried at fair value via the income statement**[1]	**Other financial liabilities**	**Cash flow hedges**	**Non financial instruments**	**Total carrying value**	**Estimated fair value**
Non-current receivables	58	–	18[3]	33	109	109
Other receivables	0	–	–	3	3	3
Prepaid expenses and accrued income	11	–	–	16	27	27
Total assets	**69**	**–**	**18**	**52**	**139**	**139**
Loans and borrowings	–	9,816	–	–	9,816	10,250[2]
Other liabilities	26	–	336	11	373	373
Accrued expenses and deferred income	–	173	24	28	225	225
Trade payables	–	20	–	–	20	20
Total liabilities	**26**	**10,009**	**360**	**39**	**10,434**	**10,868**

2010	**Items carried at fair value via the income statement**[1]	**Other financial liabilities**	**Cash flow hedges**	**Non financial instruments**	**Total carrying value**	**Estimated fair value**
Non-current receivables	83	–	34[3]	29	146	146
Other receivables	–	–	–	4	4	4
Prepaid expenses and accrued income	11	–	–	21	32	32
Total assets	**94**	**–**	**34**	**54**	**182**	**182**
Loans and borrowings	–	9,734	–	–	9,734	10,011[2]
Other liabilities	38	–	276	9	323	323
Accrued expenses and deferred income	–	162	29	40	231	231
Trade payables	–	25	–	–	25	25
Total liabilities	**38**	**9,921**	**305**	**49**	**10,313**	**10,590**

1) All items relates to instruments held for trading.
2) The estimated fair value is the revaluation of the loans and borrowings to the fair values based on the market rates for December 31, 2011 and 2010.
3) 0 MSEK (24) are allocated to earnings and 18 MSEK (10) are changes of market value. The instruments are interest rates swaps at nominal amount of 5,403 MSEK (5,529). There are no conditions in these transactions that can cause any differences in amounts and maturities between these derivatives and their underlying liabilities.

26. Employee benefits

Post-employment employee benefits

Some post-employment benefit obligations are insured by Swedish pension trust arrangements. During 2011 parts of the PSF pension obligations that were not included in the transfer to insurance companies in 2010 and therefore were directly assumed by Swedish Match AB are now also covered by the Swedish pension trust arrangement. Awaiting the final liquidation of the PSF pension trust the remaining plan assets in PSF have been transferred to the Swedish pension trust during the year.

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

As per December 31, 2011 the Swedish pension trust arrangement and the pension plan for employees in UK show a net surplus.

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

Defined benefit plans	2011	2010
Present value of funded obligations	– 675	–660
Fair value of plan assets	752	736
Surplus, net	**77**	**75**
Net surplus in pension trust not recognized in balance sheet	–77	–75
Present value of unfunded obligations	–	–37
Net pension liability recognized in the balance sheet	–	**–37**

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

Net pension liability	2011	2010
Balance at beginning of year	**–37**	**0**
Costs recognized attributable to assumed pension liabilities	–	–37
Reversal of assumed pension liabilities	37	–
Benefits paid	–5	–4
Contribution received from pension trust	5	4
Balance at end of year	**–**	**–37**

–62 MSEK (–11) of the total net pension asset/liability is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Income and expenses attributable to pension	2011	2010
Current service costs	–	– 1
Difference between contribution received from pension trust and benefits paid	0	0
Interest cost on obligation	–33	– 35
Actual return on plan assets	–43	46
Net expense/income for pension	**–76**	**11**
Pensions covered by insurance premiums:		
Costs for assumed pension obligations	–	–37
Settlements	37	–
Costs for pension insurance premiums recognized in income statement	–14	–13
Decrease/increase in surplus in pension trust	76	–11
Net pension income/costs recognized in income statement attributable to pension	**23**	**–50**

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

The actual return on plan assets is 6 percent (6).

Plan assets at December 31 are comprised as follows:

Plan assets	2011	2010
Debt instruments	153	553
Equity securities	192	179
Other	407	4
Total	**752**	**736**

Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 4.7 percent (4.9).

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

Proposed distribution of earnings

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

Retained earnings including hedge reserve	SEK	17,716,492,023
Profit for the year	SEK	1,419,407,056
	SEK	**19,135,899,079**

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

To the shareholders, a dividend of 6.50 SEK per share (based on 204,172,141 shares outstanding at the end of 2011)	SEK	1,327,118,917
Retained earnings to be carried forward	SEK	17,808,780,162
	SEK	**19,135,899,079**

The income statements and balance sheets will be presented to the Annual General Meeting on May 2, 2012 for adoption. The Board of Directors also proposes May 7, 2012 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 21, 2012

Conny Karlsson
Chairman of the Board

Andrew Cripps
Deputy Chairman

Kenneth Ek
Board member

Karen Guerra
Board member

Eva Larsson
Board member

Joakim Lindström
Board member

Robert F. Sharpe
Board member

Meg Tivéus
Board member

Joakim Westh
Board member

Lars Dahlgren
President and CEO

Our auditor's report was submitted on March 8, 2012

KPMG AB

Thomas Thiel
Authorized Public Accountant

The Board of Directors' proposal under items 10 a) and 10 b) on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

Item 10 a)
The Board of Directors proposes a reduction in the Company's share capital of 12,800,976.15 SEK by means of the withdrawal of 7,000,000 shares in the Company. The shares in the Company proposed for withdrawal have been repurchased by the Company in accordance with the authorisation granted by the General Meeting of the Company. The Board of Directors further proposes that the reduced amount be allocated to a fund for use in repurchasing the Company's own shares.

Item 10 b)
Provided that the Meeting passes a resolution in accordance with the Board's proposals under item 10 a) above, the Board of Directors proposes an increase in the Company's share capital of 12,800,976.15 SEK through a transfer from non-restricted shareholders' equity to the share capital (bonus issue). The share capital shall be increased without issuing new shares. The reason for the bonus issue is that if the Company transfers an amount corresponding to the amount by which the share capital is reduced in accordance with the Board's proposals under item 10 a) above, the decision to reduce the share capital can be taken without obtaining the permission of the Swedish Companies' Registration Office (Bolagsverket), or, in disputed cases, the permission of the court.

The effect of the Board of Directors' proposal under item 10 a) entails a reduction in the Company's share capital of 12,800,976.15 SEK. The effect of the Board of Directors' proposal under item 10 b) is a corresponding increase in the Company's share capital through a bonus issue, thereby restoring it to its balance prior to the reduction.

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

The Board of Directors' proposal under item 11 on the agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

The Board of Directors proposes that it be authorised to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 per cent of all shares in the Company. The shares shall be acquired on the NASDAQ OMX Stockholm, on one or more occasions, 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 repurchase is primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programme.

The Board of Directors shall be able to resolve that purchase of own shares shall be made within a repurchase programme in accordance with the Commissions Regulation (EC) no 2273/2003, if the purpose of the authorisation and the purchase only is to decrease the Company´s equity and/or to meet obligations arising from the Company's option programme.

The Board of Director's statement concerning the justification of the proposed mandate concerning a buy-back of the Company's own shares pursuant to chapter 19, § 22 of the Swedish Companies Act is enclosed in Appendix 5.

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

Previous buy-backs*

Year	2007	2008	2009	2010	2011
Number of repurchased shares	18 493 181	6 714 800	17 860 000	16 502 894	11 148 782
Holding at year-end	11 125 200	5 840 000	19 700 000	16 202 894	8 827 859
Holding at year-end as a percentage of total share capital	4,2%	2,3%	7,8 %	7,0 %	4,1%

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

The Board of Directors' proposal under item 12 on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

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 2012. 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 2011sets out details of the remuneration and benefits of the GMT during 2011.

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 2012 the maximum total accruals for GMT members is estimated to MSEK 0,3

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 2011.

The Nominating Committee's proposal under <u>item 15</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

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

Re-election of: Andrew Cripps
Karen Guerra
Conny Karlsson
Robert F. Sharpe
Meg Tivéus
Joakim Westh

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

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

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

CONNY KARLSSON

Born 1955. M.Sc. in Economics and Business. Chairman of the Board of Directors since 2007. Board member since 2006. Chairman of the Compensation Committee.

Other board assignments: Chairman of Rörvik Timber AB. Board member of TeliaSonera AB and CapMan OYJ.

Previous positions: Chief Executive Officer, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.

Own and related parties' shares: 26,000

ANDREW CRIPPS

Born 1957. B.A. University of Cambridge. Chartered Accountant. Board member since 2006. Deputy Chairman of the Board of Directors and member of the Audit Committee.

Other board assignments: Non Executive Director and Chairman of the Audit Committees of the Booker Group and 2 Sisters Food Group

Previous positions: Head of Acquisitions and Head of Strategy Development, British American Tobacco Plc.; Director of Corporate Finance, Rothmans International Plc.; Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA.

Own and related parties' shares: 15,200

KAREN GUERRA

Born 1956. B.Sc.in Management Science. Board member since 2008. Member of the Compensation Committee.

Other board assignments: Non Executive Director of Amcor Ltd, of Davide Campari- Milano S.p.A and of Samlerhuset Group B.V.

Previous positions: President and Director General, Colgate Palmolive France SAS; Chairman and Managing Director, Colgate Palmolive UK Ltd.; Marketing Manager, Pepsi Cola International Holland and Ireland.

Own and related parties' shares: 9,447

ROBERT F. SHARPE

Born 1952. J.D. Wake Forest University, B.A. University DePauw, and BSE Purdue University. Board member since 2011. Member of the Compensation Committee.

Other board assignments: Board member in Ameriprise Financial Inc.

Previous positions: President of Commercial Foods, ConAgra Foods Inc.; Executive Vice President and Chief Administrative Officer, ConAgra Foods Inc.; Partner, Brunswick Group; Senior Vice President and General Counsel, PepsiCo Inc.

Own and related parties' shares: 6,200

MEG TIVÉUS

Born 1943. M.Sc. in Economics and Business. Board member since 1999. Chairman of the Audit Committee.

Other board assignments: Chairman of Folktandvården Stockholm AB, Arkitektkopia AB, Marknadsförbundet, and Björn Axén AB. Board member of Cloetta AB, Paynova AB, and Nordea Fonder AB.

Previous positions: President and Chief Executive Officer, Svenska Spel AB; Vice President, Posten AB; Division Manager, Holmen AB; Division Manager, Åhléns AB; Director, AB Nordiska Kompaniet; Product Manager, Modo AB; Project Manager, McCann Gunther & Bäck.

Own and related parties' shares: 17,000

JOAKIM WESTH

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Owner and Management Consultant, J. Westh Företagsutveckling AB and Chairman and co-owner of EMA Technology AB. Board member since 2011. Member of the Audit Committee.

Other board assignments: Board member of Absolent AB, SAAB AB, Intrum Justitia AB and Rörvik Timber AB.

Previous positions: Senior Vice President and Head of Group Function Strategy and Operational Excellence and member of Group Management Team, Telefonaktiebolaget LM Ericsson; Group Vice President and member of the Executive Management Team, Assa Abloy AB; Chairman and owner, Absolent AB; Partner, McKinsey & Co. Inc.

Own and related parties´ shares: 2,000

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

As members of the Board:	As deputy members of the Board:
Kenneth Ek, PTK	Patrik Engelbrektsson LO
Håkan Johansson, LO	Eva Norlén-Moritz, PTK
Eva Larsson, LO	Gert-Inge Rang, PTK

Appendix 12

The Nominating Committee's proposal under <u>item 16-18</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

Item 16: The Nominating Committee proposes the number of auditors shall be one with no deputy auditor.

Item 17: The Nominating Committee proposes that remuneration to the Auditor, like previous years, is to be paid against approved invoice.

Item 18: The Nominating Committee proposes re-election of the accounting firm KPMG AB, for the period as of the end of the Annual General Meeting 2012 until the end of the Annual General Meeting 2013.

Appendix 13

The Board of Directors' proposal under <u>item 19</u> on the Agenda of the Annual General Meeting of Shareholders of Swedish Match AB on 2 May 2012

The Company has 213,000,000 shares. The Articles of Association stipulates that the Company shall have not less than 200,000,000 shares and not more than 800,000,000 shares. Following a reduction of shares as proposed under Item 10 a) the Company would have 206,000,000 shares. In order to enable the Company to withdraw any future shares held in treasury the Board of Directors proposes that the Articles of Association be amended as set out below:

§ 5 The number of shares in the Company shall be not less than one hundred fifty million (150,000,000) and not more than six hundred million (600,000,000).

The resolution of the General Meeting with regard to the Board's proposal under item 19 is contingent upon it being supported by shareholders representing at least two-thirds of both the votes cast and the shares represented at the Meeting.