SWEDISH MATCH

2009 ANNUAL REPORT



SNUS BRANDS
building on consumer needs

INCREASED CIGAR SALES
in changing markets

New products:
The Lab Series
01 02

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Cover page

Swedish Match laboratory for Research & Development Chemical Analysis in Stockholm, Sweden. The quality standard for Swedish snus is the result of extensive research and development. All Swedish Match products maintain the highest quality from tobacco plant to consumer.



CEO comment

CEO Lars Dahlgren highlights the transformation of Swedish Match during the year, the efforts that have been made toward being the global smokefree leader and being best in class in cigars.



Our business

During 2009 Swedish Match launched a number of new products and formats. A significant product launch was *The Lab Series 01* and *02*. A completely new snus product customized to satisfy consumers' request for a modern snus.



Sustainability

Social responsibility is a natural part of Swedish Match. Empowerment projects invest in health, education and the environment. In the Dominican Republic, Swedish Match focuses on soil preservation in order to prevent land erosion.

Product news 2009



THE LAB SERIES: 01 AND 02

01 and *02* are part of the Swedish Match new *Lab Series.*

These two products are customized to satisfy consumers' requests for a modern snus product that differs from other brands in terms of product experience and design. *01* and *02* are available in pouches that are longer and slimmer than traditional pouches, a new format launched in the rapidly growing Norwegian market. Norway is currently the third largest smokefree market for Swedish Match after Sweden and the US. ■

UPPER CUT BY PUNCH

Upper Cut by *Punch* is a new collection of handcrafted Honduran cigars.

Upper Cut is developed according to the taste preferences of consumer panelists. This cigar is a marriage between the classic taste of *Punch* with Nicaraguan spice. The result is a cigar that reveals a range of flavors and delivers a balanced finish. ■



The numbers 2009

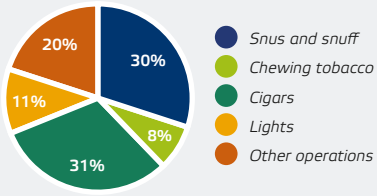
SALES

14,204 MSEK

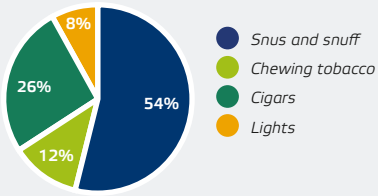
OPERATING PROFIT

3,417 MSEK

SALES BY PRODUCT AREA



OPERATING PROFIT BY PRODUCT AREA[1)]



[1)] Excluding Other operations.

KEY DATA, MSEK	2009	2008	2007
Sales	14,204	12,611	11,970
EBITDA[1)]	3,885	3,222	2,936
Operating profit	3,417	2,874	2,800
Operating margin[1)], %	24.1	22.2	21.2
Profit for the year	2,361	2,091	1,898
Earnings per share, SEK	9.67	8.30	7.22
Dividend per share, SEK	4.75[2)]	4.10	3.50

[1)] Excluding larger one time items in 2008 and 2007.
[2)] Board proposal.

This is Swedish Match

SMOKEFREE:

SNUS AND SNUFF

Main brands:
Scandinavia: *General, Ettan, Grovsnus, Göteborgs Rapé, Catch, Kronan*
US: *Timber Wolf, Red Man, Longhorn*

Swedish Match maintains a leading position in the Scandinavian snus market. In North America, Swedish Match is the second largest producer in the growing value priced snuff segment.

Main markets: Sweden, Norway, the US

Production units: Sweden, the US

	2009	2008
Sales, MSEK	4,250	3,725
Operating profit, MSEK	1,916	1,658
Operating margin, %	45.1	44.5

Read more about Snus and snuff on page 8.

OPERATING PROFIT

1,916 MSEK



CIGARS

Main brands:
US premium: *Macanudo, Partagas, Punch, Hoyo de Monterey, La Gloria Cubana, Cohiba, Helix, Don Tomàs*
US machine-made: *White Owl, Garcia y Vega, Game by Garcia y Vega*
European machine-made: *La Paz, Willem II, Salsa, Hollandia, Bellman, Oud Kampen, Justus van Maurik, Hajenius, Hofnar*

Swedish Match is one of the world's largest producers and distributors of cigars and cigarillos. Swedish Match maintains a leading position in the US market for premium cigars.

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

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

	2009	2008
Sales, MSEK	4,426	3,644
Operating profit, MSEK	935	686
Operating margin, %	21.1	18.8

Read more about Cigars on page 20.

OPERATING PROFIT

935 MSEK







SMOKEFREE: CHEWING TOBACCO

Main brands: *Red Man, Red Man Golden Blend, Southern Pride, J.D.'s Blend, Red Man Silver Blend, Granger Select*

Swedish Match is the largest producer of chewing tobacco in the US.

Main markets: the US
Production units: the US

	2009	2008
Sales, MSEK	1,112	934
Operating profit, MSEK	411	329
Operating margin, %	36.9	35.2

Read more about Chewing tobacco on page 18.



LIGHTS

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

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

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

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

	2009	2008
Sales, MSEK	1,574	1,525
Operating profit, MSEK	279	275
Operating margin, %	17.7	18.0

Read more about Lights on page 26.

The Group 2009

Swedish Match develops, manufactures and sells market-leading brands in smokefree products, cigars and lights products. The Group sells products across the globe, with production units in 10 countries. Swedish Match also has an independent distribution company in Sweden. Swedish Match generates more than half of its sales and more than two thirds of its operating profit from snus/snuff and cigars. The Swedish Match share is listed on NASDAQ OMX Stockholm.

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm. The business is operated in five divisions: Smokefree Division, Scandinavia Sales Division, US Sales Division, Swedish Match International, and Other Operations.

Consolidated sales amounted to 14,204 MSEK and the average number of employees was 11,037. Swedish Match production units are in: Belgium, Brazil, Bulgaria, the Dominican Republic, Honduras, Indonesia, the Netherlands, the Philippines, Sweden, and the US. ■

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



CEO Comment 2009

A YEAR OF

*"I am proud of the hard **work and commitment from all of our employees** to work together to embrace change and promote **a culture of openness and trust,** making such changes not only possible but successful."*

TRANSFORMATION

The year that was

Swedish Match entered 2009 with a clear vision: as the global smokefree leader, we would work to drive change and continued growth in a new and changing competitive landscape. As best in class in cigars, we would be more focused, working toward improving our profitability. We would maintain operational excellence in lights. In all our businesses, we would work to be a more focused and more valued supplier, delivering outstanding products, service, and quality for money, with brands that stand the test of time. We would engage in new ideas and work together in a spirit of openness and a determination to excel.

With a clear vision and roadmap for change, Swedish Match during 2009 went through an extensive transformation process, while at the same time delivering excellent financial results. During the year, total company sales grew in both local currency terms and in Swedish kronor. In local currency terms, all product areas except for lights exhibited sales growth. The snus and snuff product areas led the way with impressive growth, with sales exceeding 4 billion SEK for the first time. Operating profit growth was also strong, growing at double digits in both local currency and reported Swedish kronor. Basic earnings per share reached 12.88 SEK including discontinued operations, and 9.67 SEK from continued operations, which was up 43 percent and 17 percent respectively from the previous year. Each measure was the highest level ever. For 2009, the proposed dividend will increase by 16 percent, to 4.75 SEK per share. The Company bought back 18.4 million shares as part of its ongoing share repurchase program. The Swedish Match share price rose by 40 percent during the course of the year, reaching 156.90 SEK by year-end.

Success in the face of change

With the challenges of a slowdown in the worldwide economy, continued financial turmoil, and a constantly changing regulatory environment, Swedish Match entered the year with the will and determination to respond to these challenges, while maintaining focus and vision.

While in every country and in every market the competitive and regulatory environment is continually changing, it was apparent early in the year that there would be particularly significant changes in the US market. A new federal tobacco excise tax, effective April 1st, altered both absolute and relative prices among tobacco products. The largest moist snuff competitor would alter its pricing and promotional strategy, further changing relative prices in that market. The US Food and Drug Administration would be taking over tobacco regulation. With such dramatic changes, a company must be able and willing to adapt, and seek ways to use change as a way of gaining a competitive advantage. While potentially disruptive, the US organization succeeded not only in "weathering the storm", but also improved sales and profitability in both the snuff and the cigar businesses, while successfully integrating the production of chewing tobacco of the third largest competitor into our own facilities.

In Scandinavia, the Swedish market for snus regained its growth trajectory, after two years of volume declines. Market declines in Sweden in both 2007 and 2008 were brought on by dramatic retail price increases, stemming from tax increases of more than 170 percent during those years. In 2009, with a more benign pricing environment, and with the successful introduction of a number of new products, the Swedish market grew by

approximately five percent in volume terms according to Nielsen estimates. At the same time, reduced travel due to the recession caused the Travel Retail market to slow to a more moderate growth rate after rapid growth in the previous two years. For Swedish Match, successful new product launches, packaging and product redesigns as well as upgrades and a strong commitment to category management, allowed for solid improvements in sales, shipment volumes, and operating profit.

In Europe, lag effects from smoking bans were still present in some markets, most notably in the Netherlands, while the European machine-made cigar market overall was demonstrating a level of stability not experienced in many other consumer product areas. We identified possibilities to improve cigar profitability in Europe, but knew that it would require action and determination to make necessary changes. Steps were taken to address profitability through product assortment rationalizations, supply chain management, production efficiency programs, as well as product innovations and new products. Despite the costs incurred and potentially disruptive effects of making these changes, sales and profitability in Europe were unchanged from the previous year.



Reshaping Swedish Match

Along with local changes in product assortment, improved sales force effectiveness, category management, and responses to local regulatory changes, Swedish Match made a number of structural changes that will better prepare us for the challenges and opportunities that lie ahead.

Having clearly established a vision of being the global smokefree leader, best in class in cigars, and maintaining operational excellence in lights and pipe tobacco, organizational changes were put into place which would facilitate achieving this vision. The Company is now operationally organized into two sales divisions for our most important markets, the US and Scandinavia. A third division, the Smokefree Division, has the responsibility to develop and produce snus and moist snuff, as well as to manage and nurture Swedish Match snus and snuff strategic portfolio brand worldwide, bringing both efficiencies and clearer and better coordination of brands and products in this growth area. The Smokefree Division also has global responsibilities for scientific affairs.

Swedish Match International makes up the fourth division, with production and supply chain responsibility for cigars, as well as sales responsibility for cigars in Europe and the US premium cigar market, and overall responsibility for managing the lights and pipe tobacco businesses. As outlined in greater detail further below, if the proposed creation of a new company with Scandinavian Tobacco Group (STG) is achieved, much of what is now Swedish Match International will become part of this new company. The fifth division, Other Operations, is primarily responsible for serving the distribution needs of Swedish Match and other tobacco and non-tobacco companies on the Swedish market. In addition to its current tobacco and non tobacco offerings, Swedish Match division Other Operations is an efficient and effective vehicle for distributing over the counter pharmaceutical products, a possibility since the dissolution of the Swedish pharmacy monopoly.

A new company, SMPM International (SMPMI), was established and became operational during the late spring of 2009. This joint venture company brings together Swedish Match with Philip Morris International (PMI) with an ambition to bring smokefree products and snus to markets outside of Scandinavia and the US. During the year, SMPMI has been actively working, combining the knowledge and expertise of its own organization with input and expertise from its joint venture partners. During 2010, SMPMI plans include conducting a first test launch in Asia. Supplied and supported by the Swedish Match Smokefree Division, SMPMI will deliver products through PMI's significant and world class selling organization.

Swedish Match continuously reviews and assesses its business portfolio to ensure both clear direction and to enhance shareholder value. In September, the South African pipe tobacco business was sold to PMI. It was determined that this strong and profitable business could have better potential in the hands of a global cigarette manufacturer. As South Africa accounted for most of the pipe tobacco business, the remaining pipe tobacco business is no longer reported separately. Proceeds from the sale of this business were used to further fund the Swedish Match share repurchase program.

With a new organizational structure and a greater emphasis on smokefree products, Swedish Match ended the year as a different



"With a new organizational structure and a greater emphasis on smokefree products, Swedish Match ended the year as a different company from where it began, better able to meet the opportunities that the future will bring."

company from where it began, better able to meet the opportunities that the future will bring.

After the close of the year, in January 2010, it was announced that a letter of intent was signed with STG to form a new cigar, pipe tobacco, and fine cut tobacco company. This new company is intended to combine the current STG cigar, pipe tobacco and fine cut tobacco businesses with the Swedish Match premium cigar, European cigar, and pipe tobacco businesses. Not only would such a company provide new opportunities for growth and profitability improvements, but it would also become a leader in machine made cigars in Europe. Assuming the transaction is completed and the new company is formed, (subject to due diligence by both parties, final transaction agreements, and regulatory approvals) Swedish Match will be primarily a smokefree company, with strong and profitable businesses in US machine-made cigars, and lights, as well as the primary distributor of tobacco in Sweden.

Swedish Match of tomorrow

I am proud of the hard work and commitment from all of our employees to work together to embrace change and promote a culture of openness and trust, making such changes not only possible but successful. I am especially proud that we were able to achieve transformational change while never neglecting to serve our customers' and consumers' needs. The solid increases in sales and operating profit, the excellent shipment volumes, the successful new product launches – all while transforming the company, are a testament to the hard work and dedication of a world class organization.

Swedish Match will leverage its leadership in snus and strong position in US moist snuff – its knowledge of the product, consumer understanding, its leading technologies, as well as its strong brand portfolio – to further develop its smokefree businesses in Scandinavia and the US, and, through its partnership with PMI, work toward establishing smokefree markets in other parts of the world.

Swedish Match will continue its drive to be best in class in cigars, working to improve its profits through strong category management, cost containment, and consumer focused brand and marketing programs. During 2010, we expect that Swedish Match will become the owner of a 49 percent stake in a company that is the market leader for US premium cigars and for European machine-made cigars, the number two cigar company worldwide, as well as the world's leading pipe tobacco company.

Swedish Match will maintain operational excellence in lights, delivering high quality matches, lighters, and fire related products to consumers across the globe.

At the upcoming Annual General Meeting of shareholders, the Board of Directors will propose both an increased dividend, to 4.75 SEK per share, and a continuation of the Swedish Match share repurchase program.

As we transform Swedish Match, we are better able to face the challenges and opportunities of the future. I am convinced that our continued hard work in following through with our strategy will deliver value to our customers, our consumers, and to you, our shareholders.

Stockholm, March, 2010

Lars Dahlgren
President and CEO



OPERATING PROFIT

1,916 MSEK

OPERATIONAL HIGHLIGHTS

- *Scandinavia snus shipment volumes up 6 percent*
- *US moist snuff shipment volumes up 7 percent*
- *A joint venture with Philip Morris International has been put in place in order to more effectively market smokefree products outside Scandinavia and the US*

Smokefree: Snus and snuff

BUILDING ON STRONG BRANDS

Swedish Match is the market leader of snus in Scandinavia, where snus is enjoyed by men and women in all situations throughout the day. In the US, Swedish Match continues to build its presence in the growing moist snuff market with growth in both volume and market share, while offering new smokefree products, like snus, as these markets develop. Outside Scandinavia and the US, the Group pursues smokefree growth opportunities through its joint venture with Philip Morris International. The Group has a strong brand portfolio as well as sales and distribution strengths.

Strategy

Swedish Match will continue to endeavor to be the global smokefree leader. Success will derive from building on a strong brand portfolio, technological leadership, a unique Swedish heritage, and market leadership in Scandinavia – the world's largest snus market – as well as from its strong position in the growing US moist snuff market. Through the use of its own outstanding sales organizations and those of its joint venture partner, the Group will pursue organic growth opportunities both within and outside the home markets in Scandinavia and the US. Swedish Match strives to be the preferred choice of consumers of smokefree products, the most valued partner to retailers and distributors, and the industry authority to regulators and opinion makers with regard to snus and snuff.

The Swedish Match strength in smokefree products has as its foundation a portfolio of well established brands in combination with deep consumer insight, which enables the Group to expand its geographic reach. Swedish Match will continue to innovate and develop new and improved products while leveraging its brand strength in order to meet the ever changing desires of the market.

Financial development

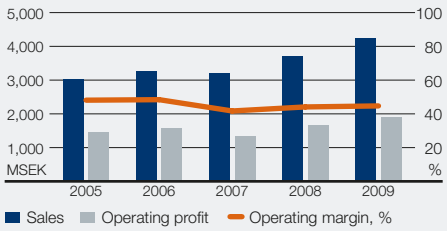
Sales during the year increased by 14 percent to 4,250 MSEK (3,725). Operating profit for the year increased by 16 percent to 1,916 MSEK (1,658).

In the Scandinavian market, Swedish Match sales increased by 11 percent, from improved pricing and 6 percent higher shipment volumes. In addition to continued volume growth in Norway and Travel Retail, shipment volumes in Sweden increased during the year.

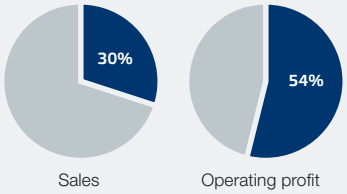
In the US, sales grew as the Group gained market share in a market that experienced dramatic shifts in pricing and promotional

KEY DATA, MSEK	2009	2008	2007
Sales	4,250	3,725	3,194
Operating profit	1,916	1,658	1,343
Operating margin, %	45.1	44.5	42.1
Investments in property, plant and equipment	317	173	223
Average operating capital	1,884	1,756	1,652
Average number of employees	1,005	913	840

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL





About snus

Snus differs from traditional American moist snuff in a number of ways. The production processes for American moist snuff and Swedish snus differ in that moist snuff is fermented while Swedish-style snus is pasteurized. For Swedish Match, both production techniques comply with the **Gothia**Tek® quality standard. Another difference is that the American moist snuff is placed behind the lower lip while Swedish snus is placed behind the upper lip.

Snus

Description: *Moist to semi-moist, ground, oral tobacco product.*
Usage: *Placed behind the upper lip, spitless.*
Production process: *Pasteurization; a proprietary heat treatment process.*
Varieties: *Snus is available in both loose and pouch forms, with pouches being the most popular. Pouches are available in a variety of sizes and formats.*

Moist snuff

Description: *Moist, ground or cut, oral tobacco product.*
Usage: *Placed behind the lower lip.*
Production process: *Controlled fermentation.*
Varieties: *Moist snuff is predominantly sold in loose form, with pouch formats becoming increasingly popular.*

activity, and a number of new product launches. The US moist snuff market grew by 1.6 percent in 2009.[1)] Swedish Match shipment volumes in the US increased by 7 percent.

The operating margin was 45 percent for the year (44). The improved operating margin stems primarily from positive price and volume effects in Scandinavia and less pronounced trade loading and destocking effects in Sweden, along with lower product launch costs in the US.

Market overview

The global market for snus and snuff is estimated to be in excess of 1.4 billion cans, and growing. Scandinavia and the US are by far the world's largest markets for snus and snuff. Scandinavia is a pasteurized snus market, while the US market is dominated by the fermented moist snuff.

The Scandinavian snus market is comprised of a broad range of brands and product varieties, with pouch products being the most popular and continuing to grow in importance. The largest market in Scandinavia is Sweden, the largest snus market in the world measured in per capita consumption. Norway was the fastest growing market but Travel Retail and the Swedish market also experienced volume growth in 2009.

Snus, traditionally a Swedish product, is increasingly being recognized globally as an exciting new market category. This is evidenced by the big tobacco players testing Swedish style snus in chosen markets. During 2009, one of Swedish Match competitors rolled-out snus nationally in the US. Still a very small category in the US, Swedish style snus is considered to have a long term growth potential. Swedish Match is continuing its efforts to assess and develop the market for Swedish style snus in the US market through the marketing of brands such as *General*.

Moreover, through the 2009 joint venture with Philip Morris International, Swedish Match will pursue growth opportunities outside Scandinavia and the US. While still undeveloped, these markets provide future growth opportunities.

Within the European Union, sales of snus have been banned since 1992. Sweden was exempted from the sales ban for the Swedish market when it became an EU member in 1995.

The traditional US moist snuff market has achieved sustained volume growth over the past decade. The US snuff market is comprised primarily of loose varieties in a relatively small number of cuts and flavors. However, the pouch snuff segment has been rapidly growing as consumer view pouches as convenient and easy to use. The market is composed of a premium segment and value-priced segments which are equivalent in size in volume terms. The value priced segments have grown significantly over the past decade, while the premium segment has experienced

[1)] Source: Nielsen.



Swedish Match main brands

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

US: *Timber Wolf, Red Man, Longhorn*

modest declines in volume. Many of the new consumers entering the snus and snuff categories are former cigarette smokers.

Snus Scandinavia

Main brands

The largest brands on the Scandinavian market are *General*, *Ettan, Grovsnus*, *Göteborgs Rapé*, *Catch* and *Kronan*. The *General* brand is the best selling snus brand in both Sweden and Norway.

During 2009, the Group launched a number of new products, primarily as line extensions or product improvements of existing brands, (the most notable being for *General*) or under new brands. In October, the Group launched *The Lab Series 01* and *02* based on a new formula recipe, a new pouch format, a unique design, and modern graphics. Developed after extensive consumer research, these new products are now available in Norway and parts of Sweden.

In Scandinavia, growth of the share of white-portion snus continued, and Swedish Match during the year upgraded its *General White Portion* product, now with the upscale star formation packaging technique in both Sweden and Norway. *Kronan*, the Group's value priced brand in this region, is the number one brand in that segment in Sweden. In addition to its traditional snus products, Swedish Match also offers the number one brand in the non-tobacco smokefree segment, *Onico*, providing consumers a high quality nicotine free alternative. On the Norwegian market, the Group has continued to grow with such strong traditional brands as *General*, *Göteborgs Rapé*, *Catch*, and *Röda Lacket*.

Market development

In 2009, consumption in the Scandinavian snus market is estimated by Swedish Match to have amounted to 250 million cans and to have grown 5 percent from 2008 levels. It is estimated that approximately 25 percent[1)] of men in Sweden use snus on a regular basis, while in Norway the percentage of men using the product is lower, but growing. The number of men using snus has been relatively stable in Sweden and growing in Norway, while the number of women using snus on a regular basis is increasing.

[1)] Source: SCB/ULF.



Röda Lacket – with its hints of peach and licorice, in a new design.



Swedish Match is the leading manufacturer of snus, with a volume share in Sweden of approximately 86 percent in October–November 2009.[1)] In Norway, Swedish Match has a volume share of 74 percent.[1)] The Swedish market is by far the largest market in Scandinavia, with approximately one million consumers of which approximately 20 percent are women. The Swedish market is estimated to have grown by 5 percent in 2009, following two years of market declines. The Norwegian market has grown by double digits in recent years, and in 2009 is estimated to have grown by more than 10 percent. The Travel Retail market, which is comprised primarily of duty paid and duty free shops at airports and on ferries, is estimated to have grown modestly in 2009, after several years of very rapid growth.

Over the past several years, consumers have moved from traditional loose product to pouch snus, which now accounts for about two thirds of volumes in Scandinavia.[1)]

Tobacco excise taxes in Sweden, based on weight, are a significant proportion of the retail price of a can of snus. During 2009 there were no excise tax increases in Sweden, which meant that no significant hoarding or destocking occurred during the year. During 2008, the weight based tax on snus increased by 90 SEK per kilo, following an increase in 2007 of 123 SEK per kilo, double the level in 2006. In Norway the excise tax increased by 13 percent during 2009.

Point of sales and merchandising

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

During 2009, Swedish Match continued its efforts with its consumer website for the Swedish market. By logging on to: www.swedishmatch.com/konsument, Swedish consumers can easily explore the Swedish Match product range.

Competitors

The largest competitor in Scandinavia is British American Tobacco (BAT), which acquired the snus business of Scandinavian

[1)] Source: Nielsen and Swedish Match estimates.

Snus history, Scandinavia

1822 *Ettan* is one of the most popular snus products and one of the Swedish Match strongest brands based on tradition, extensive knowledge and uncompromising quality.





1919 *Göteborgs Rapé* is a brand that is increasing in popularity. The word Rapé originates from the French language and means "grated." In the past, the snus was grated to ensure the correct consistency. The name provides a sense of exclusivity and separates it from other types of snus.

1820 — 1920



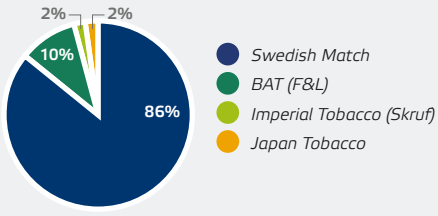
1915 *General* is Swedish Match market-leading snus brand, and for many synonymous with snus. *General* also dates back to the 1800's. Several of the snus manufacturers at that time had a general snus mixture, known as general snus and one of these became the basis of today's *General*.

1915 *Grovsnus* is a coarsely grounded snus that was first manufactured in Norrland. *Grovsnus* original portion was launched in 1983 and is now available both as white portion and black portion.



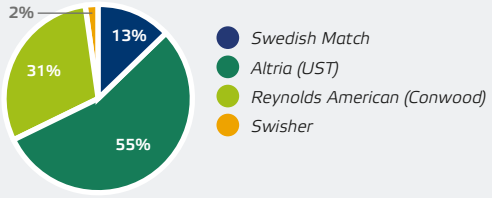


COMPETITORS – SWEDEN



Source: Nielsen, October–November, 2009.

COMPETITORS – THE US



Source: Nielsen, YTD December 26, 2009.

Tobacco Group (STG) including Fiedler & Lundgren (F&L) in 2008. In October–November 2009, BAT (F&L) had a market volume share of approximately 10 percent in Sweden.[1)] Other competitors on the Scandinavian market include Japan Tobacco Inc. and Imperial Tobacco Group. Imperial Tobacco Group is the largest competitor in Norway, with a market share of approximately 21 percent.[1)] In Sweden, most competitive brands are positioned in the low-priced segment, while in Norway most competitive brands are premium priced.

Moist snuff US

Main brands

The largest brands of moist snuff for Swedish Match on the US market are *Timber Wolf*, *Longhorn*, and *Red Man*, launched in 2007 and rolled out nationally in 2008. The *Red Man* brand for moist snuff draws on the heritage and values of *Red Man* chewing tobacco, the best selling brand of chewing tobacco in the US.[1)] The *Timber Wolf* brand is available in a wide variety of cuts and flavors, and includes *Timber Wolf Packs*, part of the rapidly growing pouch segment in the US. In 2009, pouches were added to the *Longhorn* portfolio, making them the first pouches available in the everyday low price segment.

Market development

The US is the world's largest moist snuff market, with consumption in 2009 estimated by Swedish Match to be approximately 1.2 billion cans. During the past five years, can volume in the moist snuff market has grown at the rate of approximately 6 percent annually, slowing to a market growth rate of 1.6 percent in volume terms in 2009.[1)] This growth

[1)] Source: Nielsen and Swedish Match estimates.



2009 *General White Portion* in star formation is a unique production technology whereby each portion-package is moistened in a manner that prevents seepage and retains the flavor longer. However, the moisture content is the same as in the original portion pouch.



2009 Swedish Match introduced *The Lab Series 01* and *02*. The new products are designed for modern consumers with great demands for product experience and design. The pouch has a longer and slimmer format and is based on a new recipe formula.

1980 — 2010 >>>



1984 When *Catch*, with a licorice flavor, was launched, it was the first pouch snus with a non-traditional snus flavor. *Catch Collection* is renewed continuously to suit the demands from modern snus consumers in terms of new flavors.

2005 Premium snus, *General Onyx*, was the first snus brand in which the portions were placed in a star formation.



2006 *Onico* is a Swedish Match nicotine-free product. Once it was launched it soon became popular among consumers.

KRONAN

2006 *Kronan* is a low-priced snus and in line with classic Swedish snus tradition.

comes primarily from new consumers, including cigarette smokers, who recognize the advantages of this smokefree product in a country where smoking restrictions continue to intensify. Moist snuff is sold throughout the US, and volumes are particularly strong in the Southeast, Southwest, and mid-Atlantic states.

The fastest growth in the US moist snuff market is in the value priced and pouch segments. In 2009, the value priced segments accounted for nearly 50 percent of total category volume. The Swedish Match portfolio is almost exclusively in the value priced segments, with both traditional loose and pouch products. The pouch category grew by approximately 20 percent in 2009, continuing its rapid growth of recent years. The pouch category now accounts for close to 10 percent of the cans of moist snuff sold in the US.[1)]

During the first half of 2009, competitors significantly reduced list prices on their premium products, while modifying their use of promotional support for these products. List prices for value priced products increased during the middle of the year, largely offsetting an increase in the federal excise tax on moist snuff. List prices for premium products did not change following the excise tax increase. As a result, the gap in the list price between premium and low priced products narrowed considerably between the beginning of the year and the middle of the year. In addition, tax adjustments in some states altered the relative pricing landscape in those states. Despite the turbulence of relative pricing, the value priced segments continued to significantly outperform the market as a whole, up by approximately 7 percent.

In June, the Food and Drug Administration was given regulatory authority over the US tobacco industry. Regulations will cover products, in terms of labeling, advertising, and product sampling, and will generally be in full effect from mid-year 2010.

Snuff is a dynamic category, with new products, new brands, and line extensions constantly offering consumers a wide variety of choices. For the full year 2009, Swedish Match market share by volume was 12.9 percent, up from 12.4 percent in 2008.[1)] *Red Man* averaged 1.7 percent of the market in 2009, up from 1.3 percent in 2008. The *Longhorn* brand also experienced significant share gains, with volume share averaging 5.1 percent in 2009, up from 4.6 percent in 2008.[1)]

Point of sales and merchandising

The main distribution channels are convenience stores and gas stations, discount tobacco outlets, supermarkets, as well as the Internet. The product is merchandised through point of sale displays, and supported by both in-store and adult lifestyle related activities.

Competitors

The largest competitors on the market are Altria (UST), with a market share by volume of 55 percent for 2009, and Reynolds American (Conwood), with a market share of 31 percent.[1)]

Snus US

Market development

Swedish Match, as well as other competitors, continued efforts to assess and develop a market for pasteurized snus in the US market. Still a very small category in the US, Swedish style snus is considered to have a long term growth potential. Consumption in 2009 estimated by Swedish Match to be more than 15 million cans, more than four times larger than 2008. The category has received extensive media attention during the year, as one of the largest moist snuff competitors began rolling out their snus product nationwide.

The main Swedish Match brand for snus in the US is *General*, available in selected tobacconists. During the year, following successful trials, the *General* brand was expanded into more outlets and was available in more than 600 stores at year end.

Point of sales and merchandising

The Swedish Match main snus distribution channels are high end and specialty cigar and tobacco stores, as well as the Internet – places where consumers are able to spend

[1)] Source: Nielsen and Swedish Match estimates.

Snuff and snus history, the US

2000 *Timber Wolf* is a brand with a loyal following of consumers who value quality tobacco at an honest price. Available in a wide variety of flavors and formats, *Timber Wolf* is America's second best selling value priced brand.



2007 *Red Man* delivers premium quality without the premium price. Part of a brand family with over 100 years of tradition.



2000 — 2010



2003 *Longhorn* – America's best-selling "everyday low price" snuff and one of the fastest growing brands. From 2009 also available in pouches.



2009 *General* portion snus is available in selected tobacconists in the US.



General – the original taste since 1915.



more time to learn about snus and the Swedish snus experience. Snus may also be sold in selected convenience stores and gas stations, discount tobacco outlets, and supermarkets. The product is merchandised through point of sale displays in coolers.

By logging on to www.generalsnus.com, consumers can find information about Swedish Match products.

Competitors

The largest competitors on the market are Reynolds American and Altria.

Snus outside of Scandinavia and the US

With the establishment of a joint venture company with Philip Morris International, Swedish Match now has more opportunities to produce snus for markets outside of Scandinavia and the US. The joint venture company, 50 percent owned by Swedish Match, will source its products from Swedish Match, and sell them through the PMI sales and distribution network. The joint venture company will thereby have both state of the art products and outstanding distribution capabilities.

During 2009 the joint venture company entered into the research phase, and field research is expected to take place in some test markets during 2010. In September Swedish Match ceased to manufacture dry nasal snuff with the sale of its South African pipe tobacco and accessories business to PMI.

Production and distribution

In Sweden, production of snus takes place in Gothenburg and Kungälv. The Kungälv facility opened in 2003, and is currently being expanded. This state of the art unit specializes in pouch products including the Swedish Match proprietary white-portion technology.

In the US, production of moist snuff takes place in Owensboro, Kentucky. The Owensboro factory, in addition to moist snuff, produces chewing tobacco and pipe tobacco. Swedish Match has developed a flexible production platform at the plant which allows resources to be employed where needed. This flexible setup means that the Group can efficiently adapt to production changes as increases in snuff production offset declines in chewing and pipe tobacco.

Prior to September 2009, Swedish Match produced nasal snuff in Boksburg, South Africa.

Distribution for all tobacco products in Sweden, including products from other manufacturers, is shipped from the Group's distribution facilities in Stockholm and Gothenburg. A significant portion of purchase orders are processed through its webshop and supplementary electronic purchase systems. Products are most often delivered on a weekly basis to avoid retail out of stock situations.

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

Outlook

The Group will continue to build on its strengths in its endeavours to be the global smokefree leader. With continued product innovation, a commitment to being the most valued partner to our customers, and a company culture dedicated to making sure that Swedish Match brands are the preferred choice by consumers, the Group will be well positioned to maintain its leadership positions.

Public smoking bans, heightened understanding of the concept of harm reduction, new and innovative products, and increased industry activity should support further market growth of the snus and snuff product segments wherever these products are available.

Continued volume growth in the US moist snuff market is expected, and the US snus market is expected to experience a great deal of activity, often on a test market basis, but also from more widely distributed products in many parts of the country. Swedish Match is well positioned in the lower priced segments of the US moist snuff market – segments which are expected to grow faster than the overall US snuff market.

The Group will work to expand its footprint beyond the US and Scandinavia through its joint venture with Philip Morris International, and will also work to continually strengthen its position within its core markets. As a global leader in smokefree products, the Group can drive change and continue growth in a new and changing competitive landscape. ■

Product news 2009



Catch Collection

Catch Collection was introduced in 2009 and was an immediate success. This collection features a changing pallet of flavors, each available for a limited time. Four varieties were available in 2009, and the first collection launched in 2010 is Mellow, probably the first snus product infused with the fresh taste of rhubarb. ■



NICK AND JOHNNY BLACK

Now in black portion

Nick and Johnny Black, a snus with a robust and distinct tobacco taste rounded off with a hint of liqorice. The product is now available in black portions in the popular and nicely presented star formation. ■

Göteborgs Rapé:
New design – same taste

Swedish Match longstanding snus brand *Göteborgs Rapé* is appreciated by consumers as much today as when manufacturing commenced in 1919. In 2009, the design has been renewed by adding a new brand symbol – GR´. The new can breathes fashion without losing its classical origins. The tobacco recipe remains unchanged and derives from consumers' appreciation of fresh and naturally flavored snus. ■





LONGHORN – NOW IN POUCHES

Longhorn, being Swedish Match second largest brand within snuff on the North American market, has in recent years grown rapidly. *Longhorn* offers consumers a lower priced alternative in the fast growing pouch segment of the market. ■



OPERATIONAL HIGHLIGHTS

- *Operating profit up 7 percent in local currency*
- *Volume market share stable at 45 percent*
- *Production of products including contract manufacturing supplies more than 60 percent of the US market*

Swedish Match main brands

US: *Red Man, Red Man Golden Blend, Southern Pride, J.D.'s Blend, Red Man Silver Blend, Granger Select*

OPERATING PROFIT

411 MSEK

Smokefree: Chewing
"AMERIC

For over one hundred years, *Red Man* chewing tobacco has satisfied American consumers with great taste and outstanding quality. *Red Man* goes great together with outdoor activities, such as fishing and hunting. Now in its second century, *Red Man* continues to be the best selling chewing tobacco brand in the US.

Strategy

Among smokefree products, chewing tobacco holds a unique position in the Swedish Match portfolio as a genuine American product. With its market leading position, efficient production, well known and trusted brands, and category leadership toward both consumers and retailers, the Group is able to leverage its strengths in a declining category to sustain profits over time. Swedish Match strives to be the preferred choice of consumers of its smokefree chewing products, while being the most valued partner to retailers and distributors. Swedish Match will continue to focus on high product quality while maintaining emphasis on tight cost control, working to

KEY DATA, MSEK	2009	2008	2007
Sales	1,112	934	956
Operating profit	411	329	312
Operating margin, %	36.9	35.2	32.6
Investments in property, plant and equipment	19	14	25
Average operating capital	180	281	312
Average number of employees	348	345	369

tobacco

A'S BEST CHEW®"

defend its market share and market leading position.

Financial development

Sales for the year increased by 19 percent to 1,112 MSEK (934), and operating profit increased by 25 percent to 411 MSEK (329). In local currency terms sales grew slightly. Higher average prices mitigated the volume declines, while a stronger US dollar had a positive impact on reported operating profit. The operating margin was 37 percent (35).

Market overview

The US market for chewing tobacco is in a long term state of decline. Volumes typically fall in the range of 5–10 percent per year. This occurs as consumers leave the category, some moving to moist snuff. The percentage of chewing tobacco consumers who also use moist snuff has been increasing over the past several years. This, combined with price changes and tax increases, have further contributed to the overall market decline.

In April 2009, federal excise taxes increased for all tobacco products, including chewing tobacco. Combined with tax increases by individual states, most notably in Florida and Texas, this has caused significant retail price increases in many cases, leading to some down trading to value priced brands and formats. With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability.

In June 2009, a law was passed shifting regulatory authority over the US tobacco industry from the Federal Trade Commission to the Food and Drug Administration. The change in regulatory authority will impact the way US tobacco products are marketed and in some cases will change the product assortments offered. Regulations, as it relates specifically to marketing, will cover product placement requirements at retail, new products, labeling, advertising, and product sampling.

Swedish Match is the largest producer of chewing tobacco in the US; the Group's brands have a volume share of approximately 45 percent.[1)]

The market is segmented by brand and price point, with the value priced segment growing as a percentage of the overall mix. Nearly two thirds of sales are estimated to be in the premium segment, with *Red Man* being the leading brand.

North America

Main brands

The Group's best known brands include *Red Man*, *Red Man Golden Blend*, *Southern Pride*, *J.D.'s Blend*, *Red Man Silver Blend* and *Granger Select*. The *Red Man* brand family is by far the largest in the US, with approximately one third of all volumes sold.

Point of sales

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

Competitors

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

Other markets

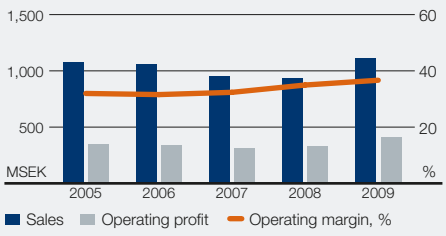
Swedish Match has very limited sales of chewing tobacco outside the US, for example, the *Piccanell* brand in Sweden.

Production and distribution

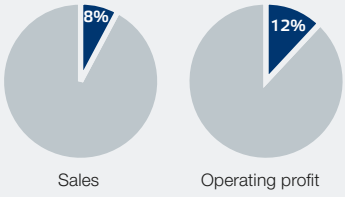
Production takes place in Owensboro, Kentucky in the US. Swedish Match ships products daily to wholesaler and selected retailer locations throughout the country direct from its production facility and through both owned and third party warehouses. During 2008, a manufacturing agreement was reached with National Tobacco, which has approximately 18 percent[1)] of the chewing tobacco market. Swedish Match produces chewing tobacco for both companies in the Owensboro facility. ■

[1)] Source: Nielsen.

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL



Outlook

Consumption is expected to continue declining in the US near the historical levels of 5–10 percent. Swedish Match will focus on high product quality and effective market communication. The Group will continue its emphasis on cost control. ■



OPERATING PROFIT

935 MSEK

OPERATIONAL HIGHLIGHTS

- *Sales increased by 7 percent in local currencies*
- *Volume growth for US mass market cigars*
- *Improved profitability from price, mix, and cost efficiencies*
- *Premium cigars operating profit improvement*

Cigars

HIGHER SALES IN A CHANGING MARKET

Swedish Match is a leader in premium hand-rolled cigars in the US. The Group also produces and markets machine-made cigars for both the US and Europe. During 2009, the Group stepped up its efforts toward being the best in class in cigars, exploring ways to improve product quality while managing costs. An example of this effort has been the successful expansion of the FoilFresh® concept in the US.

Strategy

Swedish Match has built a strong foundation for its cigar businesses from selective acquisitions, investments in brands and product assortment, and a keen understanding of consumer and trade demands. The cigar industry is faced with a number of challenges, from smoking bans to tax increases and other regulatory restrictions, requiring rapid and well executed adaptations to this dynamic environment. Swedish Match will continue to work to be best in class with its cigar businesses, achieving operative improvements, and exploiting global synergies to improve profitability.

Financial development

Group sales for the full year were 4,426 MSEK (3,644), while operating profit was 935 MSEK (686). In local currencies, sales increased by 7 percent, led by solid growth in the US market.

In the US, sales grew by 10 percent in local currency. The American market represents 66 percent of total Swedish Match cigar sales. Cigars International Inc., acquired in September 2007, continued to demonstrate solid growth. Operating profit for premium cigars grew despite volume declines for Swedish Match and the total market. Sales and operating profit for US machine-made cigars grew, driven by higher pricing, and aided by the successful expansion of the FoilFresh® packaging concept.

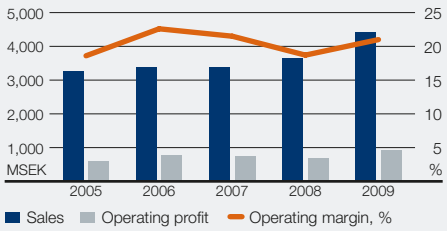
Sales outside the US increased by 10 percent in Swedish kronor. Volumes grew in a number of markets, most notably in France, Portugal, Germany, and Spain, more than offsetting continued volume declines in the Netherlands. Approximately 34 percent of Swedish Match cigar sales are in Europe.

Market overview

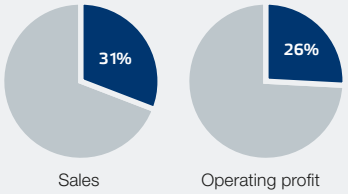
Swedish Match estimates that the global market amounts to close to 15 billion cigars, with North America and Western Europe being the two largest markets, accounting for more than 90 percent of global cigar

KEY DATA, MSEK	2009	2008	2007
Sales	4,426	3,644	3,395
Operating profit	935	686	733
Operating margin, %	21.1	18.8	21.6
Investments in property, plant and equipment	61	53	99
Average operating capital	6,516	6,242	5,235
Average number of employees	8,092	8,515	8,705

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL





Swedish Match main brands

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

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

European machine-made cigars: *La Paz, Willem II, Salsa, Hollandia, Bellman, Oud Kampen, Justus van Maurik, Hajenius, Hofnar*

Macanudo – the leading brand in the US.

sales. Hand-rolled premium cigars account for around 3 percent of global volume but account for more than 20 percent of the total sales value.

The market for premium cigars in the US is estimated by Swedish Match to amount to approximately 260 million cigars, which has declined somewhat over the past two years. Premium cigars are produced mainly in Latin America and the Caribbean with about two-thirds of this production estimated to be sold in the US. Outside the US, other important premium cigar markets are Spain, France and Germany.

The market for machine-made cigars in the US is estimated by Swedish Match to amount to approximately 9 billion cigars in total. The cigarillo and larger cigar markets, where Swedish Match participates, has been growing at an average rate of 2 percent per year in volume terms over the past several years. In 2009, however, this US machine-made cigar market is estimated to have declined in volume, as consumer prices increased, in some cases dramatically, with the implementation of higher federal excise taxes on April 1st.

The European market is estimated by Swedish Match to amount to approximately 5 billion cigars, and is estimated to have declined modestly in 2009, following similar modest declines in 2008. The decline in Europe is partly due to the enactment or expansion of smoking bans in 2008, most notably in the Netherlands and France.

North America – Premium cigars

Main brands

The leading brand in the US is *Macanudo*, produced in the Dominican Republic by Swedish Match. Other major Swedish Match Dominican and Honduran premium cigar brands in the US include *Partagas*, *Punch*, *Hoyo de Monterrey*, *Cohiba*, *La Gloria Cubana*, *Don Tomàs* and *Helix*, as well as *5 Vegas* and *CI Legends*, available through Cigars International Inc.

Market development

Premium cigars on the North American market accounted for 40 percent of the Group's total cigar sales in 2009. Cigar volumes in North America fluctuate from year to year, and Swedish Match estimates that the

market for premium cigars declined slightly in volume terms during 2009, with a size of around 260 million units. The trend in the US has been toward a somewhat higher percentage of smaller premium cigars.

Swedish Match is the market leader in the US, with a market share estimated by Swedish Match to be in the range of 30 percent, measured in number of cigars sold.

Swedish Match estimates that more than half of the premium cigars consumed in the US are produced in the Dominican Republic with most other premium cigars being of Nicaraguan and Honduran origin.

During 2008, premium cigar tobacconists, many of which are small family owned businesses, were faced with the negative impacts of the US credit markets, necessitating tighter inventory controls and in many cases inventory reductions. During 2009, these retailers continued to manage their inventories to improve cash flows while difficult credit conditions persisted. At the same time, larger Internet and mail order companies grew.

While consumers of premium cigars in the US are brand loyal, continuous updating and refreshing of the line assortment is a vital element in marketing to the premium cigar consumer, always interested in a different smoking experience from their favorite brand. Examples of new products for the US market from Swedish Match include *Brioso* and *Punch Upper Cut*. The Group has a number of large competitors, including Imperial Tobacco Group (Altadis USA), Fuente, and Davidoff.

Point of sales

Premium cigars are typically sold in fine tobacconist shops where the interaction between the consumer and the cigar expert is very important. A large and growing portion of premium cigar sales takes place through businesses whose primary method of distribution is through mail order and the Internet.

North America – Machine-made cigars

Main brands

Swedish Match maintains a small but well established presence in the machine-made (mass market) segment in the US, with such well known brands as *Garcia y Vega* (and its popular *Game* assortment) and *White Owl*. *Garcia y Vega* cigars provide consumers with a natural wrapper machine-made cigar at a popular price, while *White Owl* products are offered in HTL (homogenized tobacco leaf) format.

Market development

Machine-made cigars on the North American market accounted for 26 percent of the Group's total cigar sales in 2009; up from 21 percent in 2008. The US machine-made cigar market is estimated to be approximately 9 billion sticks. It is estimated that the US market declined slightly in 2009 in volume terms. Retail price increases, in many cases as high as 30 percent or higher, were brought on by significant rises in the federal excise tax on April 1st. These tax increases had the most effect on small sized cigars, a segment where Swedish Match does not participate. The cigarillo segment has grown in recent years relative to the larger cigar segment.

During 2009, there was continued movement away from certain flavored cigars, toward natural wrapper and lightly aromatic cigars. As natural wrapper cigars tend to sell at higher retail price than these flavored cigars, this trend has positive impact on revenues.

In the US, manufacturers typically introduce several new products using well-established brands every year. During 2009, Swedish Match launched a number of new products under both the *Garcia y Vega* and *White Owl* brands using its Foilfresh® packaging concept. Foilfresh® cigars ensure that consumers can always find a softer, "fresher" cigar.

Point of sales

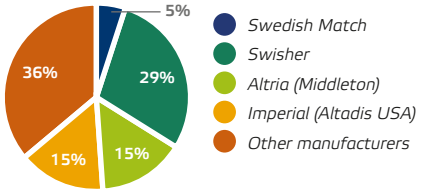
Machine-made cigars are primarily sold in gasoline stations and convenience stores, as well as in supermarkets and tobacco sales outlets, and on the Internet.

Competitors

Swisher, Altria (Middleton), and Imperial Tobacco Group (Altadis USA) are the major competitors to Swedish Match on the US market for machine-made cigars. Swisher is the largest competitor in sales terms. Swedish Match market share by volume in this sector is approximately 5 percent.[1)]



COMPETITORS – US MACHINE MADE[1)]



[1)] Source: Nielsen, YTD December 26, 2009.

Europe

Main brands

Swedish Match has a number of well known brands in Europe, with many of the brands being particularly strong in their local market or country. The largest Swedish Match brand is *La Paz*. Other important brands include *Willem II*, *Salsa*, *Hollandia*, *Oud Kampen*, and *Justus van Maurik*. The Group has a limited but growing presence in the hand-rolled premium cigar market in Europe, with brands such as *Macanudo*, *El Credito*, and *Don Tomàs*.

Market development

Sales of machine-made cigars in Europe accounted for 34 percent of the Group's total cigar sales during 2009. The European machine-made cigar market, estimated by Swedish Match to be approximately 5 billion cigars, has declined slightly in terms of volume during 2009, following a similar decline in 2008.

The European cigar market is highly fragmented, with brands, pricing, consumer preferences, and smoking behavior differing from country to country. Smoking bans have affected smoking behavior in these

[1)] Source: Nielsen.

countries, leading to greater consumption of smaller and faster smoking cigars often at the expense of more traditional larger cigars. The most recent major smoking ban was in the Netherlands in July 2008, negatively affecting that important market in both 2008 and 2009.

Swedish Match estimates that its market share in volume terms grew or was stable in most European markets during the year. Despite declining markets, the Group continues to increase its sales in countries such as France and Spain. Large European markets for Swedish Match include the Benelux countries, France, Finland, Spain, and Germany.

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

Point of sales

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

Competitors

The European market for machine-made cigars is fragmented. The Group's largest competitors are Scandinavian Tobacco Group (STG), Imperial Tobacco (Altadis), and Burger which are all similar in size within the EU. Other competitors include Agio, Japan Tobacco, and J. Cortès Cigars. There are also a number of privately held cigar companies that are strong in their respective home markets.

Other markets

Swedish Match has a small presence in various markets outside the US and Europe. Swedish Match is the market leader in the Australian market with its best selling cigar brand Wee Willem. Swedish Match also sells cigars in parts of Asia. Cigar volumes are small in Asia and Eastern Europe but there is growth potential in countries with increasing purchasing power in these regions.

Production and distribution

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

In the US, premium cigars are mainly shipped directly on a daily basis to individual retailers as well as distributors, Internet/catalog retailers, and wholesalers across the country from the Group's New Jersey distribution facility. Premium cigars destined outside of the US are also shipped from the factory in the Dominican Republic. Cigars International Inc. ships premium cigars directly to consumers from the Group's Pennsylvania distribution facility. Swedish Match ships US machine-made cigars daily to wholesaler and selected retailer locations throughout the country direct from its production facilities and through both owned and third party warehouses.

For the European market, cigars are manufactured in Houthalen in Belgium as well as in Pandaan and Pasuruan in Indonesia. Some hand-rolled and machine-made cigars from the American production units are also sold in Europe. In Europe and other markets, cigars are delivered from Houthalen (Belgium) and Tubbergen (the Netherlands) to local warehouse units in the different countries.

Swedish Match also has a limited number of stand-alone retail locations, including the exclusive Hajenius Cigar Store in Amsterdam and stores operated by Cigars International Inc. in Pennsylvania. The Group also has a strong presence in its exclusive Club Macanudo store in New York City, as well as in Club Macanudo stores abroad. ■

Letter of intent signed with STG

In January, 2010, Swedish Match announced that Swedish Match AB had signed a letter of intent with Scandinavian Tobacco Group (STG) to form a new company combining the tobacco businesses of STG with the premium and machine made cigar businesses of Swedish Match (with the exception of the US mass market cigar business). This follows a strategic review of Swedish Match and is consistent with the goals of becoming the global smokefree leader while developing the cigar business to be best in class. The new company would also include the pipe tobacco and accessories businesses of Swedish Match, as well as distribution of lights products in relevant markets. The new company would have leading positions for US premium cigars, for European cigars, and strong positions in a number of other markets. Leading cigar brands would include *Macanudo*, *Partagas* (US), *Punch* (US) and *La Paz*, among others, from Swedish Match as well as Café Crème, Henri Wintermans, Colts, and Mercator, among others, from STG. Leading pipe tobacco brands would, among others, include *Borkum Riff* and *Half & Half* from Swedish Match and Erinmore, Clan, and W.Ø. Larsen from STG. Swedish Match would hold 49 percent of the shares in the new company, with the remaining 51 percent of the shares held by STG. On February 15, Swedish Match received the necessary consent from bondholders. Completion of the transaction is still subject to due diligence by both parties, final transaction agreements, and regulatory approvals. ■

Outlook

As best in class, Swedish Match will become a more focused and valued supplier, delivering outstanding product, service, and quality for the money, with brands that stand the test of time.

The Group's cigar brands, product types, and geographies may be different, but there are many similarities in sourcing, systems, and production, which provide Swedish Match with opportunities to improve, helping us to achieve the best in class position. ■



Partagas Master Series

Majestuoso is the first limited edition cigar created for the Benji Menendez *Partagas Master Series*. This custom cigar was created according to the personal taste preference of the world's foremost tobacco sage. 5,000 sequentially numbered boxes of this cigar are available and additional expressions of the *Master Series* are currently in development. ■



NEW BRIOSO – EXPERTLY HANDCRAFTED

Brioso is a new collection of handcrafted cigars, developed to provide the experienced cigar smoker with a sensibly-priced alternative to the everyday smoke. *Brioso* cigars are aged to perfection. They are expertly handcrafted according to the Swedish Match standards with today's value conscious, premium cigar consumer in mind. ■

FOUR CIGARS IN FOCUS

Swedish Match markets approximately 35 different cigar brands in the North American market. Here is a selection of four premium cigars, all with various compositions and blends.



Don Tomàs Classico Allegro

Don Tomàs has a perfect draw and burn thanks to high quality standards. The experience is rich and flavorful. A large stock of well aged tobaccos and construction makes it a consistent cigar time after time.



Hoyo de Tradicion

This cigar delivers a new amazing flavor that comes from the unique blend of tobaccos that heightens the experience. It is blended from proprietary tobaccos from the world's most revered growing regions.



Macanudo 1968

Macanudo 1968 boasts a bold new taste that perfectly balances the cigar's fuller bodied tobaccos. It is aged in tercios and charcoaled wooden barrels to further enrich its flavor.



Punch Gran Puro

Gran Puro is a medium-full bodied cigar with an extra dark and bold Havana-seed wrapper developed for this cigar. Wrapper and binder are carefully selected to ensure special color and flavor.



Lights

OPERATIO

OPERATIONAL HIGHLIGHTS

- *Sales increased by 3 percent*
- *Operating profit increased by 1 percent*
- *Operating margin reached 18 percent for the year*

OPERATING PROFIT

279 MSEK

Swedish Match main brands

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

Lighters: *Cricket*

The words, "Swedish Match" are synonymous with high quality matches and fire related products. The Group has market leading positions in a number of markets across the globe.

Match brands are mostly local, and well-known country-specific brands include *Solstickan, Fiat Lux, Tres Estrellas,* and *Redheads*. *Cricket* is one of the best selling quality disposable lighter brands in Russia, several other countries in Europe, and other parts of the world.

Strategy

With its portfolio of well known brands and strong market positions, Swedish Match works for ongoing operational excellence in its lights businesses. The Group is committed to maintaining and improving its already efficient manufacturing operations and to tightly manage its supply chain in order to maintain solid levels of profitability, while providing consumers with the quality products they demand.

Financial development

Sales for the year increased by 3 percent to 1,574 MSEK (1,525). Operating profit increased to 279 MSEK (275). The operating margin was 18 percent (18).

KEY DATA, MSEK	2009	2008	2007
Sales	1,574	1,525	1,462
Operating profit	279	275	251
Operating margin, %	17.7	18.0	17.2
Investments in property, plant and equipment	71	74	92
Average operating capital	882	857	826
Average number of employees	1,327	1,372	1,433

NAL EXCELLENCE

Market overview

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

The main markets for lighters are Russia, Europe, and parts of Asia. Worldwide, sales are generally stable, with declines in Europe partially offset by gains in other markets.

Europe

Main brands

For matches, brands tend to be local, with one brand being iconic in any given country. Some of the best known brands in Europe include *Solstickan* (Sweden), *Swan* (UK), *Tres Estrellas* (Spain), *Feudor* (France), and *Bryant & May* (UK) among others. For lighters, Swedish Match manufactures one of Europe's best known brands for quality disposable lighters, *Cricket*.

Market development

Swedish Match estimates that the consumption of matches continued to decline during 2009, while the market for specialty matches with higher margins was stable. Markets for other fire products such as fire starters and barbeque products grew. Some of the largest match markets in Europe for Swedish Match include the UK, the Nordic countries, and Spain.

For lighters, Swedish Match holds a leading market position in Russia for premium disposable lighters. The Group also has well entrenched positions in the Nordic countries, the UK, and France. Retail sales of Swedish Match brands in the European market are estimated to have been stable during 2009. *Cricket* lighters are marketed using the key selling points of quality, design and safety. Since 2008, all lighters sold into the European Union are required to be child resistant.

Point of sales

Matches are sold in Europe mainly through supermarkets and tobacconist stores as well as gasoline stations and service stores. Lighters are sold mostly in stores that sell tobacco products, and can also be found in outlets where tobacco is not available, such as grocery stores.

Latin America

Main brands

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

Market development

Swedish Match has a significant presence in Latin America, and the largest match market in this region is Brazil, where the Group has a leading position. Swedish Match estimates its market share in Brazil to be in the range of 45 to 50 percent for matches, in terms of volume. For lighters, *Cricket* is a major brand in Brazil.

Point of sales

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

Other markets

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

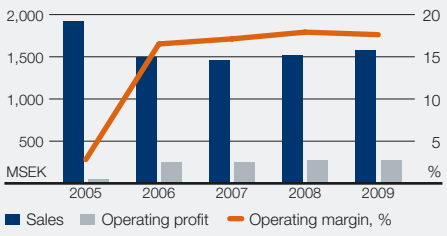
Competitors

Match competition comes mostly from low cost Asian and other non-EU suppliers. Major lighter competitors include Bic, Tokai, Flamagas, and a number of other manufacturers based mainly in China and other parts of Asia.

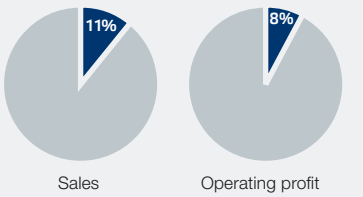
Production and distribution

Match related production takes place in Sweden (Tidaholm and Vetlanda), in Bulgaria (Kostenetz), and in Brazil (Curitiba and Piraí do Sul). Lighter facilities are located in Manila in the Philippines, Assen in the Netherlands, and Manaus in Brazil. ■

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL



Outlook

The lights product area generates good cash flow and profitability. The Group will strive to defend and strengthen its positions in key markets in the coming years. Swedish Match will continue to focus on marketing its *Cricket* brand disposable lighters and utility lighter products. The Group will also work to improve its product positioning for its other fire related products. Swedish Match will strive to maintain its operational excellence in its lighter and match businesses for continued solid profitability. ■

Swedish Match strives to attract, develop and retain motivated and highly skilled employees for a strong and sustainable development of the Group. Success derives from committed and result-oriented employees and their willingness to grow and develop for both personal enhancement and improvement of the Group's performance.

Our employees

INSPIRED TO INNOVATE

Swedish Match provides an international environment with a broad range of opportunities and work assignments. The organization is decentralized in terms of responsibility for local business. Empowerment is a key component of the Swedish Match culture and leadership style. Initiatives and result oriented actions are always encouraged. The atmosphere is informal and professional. As a global player, the organization strives to create a working climate that rewards the sharing of information and competence, while encouraging behavior that promotes high performance across all markets.

Over the past several years, Swedish Match has worked to ensure that managers and employees have ongoing and open discussions regarding targets and plans. Managers at Swedish Match must demonstrate good leadership by setting clear targets, providing ongoing coaching and counseling, conducting reviews, and delegating tasks and assignments to appropriate levels in the organization.

There is an active dialogue between managers and employees which helps to create an attractive and motivating workplace. An annual employee career development evaluation is the single most important tool for maintaining this dialogue and for drafting targets on an individual level.

The Group regularly conducts employee surveys to measure how Swedish Match is perceived as an employer. Based on the results, managers, together with their employees, are responsible for identifying possible areas for improvement and for developing action plans. These plans are designed to enhance both working climate and performance, with the goal of making Swedish Match an even better workplace.

Career and competence development

Continuous access to qualified employees is a top priority for Swedish Match. Accordingly, it is important to provide opportunities for employees to develop and grow through new or varied work assignments and responsibilities. Various activities are continuously undertaken to find and develop the talents required to achieve the Group's business objectives.

Most of competence development takes place within the divisions and is designed to meet the specific needs for training and different business objectives. Development programs for Swedish Match are based on professional education and training that provides our employees and managers with the competencies necessary to achieve exceptional individual and group performance. This also promotes professional growth and career enhancement.

In the US Sales Division, a major training initiative was launched in 2009. This is designed to enhance the skills and abilities of sales employees through the use of new e-learning technology, in combination with training and leadership programs. As a result of this training initiative, the division has successfully created a Sales Competency Model to assure sustained employee growth and better customer relations.

Within the newly created Smokefee Division, has an operator development program been established. The purpose is to provide the tools necessary for establishing a workforce which has the critical competencies required to meet the challenges of current and future market opportunities. The program is expected to be launched in May 2010.

The Smokefree and Scandinavia Sales Divisions have implemented an HR-program called "Professional employee through personal development". Participating employees discuss values, personal





European Works Council

The European Works Council (EWC) was formed on the basis of an EU directive (Council Directive 94/45/EC), the purpose of which is to improve information provided to employees of companies that have operations in several countries and more than 1,000 employees. Within the Group, employee representatives from five countries meet. Two meetings were held in 2009. ■

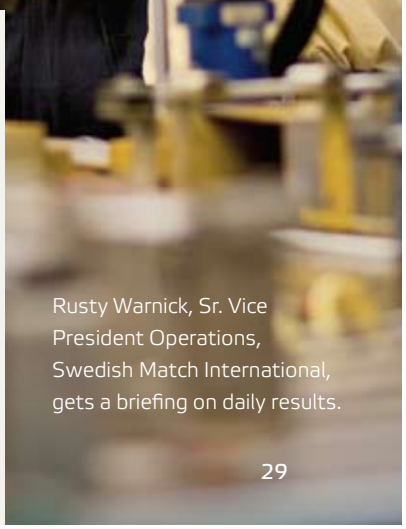




Meeting forums

In order to create a strong leadership culture in the Swedish Match organization and to implement the Group's strategies, Swedish Match regularly arranges management conferences for key managers. The conferences focus on strategies and business targets and on the sharing of experiences.

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


Rusty Warnick, Sr. Vice President Operations, Swedish Match International, gets a briefing on daily results.

qualities, competencies as well as career opportunities and how to move forward. This program supports a company culture where employees have a higher understanding of the different elements to drive career development and the fact that Swedish Match enables professional development.

In 2009 Swedish Match International established a leadership training program, particularly aimed at the first managerial level in the production facilities.

Internal recruitment is a natural part of the company culture. The ambition is to utilize internal competence by providing development opportunities so that employees can take on more responsibilities in the organization during the course of their careers. Eight out of ten members of the Swedish Match Group Management Team have been internally recruited. During the year, most of the management vacancies were filled through internal recruitments. External recruitments are mainly carried out when a particular competence cannot be found internally.

Talent management

Talent Management is a priority for the Swedish Match senior management where the Group Management are involved in the process. The process includes 200 people, and the objective is to secure appropriate staffing of senior management and key personnel, and to identify and develop high-potential employees in order to meet long-term business requirements.

The talent management process starts locally, with management teams continuously reviewing the required competencies and identifying key positions and talents. At Group level, the CEO, Divisional Presidents and Group Human Resources representatives review the results, and a summary is prepared for the Board. The process enables the organization to gain an overall profile of the requirements and of the potential available in the Group. It also identifies managerial capabilities, possible alternative careers and successors.

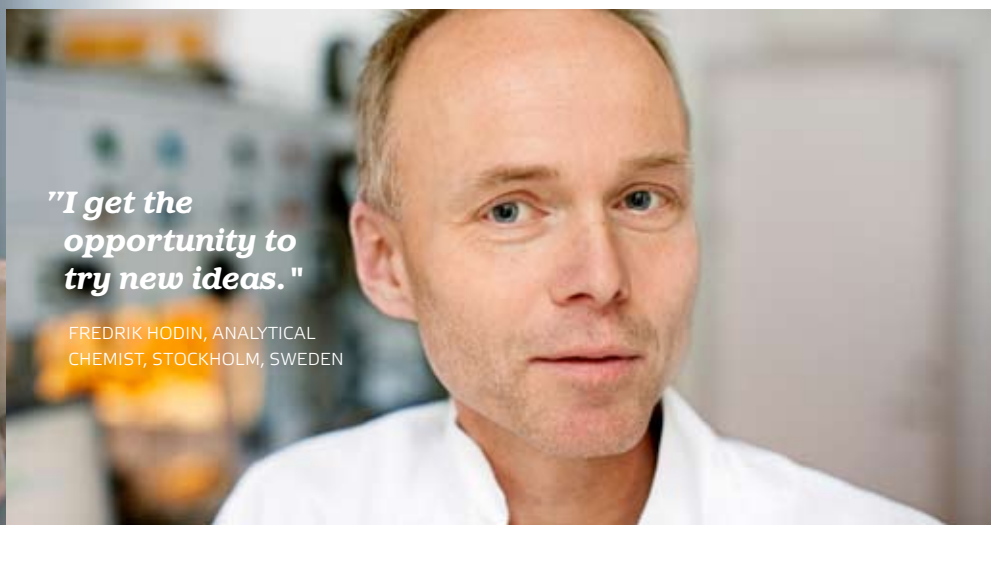
During the last two years, Swedish Match has focused on Employer Branding. One of the ambitions of the Employer Branding project is to attract more women to Swedish Match. It is also an important activity to make Swedish Match more visible on the labor market.

In Sweden, Swedish Match was awarded the Universum's Employer Branding Prize "newcomer of the year" with the motivation: "The newcomer of the year has, in a short time, succeeded in achieving clear and strong results in the Young Professionals target group. The winner was able to intuitively highlight its own young professionals, which, in a distinct and exciting manner encouraged the Young Professionals group to perceive the company as an attractive future employer." In 2010 Swedish Match is nominated for the prize as "This year's employer branding company". ■

Cooperation with trade unions

In accordance with the Act on Co-Determination at Work (MBL), Swedish Match has an agreement concerning collaboration with trade union organizations active in the Group's Swedish business units. Under this agreement, a council comprising management representatives and employee representatives appointed to the Board of Directors meets in advance of scheduled Board meetings and on other ad hoc occasions. The Council focuses on particular issues that could result in MBL negotiations. A reference group also meets in advance of such Board meetings. The reference group comprises local trade union representatives of waged and salaried employees. ■





High standards of corporate responsibility has long been an integral part of the Swedish Match corporate culture. Building long-standing relations with stakeholders, maintaining sound workplace practices, and upholding high business ethics and morals are key success factors for long-term growth and sustainability.

CODE OF CONDUCT

Swedish Match Code of Conduct, established in 2004, is the foundation for the Company's position in areas related to Corporate Responsibility. The Swedish Match commitment to social responsibility and environmental issues is supported by the Group's core values: *Communication*, *Teamwork*, *Trust*, *Innovation*, *Recognition*, and *Growth*. These values are the platform for Swedish Match business ethics and, as such, they are demonstrated in relations with stakeholders and are a natural part of the way Swedish Match conducts its business.

The Code consists of a number of policies related to the following five areas:

- **Social responsibility** – including human rights, child labor, supplier contracts, and topics specific to tobacco products.
- **Workplace practices** – including health and safety, recruitment, and remuneration.
- **Business ethics** – including conflict of interest, honest and ethical conduct; compliance with laws, rules and regulations; fraud response; gifts and loans; and related party transactions.
- **Communication** – including designated spokespersons, public reporting and communication, and internal reporting on critical information.
- **Environment** – including continuous environmental improvement and prevention of pollution in activities, products and services.

The Company policies comply with international conventions and guidelines on human rights and labor conditions. The international conventions and guidelines referred to here are the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the central International Labour Organization conventions (ILO), and the OECD's Guidelines for Multinational Enterprises.

Compliance with the Code of Conduct

Swedish Match is an international group of companies. As such, it must comply with the national laws and regulations of the countries in which it operates and demonstrate respect for indigenous cultures and traditions in these countries.

The Code of Conduct is applicable to all Group employees, regardless of position. All Swedish Match companies and employees shall comply with the Code of Conduct even if it stipulates a stricter standard than required by national laws or regulations. Every employee has a responsibility to make sure that actions taken comply not only with the letter of the Code, but with its spirit. Management has a responsibility to foster a culture of compliance with the Code. Every manager in the Group has an obligation to ensure that employees are informed about the Code of Conduct.

Individual company policies in the business must always conform to the principles stated in the Code. Violations of the Code of Conduct lead to disciplinary actions deemed appropriate.

Reviews

The Code of Conduct, approved by the Board of Directors, is reviewed annually to ensure a high level of business ethics within the Group. Various procedures are in place for monitoring and reviewing the policies in the Code of Conduct. The reviews are intended to ensure that employees and other stakeholders affected by the Code of Conduct are aware of, understand and comply with its content. The reviews are conducted by an external partner, AON, an international risk management company. The reviews primarily comprise an examination of the Company's own business units. The business units are reviewed every other year according to an established schedule. The reviews include implementation of the Code as such, social responsibility, and workplace practices. Business units are evaluated in areas such as human rights, child labor, forced labor, supplier contracts, health and safety matters. Based on the results, the external partner presents recommendations if needed. Areas for improvement are reevaluated the following year.

Areas such as business ethics and communication are evaluated through internal control processes.

The conclusions of the reviews are reported to the business unit's management team and to Group Human Resources. Divisional management has operational responsibility for ensuring compliance with the Code. Operationally, Group Human Resources is responsible for further development and revision of the Code.

Whistleblower function

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

Social responsibility has a long-standing tradition within Swedish Match and is a natural part of how we conduct our business. Investments are predominantly directed towards countries and regions where we have business operations. To address local needs and aspirations, initiatives may vary among countries.

SOCIAL RESPONSIBILITY

Empowering employees



The Group's empowerment projects focus mainly on health, education and other opportunities to help employees and their families develop. These projects include scholarships and various forms of training. They may also comprise financial support for medication and improved housing conditions for employees.

Social initiatives vary among countries and are closely linked to the social framework in which Swedish Match operates as an employer. In some countries, education and health are managed by social frameworks, while in others, these needs are addressed and provided for by the Group.

Swedish Match is dedicated to providing a workplace that is free from health and safety hazards. In addition to mandatory safety training, the Group continuously strives to identify and correct potential safety issues, to offer a wide range of wellness programs, and to ensure that the workplace is ergonomically sound. Many proactive measures are undertaken at Swedish Match workplaces to ensure proper facility safety and security, thereby protecting the employees.

Dominican Republic and Honduras

In both the Dominican Republic and Honduras, Swedish Match is known as one of the most valued employers, offering payment rates above minimum wage. Swedish Match has also developed and implemented a variety of programs created to improve life for employees and other people in these regions, including health plans for all employees, regular health fairs, conducting free regular dental and health exams on-site, as well as various literacy programs for employees and members of the surrounding communities. Other efforts include bicycle-purchase programs, support of home-improvement projects, funding and supporting schools located in economically challenged communities near company facilities, as well as professional development of employees through funding of studies in a variety of disciplines.

The United States

In 2009, a Swedish Match "Sons and Daughters" scholarship program was started in the US. Swedish Match contracted with Scholarship America, a non-profit organization, to administer this program. This year, scholarships were awarded to 12 eligible dependents of current Swedish Match employees based on criteria including grade point average, volunteerism, leadership, work experience, school activity participation, and goals for the future.

Brazil

Empowerment projects in Brazil include the "Projeto Semear", which consists of providing basic education for employees who previously have not had this opportunity. Swedish Match is also running a project aimed at familiarizing factory workers with the digital world by introducing open computer areas. Furthermore, employees are entitled to loans for purchasing a computer for personal use and life quality projects are promoted.

Indonesia

Quality of life projects include yearly medical check-ups, sponsoring of sport activities and free milk and subsidized fruit every week. Swedish Match also conducts in-house education to prevent and combat HIV/AIDS as well as education about cleft lip and palate defect. Swedish Match sponsors an annual recreational company gathering for all employees in Pandaan and Pasuruan.

All Swedish Match locations

When health issues become a national and/or global concern, Swedish Match works proactively to take all necessary efforts to ensure the well-being of our employees. In 2009, the H1N1 (Swine Flu) virus became pandemic. Each division within the Group had a plan in place which focused on communication, training, preventive measures and containment procedures. Because of the proactive efforts, Swedish Match was well informed about the virus, and well-prepared to deal with the effects of this pandemic. ■

Civic life – community projects

Swedish Match has a long record of social investments and community involvement and its approach is to conduct community projects that are relevant to local business environments.

Investments are also made in other independent projects. These activities include providing support for children, the disabled and other people in need. Other initiatives may encompass measures to protect the environment or to safeguard cultural heritage, as well as to enrich public community life, such as arts, educational institutions and restoring public spaces.

Dominican Republic

In the Dominican Republic, Swedish Match is continuing an important environmental project focusing on soil preservation on land owned by the Group. This is important because trees have been harvested by farmers for their valuable timber and to create arable land. As a consequence, tropical rains can lead to soil erosion.

To address the issue of deforestation in the Dominican Republic, Swedish Match planted some 40,000 mahogany plants that will help restore the natural flora. The roots will bind the soil together and the crowns will soften the impact of the heavy rains.

Sweden

In Sweden, the most well known community project is the Solstickan Foundation. The Foundation was founded in 1936 for the purpose of working toward "the benefit of chronically ill children, the disabled and the needy, primarily the elderly." More than 100 MSEK has been distributed via the Foundation over the years.

The Solstickan Prize is awarded annually and the prize money amounts to 100,000 SEK. In 2009, the Solstickan Prize was presented to Anders Carlberg, founder of the Fryshuset community center, for enthusiastically and fearlessly engaging in efforts to combat the risk of children and youths becoming alienated from society. His Fryshuset initiative and his work on issues ranging from the equality of boys and girls in Swedish society to ethics, morals and democracy are admirable. His involvement has also contributed to an increased understanding between children and youth with different ethnic and cultural frames of reference.

In 2006, the Solstickan Foundation arranged its first seminar together with the Solstickan Prize winner that year. Since then, two more well attended seminars have taken place. The seminar planned together with this year's winner, Anders Carlberg, focused on knowledge and learning in relation to the schoolchildren of today and how to create a school that is better adapted to the demands of a modern society.

The Tobacco and Match Museum in Stockholm is the custodian of an important part of Swedish industrial culture, with its extensive collections cared for by Swedish Match.

The United States

In the US, Swedish Match has a long-standing history of making charitable donations, supporting the arts and continued education. Community involvement is strongly encouraged, and nearly all employees participate whether through donations, volunteer work or other activities. Many serve on boards or committees for non-profit organizations or participate in school functions and youth activities.

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

Brazil

The Group's community involvement in Brazil includes contributions to selected institutions that take care of homeless children, the elderly and disabled people. One example is the "Bom Menino" project, a skill building program that enables youths aged 14 to 18 from low-income families to develop educational, employment and social skills. In another example, Swedish Match has in the past donated special equipment and pedagogic material to the Center of Visual Deficiency Assistance to be installed in the local district school in Paraná. This made it possible for children with visual deficiency to enroll and participate in regular education.

Indonesia

Community involvement is ongoing and contributions are made to projects that inform and educate the public about cleft lip and palate defect as well as helping patients from poor families to treatment and surgery. Monthly donations are made to the Al Hikmah-orphanage and building material is provided to support the building of mosques and schools near the company facilities. Furthermore, Swedish Match supports government social activities such as improving the health environment in elementary schools and supporting blood donations. ■



Emergency relief

Australia
In February 2009, the state of Victoria, Australia suffered the country's worst wildfire disaster in a quarter century. Swedish Match made a cash donation to The Salvation Army.

Indonesia
In September 2009, two devastating earthquakes hit Indonesia. Swedish Match made a cash donation to the Red Cross in Indonesia.

The Philippines
In September 2009, a severe typhoon poured on a month's worth of rain leaving parts of Manila, Rizal and Laguna flooded. Swedish Match made a cash donation via the Stockholm Embassy of the Philippines.

Environmental efforts contribute to long-term sustainable development of business operations. Swedish Match works to reduce the negative burden on the environment by continuously improving manufacturing processes in our operations. Thus creating sustainable conditions for our businesses, employees, and society at large.

The environment

THINKING GREEN

The production processes and raw materials used in the tobacco industry generally have limited environmental impact. Approximately 80 percent of the raw materials used within the Group are renewable, and environmentally harmful substances are only handled to a limited extent during production. Swedish Match believes that its water and energy consumption, together with business travel and freight transport, constitute the greatest environmental impact.

Swedish Match works continually to achieve improvements in operations that have an environmental impact. In order to increase resource efficiency, the Group continuously fine-tunes its systems for cleaning and reducing emissions. Business trips effect the environment and to reduce travel, modern means of communications such as web-, and teleconferences are encouraged.

The philosophy of Swedish Match is that environmental efforts should be carried out locally and that targets should be formulated based on identified environmental impacts. These targets should be clear, measurable and consistent with Swedish Match Environmental Policy. The targets also address compliance with regulations and other commitments. They address areas such as CO_2 emissions, fuel and energy, discharges to water, and factory waste. In recent years, Swedish Match has reduced the water and energy consumption as well as the waste production.

Swedish Match welcomes the development of increased environmental awareness and sees it as an incentive for the Group to continuously improve measurements and find new ways to reduce its environmental impact. These measurements provide a common platform to evaluate environmental performance against that of other companies. One comparison project in which Swedish Match is participating is the Carbon Disclosure Project (CDP), which maps companies' CO_2 emissions.

In 2009, Swedish Match initiated a project to conduct an inventory of the Key Performance Indexes (KPIs) used in the organization today. The aim is to find common KPIs to facilitate continual improvement and follow up of the environmental work.

Environmental standards

Swedish Match works systematically on environmental and quality issues in operations. Swedish Match has adopted an environmental policy that encompasses all aspects of its operations. The policy is based on the principles of the environmental standard ISO 14001 and is available to both internal and external stakeholders on the Company's website and Intranet. Due to the diversity of the Swedish Match activities, subordinated environmental policies are formulated for each division.

The majority of Swedish Match production facilities, representing approximately 90 percent of the Group's sales, are certified according to the environmental standard ISO 14001.

Environmental organization

The divisional management teams are responsible for implementing the Group Environmental Policy and operating the improvement programs. Each major business unit has an environmental manager, and the operational work is carried out by appointed environmental representatives. A large number of achievements take place in our day-to-day business, in close connection with customers, consumers and employees.

The Group Environmental Council, with representatives from all divisions, is responsible for environmental issues and for reporting results in this area. The Council's task is to safeguard compliance with the Swedish Match stated policy and the Environmental Management System throughout the organization. This is achieved by regular meetings and by a structured information exchange between meetings. The Environmental Council members represent the link between divisions and Corporate Headquarters.

The Environmental Council has formulated a common working platform for environmental issues as well as established a single reporting and evaluation structure with common definitions for the entire Group.

In addition, corporate representatives are obligated to analyze and review environmental efforts regularly through both internal and external audits. The results of the audits are reported to the divisional management teams.

Climate change

The Group's prioritized environmental target is to limit the impact of greenhouse gas emissions on the climate. The Company is dedicated to various improvement activities and projects. Emission reduction programs are in place for all business units certified according to ISO 14001. Systematic reduction programs have been in place since 1999.



Swedish Match Environmental Policy

We are committed to continue with environmental improvements and the prevention of pollution in all our activities, products and services.

We operate an Environmental Management System applicable at Group, divisional and factory levels to ensure that this commitment is continuously maintained.

We are committed to complying with all relevant environmental legislation, regulations and other requirements in the countries where we operate.

We continuously strive to achieve environmental objectives identified through our Environmental Management System.

We undertake appropriate improvements and remedial actions based on financial and environmental criteria.

We provide information about and document major changes in the environmental impact of our activities, products and services.

Emission reduction programs pertain mainly to energy consumption in production facilities and to fuel consumption related to transports. The Group is working with energy-saving programs and with programs to reduce electricity consumption for heating, cooling and lighting. Measures taken include the installation of low-energy lighting, insulation, heat-recovery systems and energy consumption controls.

EMISSIONS OF CARBONDIOXIDE (CO_2) [1]	2008	2007	2006	2005
Total tons CO_2	74,734[2] 78,985[3]	74,388[2]	78,161	73,927
Tons CO_2 per employee	6.3[2] 6.7[3]	6.2[2]	6.3	5.2
Tons CO_2 per MSEK sales	5.7[2] 6.0[3]	5.9[2]	6.1	5.6

[1] Source: Swedish Match, latest available data.
[2] Business travels only.
[3] Business travels including purchased transports.

Swedish Match has a responsibility to understand its business environment and to create the best possible conditions for developing its business over time. The regulatory environment is a key determinant of how business will develop. Swedish Match constantly monitors and tracks regulatory development in the main markets so as to understand the implications for its business, and to ensure complience with the current regulatory framework and any new regulations.

Regulatory affairs

A STRATEGIC MANAGEMENT TOOL

Swedish Match strives to uphold an open dialogue with regulatory authorities, policy-makers and the scientific community built on transparent and evidence-based communication. The Swedish Match Scientific Platform, comprising outstanding know-how of smokefree products, is fundamental in such communication. A vital part of regulatory relations is to share knowledge and insights and thereby stimulate a mutual dialogue and understanding of products and business operations at large. Swedish Match acknowledges its role as a stakeholder in regulatory assessments where it can offer important insight into the impact and consequences of current and new regulations, thus contributing to better regulations in the best interest of society as a whole.

Swedish Match scientific platform

Swedish Match has a unique and comprehensive scientific platform for the concept of tobacco harm reduction which forms a cornerstone of the Group's activities related to the development of smokefree products, especially Swedish snus, as well as its dialogue with relevant stakeholders in society.

The platform requires monitoring and evaluation of emerging scientific data as well as interaction with the scientific community. It also includes initiating and acting as a sponsor of research projects in strategic scientific areas where pivotal studies are not being performed by external research groups. At the same time, the Group has a long-standing commitment to scientifically-based product development which includes continuous efforts to eliminate or reduce controversial compounds that are found naturally in tobacco. This tradition is exemplified, by the Swedish Match creation of the world-leading industrial quality standard **Gothia**Tek®, nowadays adopted as an industry standard in the production of snus.

Together with epidemiological studies from Sweden, the Group's science-based product development has driven a major change in perception about the health risks associated with different tobacco products within the scientific community. The wide continuum of risk is increasingly being recognized. In this context, smokefree Swedish snus-type products are generally considered best in class.

In February 2008, the European Commission's Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR) published a report that represents the most comprehensive scientific evaluation to date of the health effects of smokefree tobacco products, including Swedish snus. The report reached a number of significant conclusions, among them that snus poses significantly fewer, and less severe, health risks than cigarette use, and that the availability of snus has had a positive impact on public health in Sweden.

Today the scientific community widely accepts that there is a broad continuum of risk associated with different tobacco products. Conventional cigarettes are undoubtedly considered to entail the greatest risks. Smokefree, Swedish snus-type products are at the opposite end of the spectrum with a risk profile more similar to pharmaceutical nicotine replacement therapies. This continuum of risk was, for instance, acknowledged in a 2009 report from the WHO Tobacco Regulatory Committee. The following two quotes from that report illustrate the change in attitude within the scientific community:

"Cigarette smoke is the most hazardous form of nicotine intake, and medicinal nicotine is the least hazardous. Among the smokeless tobacco products on the market, products with low levels of nitrosamines, such as Swedish snus, are considerably less hazardous than cigarettes, while the risks associated with some products used in Africa and Asia approach those of smoking."

"The differences in risks associated with use of different smokeless tobacco products mean that it would be scientifically inappropriate to consider smokeless tobacco as a single product for the purposes of estimating risk or setting policies."

The conclusions are well supported by epidemiological studies in Scandinavia where snus has been used for more than 200 years, and further scientific studies about snus are

unlikely to radically contradict the findings of either report.

While in Scandinavia it has been widely accepted, based on extensive epidemiological information, that Swedish snus can help smokers quit smoking, there is to date no experimental data on this issue from comparative clinical trials. Seeking to obtain this "proof of principle" and thereby advance the debate around tobacco harm reduction, Swedish Match became an official sponsor of two smoking cessation trials – one in Serbia and the other in the US – which are currently testing the efficacy of snus versus a placebo comparator without tobacco or nicotine.

The results of these trials will become available during 2010. For information on the trials please go to www.clinicaltrials.gov. The observations in epidemiological studies from Scandinavia – i.e. that Swedish-type snus products can help to reduce smoking and increase quit rates among cigarette smokers. It remains to be seen if the clinical trials will lend further support to the observations in epidemiological studies in Sweden.



Patrik Hildingsson and Cecilia Kindstrand Isaksson, Regulatory Affairs, Swedish Match, thinks a vital part of regulatory relations is to share knowledge and insights to stimulate a dialogue and understanding of Swedish Match products and business operations.

The United States

On June 22, 2009, President Obama signed into law the Family Smoking Prevention & Tobacco Control Act, which granted the Federal Food and Drug Administration the authority to regulate tobacco products sold in the United States (the "Act"). Under the Act, the FDA was directed to focus initially upon regulating the sale, marketing and production of cigarettes, roll-your-own, and smokefree tobacco.

Turning to the particulars of the Act, in 2010, manufacturers of cigarettes, roll-your-own and smokefree tobacco are required to register their production facilities with FDA, to provide ingredients and constituent information to FDA, and to furnish certain other data in their possession to FDA. Beginning on June 22, 2010, new rules relating to marketing, sales and the content of product packaging take effect. In short, many current marketing practices (sponsorships, branded merchandise, product sampling) will be prohibited or, in the case of sampling, limited. Product packaging for smokefree tobacco products will carry, on a rotating basis, one of four required health warnings and such warnings must be displayed in at least 30 percent of the two principal display panels of the product package. The Act directs the FDA to create a system whereby a company may apply to have one or more of its products classified as a modified risk product. If a product is so classified, the FDA may permit the company to make appropriate harm reduction claims and may allow the company to change the warning labels on the products to better reflect the risk profile agreed to by the FDA. This modified process will not be in place for some time as guidelines for such approval will be established by the FDA.

The European Union

The Swedish Match main product, snus, has been banned for sale in the European Union since 1992, with Sweden being given an exemption from the ban upon joining the Union in 1995.

The Swedish government has been publicly opposed to the export ban since 2004 on the grounds that it contradicts the founding principles of the EU – i.e. the free movement of goods, capital and people – and has resulted in a distortion of the internal market.

The initial basis for the ban – that snus formed a gateway to smoking and caused oral cancer – has since been overturned by a wealth of scientific studies, including a comprehensive review by the European Commission's own SCENIHR committee, whose conclusions about the health effects of smokefree tobacco, including Swedish snus, are outlined above in the section Swedish Match scientific platform.

Sweden's Alliance Government is currently seeking clarification from the Commission whether the ban on snus complies with the fundamental trade principle or could be viewed as discriminatory since similar products are legally sold within the internal market.

For its part, Swedish Match engagement with EU regulators is conducted through ESTOC (European Smokeless Tobacco Council). ESTOC was formed together with other makers of smokefree tobacco in 1989 with the objective to monitor EU regulatory developments. ESTOC proposes that all smokefree tobacco products, including Swedish snus, should be regulated based on product standards, consumer protection and product quality. Thus creating a regulatory framework that is non competitive, non discriminating and science based in its nature.

The Commission envisages publishing a review of the Tobacco Products Directive in 2011 and is currently in the process of conducting an assessment of the possible impacts of such a review. Swedish Match is monitoring the process and will seek to ensure that snus be included in the review.

During Sweden's presidency of the EU in the second half of 2009, a proposal was adopted for a Council Recommendation on Smoke Free Environments that calls on all Member States to bring in laws by 2012 that would protect their citizens from exposure to tobacco smoke. ■

Information to shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting of Swedish Match AB (publ) will be held on Tuesday, April 27, 2010, at 4.30 p.m. CET at Hotel Rival, Mariatorget 3, in Stockholm, Sweden. Registration for the Annual General Meeting will open at 3.30 p.m. ■

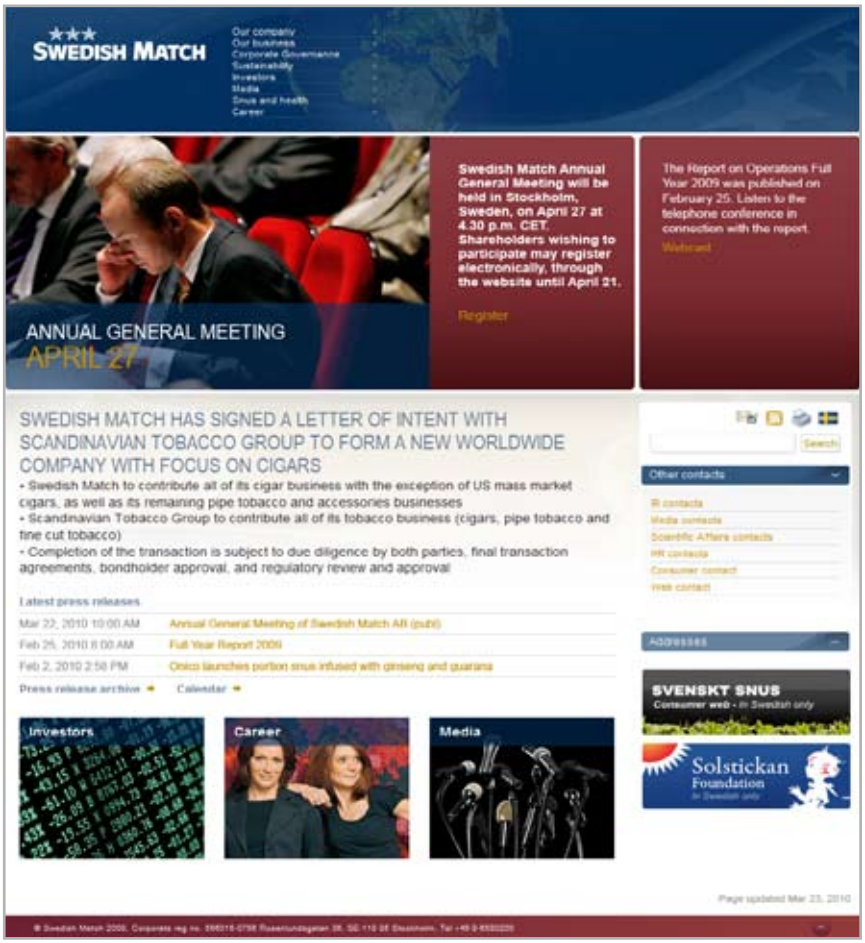
www.swedishmatch.com

More information is available on the Company website www.swedishmatch.com/agm.

DIVIDEND

The Board of Directors proposes that a dividend of 4.75 SEK per share be paid to shareholders. The proposed record date for entitlement to receive a cash dividend is April 30, 2010. If the Annual General Meeting approves the Board's proposal, dividends will be paid through Euroclear Sweden AB on May 5, 2010. ■





WWW.SWEDISHMATCH.COM

The Company website is continuously improved to ensure that it functions as a high-quality central medium serving both internal and external visitors. As a principal source of information about the Group, our website plays a strategic role in the Group's communication program. Our goal is to be in the forefront and ensure that you are always well-informed about Swedish Match. All important publicly available information is available on the Swedish Match company website.

The Investors section of the website contains information that is relevant to the financial world, including share data, debt market information, press releases, investor presentations, webcasts, downloadable publications, such as annual reports and interim reports, and information regarding the Annual General Meeting. ■



FINANCIAL INFORMATION

All new shareholders automatically receive interim reports from Swedish Match by regular mail. Annual reports are distributed to shareholders who have requested a printed copy.

Swedish Match publications are issued in English and Swedish. In addition to traditional printed versions, publications are also downloadable as PDF files from the Company's website. These PDF files allow persons with functional disabilities, such as those who are visually impaired or those with difficulty reading, to interpret and access the information in a more easily accessible manner.

Swedish Match provides additional information services through its subscription service, which can be accessed on the website. The subscription service enables any interested party to monitor the Company's share closing price for the week and receive reminders of calendar activities, press releases, interim reports, annual reports, etc. New shareholders automatically receive log-in credentials to access a personal user account. Other interested parties can create a user account to access the information.

A request to modify the information received from Swedish Match can be submitted directly through the user account in the subscription service www.swedishmatch.com/subscribe, or by e-mail to: investorrelations@swedishmatch.com. ■

www.swedishmatch.com

Visit Swedish Match subscription service: www.swedishmatch.com/subscribe

Calendar

Swedish Match reports are expected to be published on the following dates:

Interim report January–March	April 29, 2010
Half-year report January–June	July 21, 2010
Interim report January–September	October 27, 2010
Full-year report for 2010	February 23, 2011
Annual report for 2010	March 2011

CONTACTS



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Emmett Harrison is responsible for financial communications to media, shareholders, analysts, and other stakeholders.



Corporate Relations

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Fax: +46 (0)8-658 23 92
contactus@swedishmatch.com

Djuli Holmgren is responsible for the annual report, the Company website, and general shareholder information.

The Swedish Match share is listed on the NASDAQ OMX Stockholm. Total share capital at the end of the year amounted to 390 MSEK, distributed among 251 million shares with a quotient value of 1.5519 SEK each. Each share carries one vote.

The share

SOLID PERFORMANCE

Turnover

Total turnover in 2009 amounted to 372,763,579 Swedish Match shares on the NASDAQ OMX Stockholm, with a daily average turnover of 1.5 million shares. The turnover velocity of the share on the NASDAQ OMX Stockholm, was 143 percent during the year, compared with the average of 120 percent for the NASDAQ OMX Stockholm.

Price trend

The Company's market capitalization at year-end 2009 amounted to 36.3 billion SEK.[1)] The share price increased by 40 percent during the year, while the OMXS 30 Index increased by 47 percent. The lowest price paid during the year was 105.50 SEK on January 14, and the highest price paid was 162.00 SEK on December 28.

Ownership structure[2)]

At year-end, ownership outside of Sweden corresponded to 70.3 percent of total share capital, a decrease of 4.6 percentage points compared with 2008.[1)] Swedish ownership interests, totaling 29.7 percent, were distributed among institutions, with 10.8 percent of the share capital, mutual funds, with 9.1 percent, and private individuals, with 9.8 percent. The 10 largest shareholders accounted for 32 percent of the share capital.[1)]

Dividend

The Swedish Match dividend policy specifies that the dividend should be within the range of 40 to 60 percent of earnings per share, subject to adjustments for larger one time items. The Board of Directors intends to propose to the Annual General Meeting a dividend for 2009 of 4.75 SEK (4.10) per share, for a total of 1,099 MSEK (1,024), based on the 231.3 million of shares outstanding at the end of the year. The dividend corresponds to 49 percent (46) of EPS for the year.

Repurchase of shares

A repurchase of shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure in the balance sheet. The size and scope of the share buybacks depend on Swedish Match financial position, net profit, anticipated future profitability, cash flow, investments and expansion plans. Other factors that influence buybacks are efficient availability of credit, the share price, the Group's interest and tax expenses and the earnings available for distribution. For more information about the Swedish Match share repurchase program, please refer to the Board of Directors report on page 48.

[1)] Excluding shares held in treasury by Swedish Match AB, which corresponds to 7.8 percent of the total number of shares.
[2)] Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB.

Largest shareholders

Owner as of December 31, 2009[1) 2)]	No. of shares	%
Parvus Asset Management	20,190,969	8.7
Morgan Stanley Investment Management	13,144,486	5.7
Wellington Management Company	12,300,889	5.3
AMF Insurance & Funds	6,027,154	2.6
Swedbank Robur Funds	6,024,898	2.6
SEB Funds	4,405,045	1.9
SHB Funds	3,526,868	1.5
Third Swedish National Pension Fund	2,952,262	1.3
Second Swedish National Pension Fund	2,841,293	1.2
Standard Life Investment Funds	2,822,231	1.2
Total of 10 largest shareholders	**74,236,095**	**32.0**
Others	157,063,905	68.0
Total	**231,300,000**	**100.0**

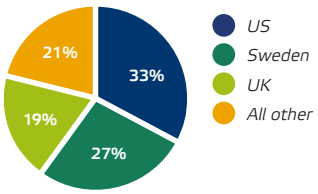
[1)] Certain shareholders may, through custodial accounts, have larger holding than is apparent from the shareholders' register.
[2)] Registered direct ownership and ownership through trustees. In addition the Company owns 19,700,000 shares acquired through buybacks.

Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB, as of December 31, 2009.

www.swedishmatch.com

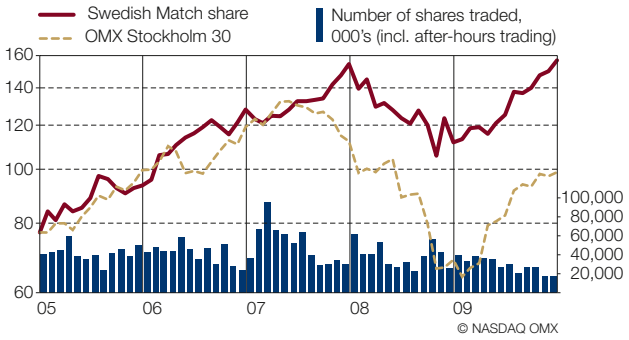
More information is available on the Company website www.swedishmatch.com/investors

Share capital by country

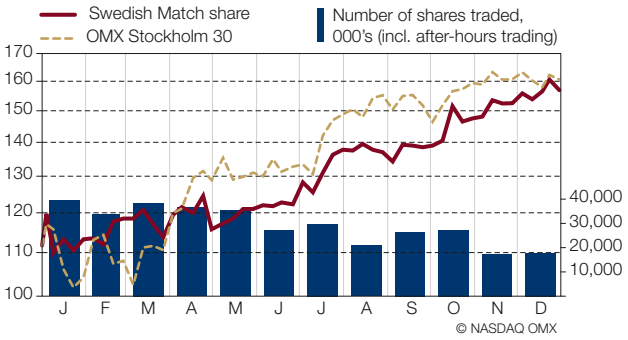


Source: SIS Ägarservice AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2009. "All other" also includes shareholders with less than 500 shares in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

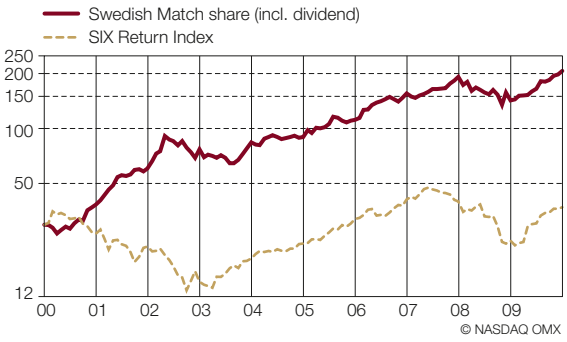
Share price 2005–2009



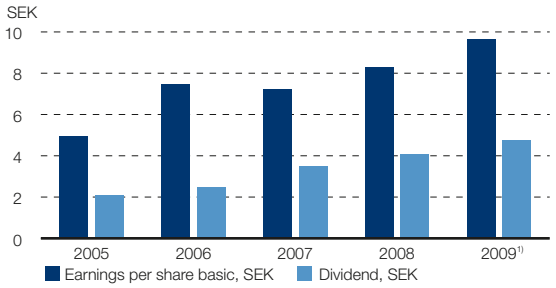
Share price 2009



Total return 2000–2009



Earnings and dividend per share 2005–2009



[1] Dividend, Board proposal.

Transfer of capital to Swedish Match shareholders

MSEK	2009	2008	2007	2006	2005	Total
Dividends	1,099[1]	1,024	886	664	627	4,300
Repurchase of own shares, net	2,547	934	2,453	3,585	1,411	10,930
Total	**3,646**	**1,958**	**3,339**	**4,249**	**2,038**	**15,230**

[1] Dividend proposed for fiscal year 2009.

Share distribution[1]

Size of holding	No. of owners	%	No. of shares	%
1–1,000	49,839	90.4	10,769,258	4.7
1,001–5,000	4,252	7.8	8,547,663	3.7
5,001–20,000	577	1.0	5,478,603	2.4
20,001–50,000	147	0.3	4,609,623	2.0
50,001–100,000	69	0.1	4,913,596	2.1
100,001–1,000,000	195	0.3	66,154,839	28.6
1,000,001–	47	0.1	130,826,418	56.5
Total at December 31, 2009	**55,126**	**100.0**	**231,300,000**	**100.0**

[1] Excluding shares held by Swedish Match.
Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB.

Share data

	2009	2008	2007	2006	2005
Earnings per share, basic, SEK					
From continuing operations	9.67	8.30	7.22	7.47	4.97
Including discontinued operations	12.88	8.98	7.82	8.13	5.61
Earnings per share, diluted, SEK					
From continuing operations	9.66	8.29	7.20	7.44	4.95
Including discontinued operations	12.87	8.96	7.80	8.10	5.59
Dividend, SEK	4.75[1]	4.10	3.50	2.50	2.10
Dividend yield at year-end, %	3.03[1]	3.67	2.27	1.95	2.24
Dividend pay-out ratio, %	49[1]	46	45	31	35
Market price at year-end, SEK	156.90	111.75	154.50	128.00	93.50
Market capitalization at year-end, SEK billion[2]	36.3	27.8	39.5	35.1	28.6
P/E ratio[3]	12.2	12.4	19.8	15.8	16.7
EBIT multiple[3]	13.6	11.7	16.2	13.0	11.2
Total return, %	45.1	–25.8	22.7	39.5	24.2
Average number of shares, basic	244,259,880	251,867,479	262,604,644	287,062,345	315,128,554
Average number of shares, diluted	244,440,057	252,211,733	263,405,637	288,161,247	316,226,392
Number of shareholders	55,127	53,215	54,594	58,287	87,840

[1] Board proposal.
[2] Excluding shares held by Swedish Match.
[3] Including discontinued operations.

Five-year summary 2005–2009

Condensed consolidated income statements, MSEK	2009	2008	2007	2006	2005
Sales	**14,204**	**12,611**	**11,970**	**12,273**	**12,667**
Gross profit	**7,089**	**6,174**	**5,675**	**5,885**	**5,685**
Larger one time items	–	73	267	148	206
Operating profit	**3,417**	**2,874**	**2,800**	**3,046**	**2,569**
Net finance cost	–443	–441	–338	–109	–124
Profit before income tax	**2,974**	**2,433**	**2,462**	**2,937**	**2,445**
Profit for the year from continuing operations	**2,361**	**2,091**	**1,898**	**2,145**	**1,574**
Profit from discontinued operations, net after tax	785	170	157	190	203
Profit for the year	**3,146**	**2,261**	**2,056**	**2,335**	**1,777**
EBITDA exluding profit from discontinued operations and larger one time items	3,885	3,222	2,936	3,310	2,911

Condensed consolidated balance sheets, MSEK	2009	2008	2007	2006	2005
Assets					
Intangible assets	3,792	4,702	4,419	3,469	4,265
Property, plant and equipment	2,525	2,458	2,388	2,221	2,488
Other non-current financial receivables	2,193	2,284	1,011	1,055	1,150
Current operating assets	5,296	5,732	5,204	5,827	5,245
Other current investments	1	1	5	56	332
Cash and cash equivalents	2,530	3,178	3,439	3,042	3,325
Total assets	**16,337**	**18,355**	**16,467**	**15,670**	**16,806**
Equity and liabilities					
Equity attributable to equity holders of the parent, including minority interest	903	1,381	724	2,041	5,083
of which, minority interest	4	4	4	3	3
Non-current provisions	1,301	1,281	1,292	1,192	2,259
Non-current loans	8,252	9,975	8,768	7,815	2,867
Other non-current financial liabilities[1)]	1,440	1,337	567	657	830
Current provisions	125	29	60	61	293
Current loans	1,002	743	1,271	409	1,464
Other current liabilities	3,313	3,609	3,785	3,495	4,010
Total equity and liabilities	**16,337**	**18,355**	**16,467**	**15,670**	**16,806**

[1)] Includes pension obligations and derivatives financial instruments.

Condensed consolidated cash flow, MSEK	2009	2008	2007	2006	2005
Net cash from operating activities	2,911	1,838	2,130	1,128	2,422
Net cash used in investing activities	1,043	–61	–473	–241	–131
Net cash used in financing activities	–4,707	–2,267	–1,425	–1,170	–1,441
Net increase/decrease in cash and cash equivalents	**–753**	**–491**	**232**	**–282**	**849**
Cash flow from discontinued operations					
Net cash from operating activities	219	142	198	206	296
Net cash used in investing activities	–6	13	–18	–14	–8
Net cash used in financing activities	–51	42	–1	6	0
Net increase in cash and cash equivalents	**162**	**196**	**179**	**198**	**288**
Cash and cash equivalents at beginning of the year	3,178	3,439	3,042	3,325	2,058
Effects of exchanges rate fluctuations on cash and cash equivalents	–58	34	–13	–198	130
Cash and cash equivalents at end of year	**2,530**	**3,178**	**3,439**	**3,042**	**3,325**

Key figures	2009	2008	2007	2006	2005
Continuing operations					
Operating capital at year-end, MSEK[1)]	8,494	8,841	7,623	7,192	6,637
Net debt, MSEK	7,188	7,640	7,127	5,658	674
Investments in property, plant and equipment, MSEK	471	319	523	290	320
Operating margin, %[2)]	24.1	22.2	21.2	23.6	18.7
Return on operating capital, %[2)]	39.4	34.0	34.2	41.9	36.7
EBITA interest cover	8.4	7.0	8.2	14.5	24.5
Net debt/EBITA [3)]	2.0	2.6	2.7	2.0	0.3
Share data					
Share capital, MSEK	390	390	390	390	390
Dividend per share, SEK	4.75[4)]	4.10	3.50	2.50	2.10
Earnings per share basic, SEK					
From continuing operations	9.67	8.30	7.22	7.47	4.97
Including discontinued operations	12.88	8.98	7.82	8.13	5.61
Earnings per share diluted, SEK					
From continuing operations	9.66	8.29	7.20	7.44	4.95
Including discontinued operations	12.87	8.96	7.80	8.10	5.59

1) Due to changes on accounting principles governing pensions, the company decided to amend the internal definition of operating capital. As of 2006, pension liabilities and pension receivables are included in operating capital.
2) Excluding a gain from sale of subsidiary and related assests during 2008, gain on sale of real estate during 2007 and 2005, and the pension curtailment gain during 2006. Including restructuring charges for Cigars of 73 MSEK in 2009.
3) Calculated pro-forma excluding South Africa operations.
4) Board proposal.

Sales by product area, MSEK	2009	2008	2007	2006	2005
Snus and snuff	4,250	3,725	3,194	3,263	3,028
Chewing tobacco	1,112	934	956	1,063	1,079
Cigars	4,426	3,644	3,395	3,382	3,260
Lights	1,574	1,525	1,462	1,491	1,925
Other operations	2,843	2,783	2,964	3,075	3,375
Total	**14,204**	**12,611**	**11,970**	**12,273**	**12,667**

Operating profit/loss by product area, MSEK	2009	2008	2007	2006	2005
Snus and snuff	1,916	1,658	1,343	1,591	1,468
Chewing tobacco	411	329	312	338	347
Cigars	935	686	733	767	611
Lights	279	275	251	248	56
Other operations	–123	–146	–105	–47	–119
Subtotal	**3,417**	**2,801**	**2,533**	**2,897**	**2,363**
Gain on sale of subsidiary and related assets	–	73	–	–	–
Gain on sale of real estate	–	–	267	–	206
Pension curtailment gain	–	–	–	148	–
Total	**3,417**	**2,874**	**2,800**	**3,046**	**2,569**

Operating margin by product area, %[1)]	2009	2008	2007	2006	2005
Snus and snuff	45.1	44.5	42.1	48.8	48.5
Chewing tobacco	36.9	35.2	32.6	31.8	32.2
Cigars	21.1	18.8	21.6	22.7	18.7
Lights	17.7	18.0	17.2	16.6	2.9
Total	**24.1**	**22.2**	**21.2**	**23.6**	**18.7**

1) Excluding a gain from sale of subsidiary and related assests during 2008, gain on sale of real estate during 2007 and 2005, and the pension curtailment gain during 2006. Including restructuring charges for Cigars of 73 MSEK in 2009.

Quarterly data 2008–2009

Condensed consolidated income statements, MSEK	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Sales	**3,545**	**3,606**	**3,666**	**3,387**	**3,480**	**3,274**	**3,164**	**2,693**
Gross profit	**1,710**	**1,764**	**1,854**	**1,762**	**1,733**	**1,611**	**1,531**	**1,298**
Gain on sale of subsidiary and related assets	–	–	–	–	73	–	–	–
Operating profit	**850**	**874**	**899**	**794**	**880**	**808**	**691**	**496**
Net financial cost	–111	–117	–108	–108	–97	–115	–117	–113
Profit before income tax	**739**	**757**	**791**	**686**	**784**	**693**	**574**	**383**
Profit for the year from continuing operations	**595**	**615**	**624**	**527**	**687**	**621**	**479**	**304**
Profit from discontinued operations, net after tax	–	705	41	40	41	50	38	42
Profit for the period	**595**	**1,319**	**664**	**567**	**728**	**671**	**517**	**346**
EBITDA	947	1,019	1,011	908	917	911	793	601

Key figures	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Operating margin, %[1]	24.0	24.2	24.5	23.4	23.2	24.7	21.8	18.4
Investments in property, plant and equipment, MSEK	147	92	123	108	113	64	72	71
Earnings per share basic, SEK								
From continuing operations	2.52	2.53	2.51	2.11	2.75	2.47	1.89	1.19
Including discontinued operations	2.52	5.38	2.68	2.27	2.91	2.67	2.04	1.36

[1] Exluding larger one time items, but including restructuring charges for Cigars of 45 MSEK in Q3 2009 and 29 MSEK in Q4 2009.

Sales by product area, MSEK	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Snus and snuff	1,101	1,093	1,087	969	1,035	964	926	801
Chewing tobacco	233	280	314	284	260	237	227	210
Cigars	1,056	1,065	1,129	1,175	1,052	933	905	754
Lights	422	388	387	377	407	401	371	345
Other operations	732	781	749	581	726	740	735	583
Total	**3,545**	**3,606**	**3,666**	**3,387**	**3,480**	**3,274**	**3,164**	**2,693**

Operating profit/loss by product area, MSEK	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Snus and snuff	523	534	463	397	463	479	403	313
Chewing tobacco	76	107	129	98	96	87	77	69
Cigars	179	190	281	286	205	187	183	111
Lights	92	62	62	63	71	85	63	55
Other operations	–19	–19	–36	–50	–27	–30	–37	–52
Subtotal	**850**	**874**	**899**	**794**	**807**	**808**	**691**	**496**
Gain on sale of subsidiary and related assets	–	–	–	–	73	–	–	–
Total	**850**	**874**	**899**	**794**	**880**	**808**	**691**	**496**

Operating margin by product area, %[1]	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Snus and snuff	47.5	48.8	42.6	40.9	44.7	49.7	43.6	39.0
Chewing tobacco	32.5	38.4	41.0	34.6	36.8	36.9	34.1	32.7
Cigars	16.9	17.9	24.9	24.3	19.5	20.0	20.2	14.7
Lights	21.8	15.9	16.1	16.7	17.5	21.1	17.1	16.1
Group	**24.0**	**24.2**	**24.5**	**23.4**	**23.2**	**24.7**	**21.8**	**18.4**

[1] Exluding larger one time items, but including restructuring charges for Cigars of 45 MSEK in Q3 2009 and 29 MSEK in Q4 2009.

Definitions used in financial tables

AVERAGE OPERATING CAPITAL

$$\frac{\text{Opening + closing operating capital}}{2}$$

DIVIDEND YIELD (%)

$$100x \times \frac{\text{Dividend (paid/proposed after year-end)}}{\text{Year-end share price}}$$

DIVIDEND PAY-OUT RATIO (%)

$$100x \times \frac{\text{Dividend (paid/proposed after year-end)}}{\text{Earnings per share from continuing operation}}$$

EARNINGS PER SHARE

$$\frac{\text{Profit for the year attributable to equity holders of the Parent}}{\text{Average number of shares outstanding}^{1)}}$$

EBIT MULTIPLE

$$\frac{\text{Stock market value at year-end + net debt + minority interest}}{\text{Operating profit}}$$

EBITA

Earnings excluding larger one time items, net finance cost, tax, amortization, impairments of intangible assets and result from discontinued operations

EBITA INTEREST COVERAGE RATIO

$$\frac{\text{EBITA}}{\text{Interest expense – interest income}}$$

EBITDA

Earnings excluding larger one time items, net finance cost, tax, depreciation, amortization and impairments of tangible and intangible assets and result from discontinued operations

NET DEBT

Interest-bearing liabilities, adjusted for hedges relating to these liabilities + net provisions for pensions and similar obligations – cash and cash equivalents and other investments

OPERATING CAPITAL

Current operating assets + intangible assets + tangible assets + other non-current operating assets – current and non-current operating liabilities

OPERATING MARGIN (%)

$$100x \times \frac{\text{Operating profit}}{\text{Net sales}}$$

P/E RATIO

$$\frac{\text{Share price at year-end}}{\text{Earnings per share}}$$

RETURN ON OPERATING CAPITAL (%)

$$100x \times \frac{\text{Operating profit}}{\text{Average operating capital}}$$

SHARE TURNOVER VELOCITY (%)

$$100x \times \frac{\text{Annual turnover of shares}}{\text{Total number of shares}}$$

TOTAL RETURN (%)

$$100x \times \frac{\text{(Share price at year-end – share price at preceding year-end) + (dividend paid + return on reinvested dividend)}}{\text{Share price at preceding year-end}}$$



Sales increased by

13%

Operating profit[1] increased by

22%

[1] Excluding larger one time items.

Basic EPS from continuing operations amounted to

9.67 SEK

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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 smokefree tobacco products, cigars and lights products. The Group sells products across the globe, with production units in 10 countries. The Swedish Match share is listed on the NASDAQ OMX Stockholm.

On July 2, 2009 Swedish Match announced the agreement to sell its South African operations, Swedish Match South Africa (Proprietary) Limited with subsidiaries in South Africa, and the transaction was subsequently closed in September. Following this announcement, Swedish Match South African operations are reported as discontinued operations on a separate line on the income statement and is therefore not included in reported sales or operating profit.

Sales

Sales for the year increased by 13 percent and amounted to 14,204 MSEK (12,611). In local currencies, sales increased by 5 percent.

Sales of snus and snuff increased to 4,250 MSEK (3,725). In Scandinavia sales volumes increased by 6 percent measured in number of cans. Volumes in Sweden increased by 6 percent and also Norway and Travel Retail increased volumes. In the United States sales grew as the Company gained market share in a growing market. The US volume increased by 7 percent.

For cigars in total, sales for the year amounted to 4,426 MSEK (3,644). In local currencies, sales increased by 7 percent.

Chewing tobacco is sold primarily on the North American market. Sales increased to 1,112 MSEK (934). In local currency sales were up by 3 percent. Sales in the lights product area amounted to 1,574 MSEK (1,525).

Operating profit

Operating profit for the year amounted to 3,417 MSEK (2,874). Currency translation has affected the operating profit positively by 239 MSEK. Operating profit for 2009 has been negatively affected by restructuring charges of 73 MSEK for relocation of machine made cigars from the US to the Dominican Republic and restructuring of cigar production in Europe. All product areas increased operating profit. In local currency terms, operating profit increased for all product areas except for lights.

Group operating margin for the full year was 24.1 percent (22.8). Excluding the cigar restructuring charge, the operating margin during the year was 24.6 percent.

Other operations

Other operations primarily comprise the distribution of tobacco products in the Swedish market, some sales of pipe tobacco and accessories and corporate overhead costs.

Sales in Other operations were 2,843 MSEK (2,783) while operating result was a negative 123 MSEK (negative 146).

Net finance cost

Net finance costs for the year amounted to 443 MSEK (441).

Sales and operating profit/loss by product area

	Sales		Operating profit/loss	
MSEK	**2009**	**2008**	**2009**	**2008**
Snus and snuff	4,250	3,725	1,916	1,658
Chewing tobacco	1,112	934	411	329
Cigars	4,426	3,644	935	686
Lights	1,574	1,525	279	275
Other operations	2,843	2,783	–123	–146
Subtotal	**14,204**	**12,611**	**3,417**	**2,801**
Larger one time items:				
Gain on sale of subsidiary and related assets	–	–	–	73
Total	**14,204**	**12,611**	**3,417**	**2,874**

Summary of consolidated income statement

MSEK	**2009**	**2008**
Sales	14,204	12,611
Operating profit	3,417	2,874
Net finance cost	–443	–441
Income tax expense	–613	–342
Profit for the year from continuing operations	**2,361**	**2,091**
Discontinued operations		
Profit for the year from discontinued operations, net after tax	785	170
Profit for the year	**3,146**	**2,261**
Attributable to:		
Equity holders of the Parent	3,146	2,261
Minority interests	1	1
Profit for the year	**3,146**	**2,261**
Earnings per share, basic (SEK)		
From continuing operations	9.67	8.30
Including discontinued operations	12.88	8.98

Taxes

For the full year, the reported tax expense amounted to 613 MSEK (342), corresponding to a tax rate of 20.6 percent (14.1). The tax rate includes one time items, and excluding those the underlying tax rate was around 22 percent for the full year. In Sweden the corporate tax rate was reduced from 28 percent to 26.3 percent as from January 1, 2009.

The change in the tax rate compared to the full year 2008 is mainly explained by the significant positive one-time reversals of tax provisions in 2008 and a tax exempt gain from the sale of the UK subsidiary in 2008. Currency movements also impact the tax rate as a large portion of profits are generated in the US where the Group's average tax rate is approximately 38 percent.

Earnings per share

For the full year basic earnings per share, excluding discontinued operations, was 9.67 SEK (8.30), while diluted EPS was 9.66 SEK (8.29). Basic EPS including discontinued operations for the year was 12.88 SEK (8.98), while diluted EPS was 12.87 SEK (8.96).

Liquid funds

Cash and cash equivalents amounted to 2,530 MSEK at the end of the period, compared with 3,178 MSEK at the beginning of 2009. As of December 31, 2009, Swedish Match had 2,559 MSEK in unutilized committed credit lines. In the beginning of 2010 a syndicated loan has been renegotiated and certain bi-lateral credit lines have matured. Following this change, the amount of unutilized committed credit lines is 160 MEUR.

Financing and cash flow

Cash flow from operations for the year amounted to 2,911 MSEK compared with 1,838 MSEK in 2008. Cash flow from operations in the first quarter of 2008 was negatively affected by timing differences in working capital and excise tax payments from the hoarding in the Swedish market at the end of 2007.

The net debt as per December 31, 2009 amounted to 7,188 MSEK compared to 7,640 MSEK at December 31, 2008. During the year new bond loans of 998 MSEK were issued. Repayment of loans for the same period amounted to 2,018 MSEK including repurchase of 900 MSEK of bond loans with shorter maturities. As at December 31, 2009 Swedish Match had 8,578 MSEK of interest bearing debt excluding retirement benefit obligations. During 2010, 1,002 MSEK of this debt falls due for repayment.

Capital expenditure and depreciation

Investments in property, plant and equipment in the year amounted to 471 MSEK (319). During the year, total depreciation, amortization and write-downs amounted to 468 MSEK (420), of which depreciation and write-down on property, plant and equipment amounted to 350 MSEK (300) and amortization of intangible assets amounted to 118 MSEK (120). Amortization of intangible assets mainly pertains to trademarks.

Dividend and financial policy

The dividend policy of the Company is a pay-out ration of 40 to 60 percent of the earnings per share, subject to adjustments for larger one time items. The Board has further determined that

Summary of consolidated balance sheet

MSEK	2009	2008
Non-current assets	8,510	9,444
Inventories	3,025	3,202
Other current assets	2,271	2,530
Cash and cash equivalents and other investments	2,531	3,179
Total assets	**16,337**	**18,355**
Equity	903	1,381
Non-current loans	8,252	9,975
Non-current financial liabilities and provisions	2,741	2,618
Current loans	1,002	743
Current liabilities and provisions	3,438	3,638
Total equity and liabilities	**16,337**	**18,355**

Summary of consolidated cash flow statement

MSEK	2009	2008
Net cash from operating activities	2,911	1,838
Net cash used in investing activities	1,043	–61
Net cash used in financing activities	–4,707	–2,267
Net decrease in cash and cash equivalents	**–753**	**–491**
Cash flow from discontinued operations		
Net cash from operating activities	219	142
Net cash used in investing activities	–6	13
Net cash used in financing activities	–51	42
Net increase in cash and cash equivalents	**162**	**196**
Cash and cash equivalents at beginning of the year	3,178	3,439
Effects of exchanges rate fluctuations on cash and cash equivalents	–58	34
Cash and cash equivalents at end of year	**2,530**	**3,178**

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 maintaining an investment grade credit rating.

Proposed dividend per share

The Board proposes an increased dividend to 4.75 SEK (4.10), equivalent to 49 percent (46) of the earnings per share for the year. The proposed dividend amounts to 1,099 MSEK based on the 231.3 million shares outstanding at the end of the year.

Share structure

The Annual General Meeting on April 28, 2009 approved a mandate to repurchase shares for a maximum amount of 3,000 MSEK until the next Annual General Meeting with the condition that the Company at any time does not hold more than 10 percent of all shares of the Company. In addition, in accordance with the resolution at the Annual General Meeting, 4.0 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 251,000,000 shares with a quotient value of 1.5519 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

After Annual General Meeting approval, the Company issued 1,716,948 call options to senior Company officials and key employees for the stock option program for 2008. These call options can be exercised from March 2012 to February 2014. The strike price is 141.24 SEK.

In line with the financial policy 18.4 million shares were repurchased during 2009 for 2,598 MSEK at an average price of 140.94 SEK. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 85.62 SEK. During the year the Company sold 0.6 million treasury shares at an average price of 88.22 SEK as a result of option holders exercising options. As per December 31, 2009 Swedish Match held 19.7 million shares in treasury, corresponding to 7.8 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, 2009 amounted to 231.3 million. In addition, the Company has call options outstanding as of December 31, 2009 corresponding to 5.3 million shares exercisable in gradual stages from 2010 to 2014.

In January 2010, a further 2.3 million shares have been repurchased for 357 MSEK at an average price of 155.41 SEK.

The Board will propose to the Annual General Meeting in April 2010 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 2011. In addition a proposal will be made to cancel 20 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 2009 was 11,037 compared with 11,483 for the full year 2008.

Environmental impact

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

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

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

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2009. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

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

The plant in Tidaholm in Sweden produces matches, firestarters and match heads. These operations require 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.

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.

Developed markets for some tobacco products have been

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

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

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

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

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

For a more detailed description of the Group's financial risk management and holdings of financial instruments, see *Note 28, 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. Swedish Match's 1,250 MEUR Global Medium Term Note Program, the Swedish 4,000 MSEK Term Note Program and 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.

Other events

Swedish Match and Philip Morris International announced in February 2009 the agreement to establish an exclusive joint venture company to commercialize Swedish snus and other smokefree tobacco products worldwide, outside of Scandinavia and the United States. The joint venture, SMPM International AB, is based in Stockholm and the board of directors consists of six members, with three nominated by each company.

In February 2009, legislation was signed in the US to fund the State Childrens' Health Care Insurance Programs (SCHIP) through tobacco tax revenues (federal excise tax increases). The new federal excise tax rates became effective on April 1, 2009, and impacts both shipment volumes and consumption during 2009.

On June 22, 2009 a new law was signed in the US which grants the Food and Drug Administration (FDA) authority to regulate tobacco products. In accordance with the legislation, payments of user fees, certain registrations as well as other requirements begun implementation from the second half of 2009.

On July 2, 2009, Swedish Match AB announced that it had reached an agreement to sell its South African operations, Swedish Match South Africa (Proprietary) Limited (SMSA) to Philip Morris International for a purchase price amounting to 1.7 billion ZAR. The transaction was completed during the month of September. In 2008 the South African operations had total sales of 688 MZAR. SMSA will continue to distribute lighters, matches and cigars for Swedish Match.

At the end of 2009, Swedish Match and Lorillard agreed to end their joint venture testing of snus in the US. Swedish Match will continue to market snus, primarily using the General brand. Swedish Match snus is now available in more than 600 tobacconist stores.

Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US in a proceeding that started in 1997. A District Court ruled in favor of Cubatobaco in 2004. A US Court of Appeals reversed the District Court's ruling and concluded that General Cigar is the rightful owner of the trademark in the US. The matter was appealed to the Supreme Court which denied review of the case. Despite this the case was reopened by the District Court in 2008 on the basis that there had been a change in New York State law and the District Court again ruled in favor of Cubatabaco in December 2009. General Cigar has filed an appeal and has asked the US Court of Appeals to again reverse the ruling of the District Court. Pending the outcome of this appeal Swedish Match can continue selling products under the Cohiba brand in the US. In the opinion of

management there are good defenses against Cubatabaco's claims and the case will continue to be vigorously defended.

Events following the close of the reporting period

On January 15, 2010, Swedish Match AB announced that it had signed a letter of intent with Scandinavian Tobacco Group (STG) which would, if an agreement is reached, combine the cigar and pipe tobacco businesses of Swedish Match (with the exception of the US machine made cigar business) with the cigar, pipe tobacco, and fine cut tobacco businesses of STG. The new company would have annual sales in the range of 670 MEUR. Swedish Match would own 49 percent of the new company, while STG would own 51 percent. On February 15, Swedish Match received the necessary consent from bondholders. Completion of the transaction is still subject to due diligence by both parties, final transaction agreements, and regulatory approvals. Signing is expected to take place during the first half of 2010 with completion as soon as possible thereafter.

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 2010. 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 2009 (*Note 7 Personnel*) sets out details of the remuneration and benefits of the GMT during 2009.

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. 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"). For 2010 the maximum total accruals for GMT members is estimated to 0.4 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. Members of the GMT residing in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined contribution pensions for portions of their salary in excess thereof. Pensions for members of the GMT residing outside Sweden shall preferably be through defined contribution pensions based on the fixed salary.

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

Application of principles on variable salary for 2010

The Board has not proposed any long term share related incentive program for 2010.

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 incentive and a long term 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.

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 2010 base salary. To comply with local market standards the maximum short term incentive for members residing outside of Sweden shall be 100 percent of the 2010 base salary. With the exception of one member of the GMT residing outside of Sweden, and 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.

Accruals for short term variable salary objectives for 2010 are estimated[1)] to range between zero below minimum level and 20 MSEK at maximum level.

2. Long term variable salary

The maximum long term variable salary of the President and other members of the GMT residing in Sweden shall be 45 percent of the 2010 base salary and for members residing outside of Sweden the maximum long term variable salary shall be capped at 65 percent, except for one member residing outside Sweden whose maximum long term variable salary shall be capped at 95 percent. 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.

Accruals for the 2010 long term incentive program are estimated[1)] to range between zero below minimum level and MSEK 16 at maximum level depending on performance outcome.

For the principles of remmuneration adopted by the Annual General Meeting in April 2009, see *Note 7 Personnel*.

Outlook

During 2010 Swedish Match will take further steps to strengthen our position as a leading smokefree tobacco company while maintaining our commitment to profitability in other product categories. For 2010 we expect both the snus market in Scandinavia and the snuff market in the US to grow.

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

The tax rate from continuing operations for 2009, excluding one time items, was around 22 percent, and is expected to be at a similar level in 2010.

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 2 MSEK (1). Profit before tax amounted to 4,742 MSEK (1,907) and net profit for the year amounted to 4,578 MSEK (1,914). The main sources of revenues for the Parent Company are dividends and Group contributions from subsidiaries.

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

Capital expenditures during the year amounted to 0 MSEK (1). The cash flow for the period was negative 2,702 MSEK (negative 106). During the year new bond loans of 998 MSEK were issued. Repayment of loans for the same period amounted to 1,485 MSEK including repurchase of 900 MSEK of bond loans with shorter maturities. During the period the Parent Company made share repurchases, net, of 2,547 MSEK (934) and paid dividend of 1,024 MSEK (886). Cash and bank at the end of the period amounted to 0 MSEK compared with 2,702 MSEK at the beginning of the year, which is an effect of a changed treasury set-up for the Group.

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

[1)] Estimation made on the assumption that Group Management Team is unchanged.

Consolidated income statement

MSEK	Note	2009	2008
Continuing operations			
Sales, including tobacco tax		25,483	22,793
Less tobacco tax		–11,279	–10,182
Sales	3	**14,204**	**12,611**
Cost of goods sold		–7,114	–6,437
Gross profit		**7,089**	**6,174**
Selling expenses		–2,782	–2,421
Administrative expenses		–898	–964
Other operating income and expenses	6	–2	1
Share of profit in equity accounted investees	16	10	11
Gain on sale of subsidiary and related assets		–	73
Operating profit	3, 6, 7, 8, 9	**3,417**	**2,874**
Finance income		86	154
Finance costs		–529	–595
Net finance cost		**–443**	**–441**
Profit before income tax		**2,974**	**2,433**
Income tax expense	11	–613	–342
Profit for the year from continuing operations		**2,361**	**2,091**
Discontinued operations			
Profit for the year from discontinued operations, net after tax	5	785	170
Profit for the year		**3,146**	**2,261**
Attributable to:			
Equity holders of the Parent		3,146	2,261
Minority interests		1	1
Profit for the year		**3,146**	**2,261**
Earnings per share, basic, SEK	12		
From continuing operations		9.67	8.30
Including discontinued operations		12.88	8.98
Earnings per share, diluted, SEK	12		
From continuing operations		9.66	8.29
Including discontinued operations		12.87	8.96

Consolidated statement of comprehensive income

MSEK	Note	2009	2008
Profit for the year		**3,146**	**2,261**
Other comprehensive income	22		
Translation differences related to foreign operations		–222	820
Translation differences included in profit and loss		163	6
Effective portion of changes in fair value of cash flow hedges		41	–184
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		25	–
Actuarial gains and losses attributable to pensions, incl. payroll tax		–115	–952
Income tax relating to components of other comprehensive income	11	38	344
Total other comprehensive income, net of tax		**–70**	**34**
Total comprehensive income		**3,076**	**2,296**
Attributable to:			
Equity holders of the Parent		3,075	2,295
Minority interest		1	1
Total comprehensive income		**3,076**	**2,296**

Consolidated balance sheet

MSEK	Note	December 31, 2009	December 31, 2008
Assets			
Intangible assets	13	3,792	4,702
Property, plant and equipment	14	2,409	2,372
Forest plantations	15	116	86
Investments in associates and joint ventures	16	132	117
Other non-current receivables	17	1,351	1,575
Deferred tax assets	11	710	592
Total non-current assets		**8,510**	**9,444**
Inventories	18	3,025	3,202
Trade receivables	19	1,746	1,828
Prepaid expenses and accrued income		186	193
Income tax receivables		84	160
Other receivables	17	253	348
Other investments	20	1	1
Cash and cash equivalents[1)]	20	2,530	3,178
Total current assets		**7,826**	**8,911**
TOTAL ASSETS		**16,337**	**18,355**
Equity	21		
Share capital		390	390
Reserves		194	204
Retained earnings		315	782
Equity attributable to equity holders of the Parent		**899**	**1,377**
Minority interests		4	4
TOTAL EQUITY		**903**	**1,381**
Liabilities			
Loans and borrowings	23, 28	8,252	9,975
Other liabilities	26	150	39
Provision for pensions and similar obligations	24	1,291	1,298
Other provisions	25	489	522
Deferred tax liabilities	11	812	759
Total non-current liabilities		**10,994**	**12,593**
Loans and borrowings	23, 28	1,002	743
Trade payables		653	754
Income tax liabilities		238	183
Other liabilities	26	1,410	1,672
Accrued expenses and deferred income	27	1,012	999
Provisions	25	125	29
Total current liabilities		**4,440**	**4,381**
TOTAL LIABILITIES		**15,434**	**16,975**
TOTAL EQUITY AND LIABILITIES		**16,337**	**18,355**

For information on the Group's pledged assets and contingent liabilities, see *Note 30 Pledged assets* and *Note 31 Commitments and contingent liabilities and assets*.

[1)] Cash and cash equivalents include current investments with maturity of less than 90 days from acquisition.

Consolidated statement of changes in equity

2008	Note	Equity attributable to equity holders of the Parent: Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
Equity at beginning of year		**390**	**–486**	**817**	**720**	**4**	**724**
Adjustment for reclassification of pension plan IAS 19, net after tax		–	–	152	152	–	152
Adjusted equity at beginning of year		**390**	**–486**	**969**	**872**	**4**	**876**
Total comprehensive income[1)]	22	–	691	1,603	2,295	1	2,296
Dividends		–	–	–886	–886	–1	–886
Repurchase of own shares		–	–	–996	–996	–	–996
Stock options exercised		–	–	62	62	–	62
Cancellation of shares		–18	–	18	0	–	0
Bonus issue		18	–	–18	0	–	0
Share-based payments, IFRS 2		–	–	28	28	–	28
Equity at end of year		**390**	**204**	**782**	**1,377**	**4**	**1,381**

2009	Note	Equity attributable to equity holders of the Parent: Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
Equity at beginning of year		**390**	**204**	**782**	**1,377**	**4**	**1,381**
Total comprehensive income[1)]	22	–	–11	3,085	3,075	1	3,076
Dividends		–	–	– 1,024	–1,024	0	–1,024
Repurchase of own shares		–	–	–2,598	–2,598	–	–2,598
Stock options exercised		–	–	51	51	–	51
Cancellation of shares		–6	–	6	0	–	0
Bonus issue		6	–	–6	0	–	0
Share-based payments, IFRS 2		–	–	18	18	–	18
Equity at end of year		**390**	**194**	**315**	**899**	**4**	**903**

[1)] The amount attributable to retained earnings consists of the profit for the year of 3,146 MSEK (2,261) and actuarial gains and losses, net after tax and payroll taxes attributable to defined pension plans in an amount of –60 MSEK (–657).

Consolidated cash flow statement

MSEK	Note	2009	2008
	33		
Operating activities			
Profit before income tax		2,974	2,433
Adjustments for non-cash items and other		511	213
Income tax paid		–507	–488
Net cash generated from operating activities before changes in working capital		**2,978**	**2,158**
Cash flow from changes in working capital			
Increase (–)/ Decrease (+) in inventories		–77	–136
Increase (–)/Decrease (+) in operating receivables		–31	203
Increase (+)/Decrease (–) in operating liabilities		41	–387
Net cash generated from operating activities		**2,911**	**1,838**
Investing activities			
Purchase of property, plant and equipment		–471	–319
Proceeds from sale of property, plant and equipment		3	109
Purchase of intangible assets		–16	–8
Acquisition of subsidiaries, net of cash acquired		–63	–7
Proceeds from sale of subsidiaries, net of cash disposed of		1,577	155
Change in non-current receivables		12	4
Change in other current investments		–	5
Net cash used in investing activities		**1,043**	**–61**
Financing activities			
Repurchase of own shares		–2,598	–996
Stock options exercised		51	62
Proceeds from non-current borrowing		998	801
Repayment of borrowings		–2,018	–1,284
Dividends paid to equity holders of the Parent		–1,024	–886
Other		–115	35
Net cash used in financing activities		**–4,707**	**–2,267**
Net decrease in cash and cash equivalents		**–753**	**–491**
Cash flow from discontinued operations			
Net cash from operating activities		219	142
Net cash from investing activities		–6	13
Net cash from financing activities		–51	42
Net increase in cash and cash equivalents		**162**	**196**
Cash and cash equivalents at the beginning of the year		3,178	3,439
Effect of exchange rate fluctuations on cash and cash equivalents		–58	34
Cash and cash equivalents at end of year		**2,530**	**3,178**

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, 2008.

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 1.2 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

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

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

The financial reports are presented in Swedish 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.

Evaluations and estimates in the financial reports

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

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

New standards, amendments and interpretations

A number of new standards, amendments to standards and interpretations of accounting standards have been applied in 2009.

IFRS 8 Operating Segments sets out the definition of operating segments and requirements for disclosure in the financial reports. In accordance with the standard the company shall adopt an approach based on the internal reporting structure and determine the segments based on that reporting structure. Swedish Match monitors and makes decision about operating matters based on product areas. For a more detailed description of the segments, see below under Reporting by Segments in this note.

Amendments to IAS 1 Presentation of Financial Statements set out a revised presentation of owner changes in equity and comprehensive income. Income and expense that previously was accounted for directly in equity is now accounted for in other comprehensive income which is presented in a separate report after the income statement. Prior periods have been restated in accordance with the new presentation. The revision does not change the recognition, measurement or disclosure of specific transactions.

Amendments to IFRS 7 Financial instruments: Disclosures set out additional disclosures for financial instruments valued at fair value in the balance sheet. These financial instruments are grouped in three classes according to the quality of the valuation method used to establish the fair value. In addition, the amendments have changed certain disclosures on liquidity risk. These disclosures are presented in *Note 28 Financial instruments and financial risks*.

Amendments to IAS 23 Borrowing Costs set out that borrowing costs directly pertaining to acquisition, construction or production of an asset that takes a substantial time to complete shall be capitalized. The amendment has not had a material impact on the financial report.

Amendments to IFRS 2 Share based payments concerning vesting conditions and cancellations, IFRIC 13 Customer Loyalty Programs, IFRIC 18 Transfers of Assets from Customers and Amendments to IFRIC 9 and IAS 39 Embedded Derivatives have not had an impact on the financial report.

New IFRSs and interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2010 or later and have not been applied in these financial reports:

Revised IFRS 3 Business Combinations and Amendments to IAS 27 Consolidated and Separate Financial Statements entail changes to the reporting of future acquisitions regarding for example the accounting for transaction costs, any contingent consideration and step acquisitions. The amendments to IAS 27 bring about changes regarding for example how to report changes in ownership in cases where the parent company retains or loses control of the owned entity. The revised IFRS 3 and amendments to IAS 27 will be applied for the Group prospectively from January 1, 2010.

The following amendments and interpretations applicable in 2010 or later are not expected to have a significant impact on the financial result or position of the group: amendments to IFRS 2 Share Based Payments concerning Group Cash-settled Share-based Payment Transactions, amendments to IAS 24 Related Party Disclosures, amendments to IAS 32 Financial Instruments Presentation concerning Classification of Rights Issues, amendments to IAS 39 Financial Instruments concerning Recognition and Measurement of Eligible Hedged Items, amendments to IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, IFRIC 17 Distribution of Non-Cash Assets to Owners , IFRIC 18 Transfers of Assets from Customers and IFRIC19 Extinguishing Financial Liabilities with Equity Instruments.

Discontinued operations

A component of the Group that comprises operations and cash flow that can be clearly distinguished , operationally and for reporting purposes from the rest of the Group is classified as a discontinued operation when it is disposed of, or classified as held for sale, if it represents a separate major line of business or geographical area of operations. 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. The South African operations that were divested in 2009 is presented as a discontinued operation in the income statement, including the gain on the sale of the business. Prior period income statements have been restated. Prior period balance sheets have not been restated.

Reporting by segment

The reportable segments for Swedish Match are *Snus and snuff, Chewing tobacco, Cigars, Lights* and *Other operations*. The South African operations accounted for the major part of the total Swedish Match pipe tobacco and accessories business and following the reporting of the South African business as discontinued and subsequent divestment, the classification of segments was changed. The remaining pipe tobacco and accessories operations are no longer reported in a separate segment but instead included in Other operations and the discontinued operations are excluded from the segment reporting. Due to the changed classification of operating segments, prior periods have been restated. The Group continues to use the accounting principles of IFRS in the segment reporting internally and the amounts are therefore the same as stated in the financial reports. 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.

Classification of current and non-current items

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

Consolidation principles

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

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

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

Foreign currencies

(i) Transactions in foreign currencies

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

(ii) Financial reports of foreign operations

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated into SEK at the exchange rate on the reporting date. Revenues and expenses from foreign operations are translated to SEK at an average exchange rate for the year. Translation differences arising from currency translation of foreign operations are reported 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**	**2009**	**2008**	**2009**	**2008**
USA	USD	7.65	6.58	7.18	7.77
Euro zone	EUR	10.62	9.61	10.30	10.95
Brazil	BRL	3.84	3.62	4.13	3.31

Revenues

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

Financial income and expenses

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

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

Financial instruments

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

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

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

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

The fair value of unlisted financial assets is based on a calculation of the net present value of future cash flows. IAS 39 classifies financial

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

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

Financial assets and liabilities at fair value through profit and loss
Financial assets and liabilities in this category which include financial investments reported as other investments or cash equivalents and certain noncurrent receivables, other receivables, prepaid expenses and accrued income, accrued expenses and deferred income, and other liabilities are valued at fair value with changes in value reported in the income statement.

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets
The Group assesses at the end of each reporting period financial assets for indications of impairments. 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.

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 lesser essentially retains ownership of the assets are classified as operating leases. Lease charges are expensed straight-line over the lease period.

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

For goodwill in acquisitions made before January 1, 2004, the Group has, with the transition to IFRS, not applied IFRS retroactively, but rather the value reported on this date continues to be the Group's acquisition value, following impairment testing, see *Note 13 Intangible assets*.

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

(ii) Trademarks and other intangible assets
Trademarks and other intangible assets acquired by the Group are reported at acquisition value less accumulated amortization and impairments. 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.

NOTE 1 CONTINUED

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

(iii) Amortization

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

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

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

Tangible assets

Tangible assets are reported in the Group at their acquisition value less accumulated depreciation and impairments if applicable. The acquisition value includes the purchase price and costs directly attributable to the asset in order to transport it to its place of use in the appropriate condition for being used in accordance with the purpose of the acquisition. In case there are borrowing costs that are directly attributable to the acquisition, construction or production of tangible assets that take substantial time to complete such costs 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 year
- 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

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

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

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

Impairments

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

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

Provisions

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

Share capital

Buybacks of own shares 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.

Obligations regarding fees for defined contribution plans are reported as an expense in the income statement when they occur. Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These assumptions are valued at the present value of the expected future disbursements using a discount rate that corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. In 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 an asset for the Group, the carrying value of the asset is limited to the net amount of non-reported actuarial losses and non-reported costs for service during prior periods and the present value of future repayments from the plan or reduced future payments to the plan. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to actuarial gains and losses. These arise when actual outcome deviate from projected outcome or when assumptions earlier made are changed. Actuarial gains and losses are reported in other comprehensive income and are not reported in the income statement.

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

Share-based payments

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

Social fees attributable to share-based instruments allotted to employees in lieu of purchased services are expensed during the year the options are earned. With respect to 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.

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 on the reporting date.

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

Contingent liabilities

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

Earnings per share

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

Parent Company accounting principles

The Annual Report of the Parent Company has been prepared in accordance with the Annual Accounts Act (1995:1554) and the Securities Markets Act which is in accordance with the rules of RFR 2.2 Accounting for Legal Entities issued by the Swedish Financial Reporting Board. RFR 2.2 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.

The Company has elected to apply the amendment to IAS 1 Presentation of Financial statements from 2009 as allowed by RFR 2.2. Following this amendment a separate report of Other comprehensive income has been added after the Income statement. Changes in equity therefore now resemble the changes in equity presented for the Group in that it excludes income and expense now presented in Other comprehensive income.

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

Subsidiaries, joint ventures and associated companies

Shares in subsidiaries, joint ventures and associated companies are valued at cost.

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.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of intangible and tangible assets that take substantial time to complete are expensed as incurred.

Taxes

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

Group and shareholder contributions for legal entities

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

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

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

2. 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 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. 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, 2009 amounted to 3,792 MSEK and amortization amounted to 128 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 2,609 MSEK. For further information on impairment test of intangible assets see *Note 13 Intangible assets*.

Legal disputes

As explained in *Note 31 Commitments and contingent liabilities and assets* Swedish Match is involved in a number of legal processes. 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.

Post employment benefits

Calculation of pension liability relating to defined-benefit plans requires management to make assumptions on the discount rate, expected return on plan assets and rate of compensation increase etc. as explained in *Note 24 Employee benefits*. 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, 2009 were estimated to exceed the fair value of plan assets by 1,141 MSEK.

3. Segment information

Swedish Match revenue from external customers are derived from the sales of goods. The Parent Company is domiciled in Sweden.

Swedish Match monitors and makes decisions about operating matters based on product areas. Swedish Match has identified five product areas as the Group's reportable segments. The reportable segments for Swedish Match are *Snus and snuff, Chewing tobacco, Cigars, Lights* and *Other operations*.

Snus and snuff are smokefree 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 the recent years experienced strong volume growth. The US 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 include *Ettan, General, Grov* and *Kronan* in Sweden and *Red Man, Timber Wolf* and *Longhorn* in the US.

Chewing tobacco is also a smokefree tobacco product primarily sold on the North America market. Well known brands include *Red Man* and *Southern Pride*. The chewing tobacco segment shows a declining trend.

Cigars includes premium cigars as well as machine-made cigars. Premium cigars are produced mainly in Latin America and the Caribbean with about two-thirds of total market production sold in the US. Outside the US, other important premium cigar markets are Spain, France and Germany. The leading Swedish Match brand in the US is *Macanudo*, produced in the Dominican Republic. Other Swedish Match US premium cigar brands are *Cohiba, La Gloria Cubana* and *Partagas*. Swedish Match machine-made cigars are manufactured in Europe, Indonesia and in the US. After the US, the most important cigar markets for machine-made cigars are France, Benelux, Finland and Spain. Some of the best known Swedish Match brands are *Garcia y Vega, White Owl* and *Game*, in the US and *La Paz, Willem II* and *Justus van Maurik*, in Europe.

Lights include manufacturing and distribution of matches and lighters. The main markets for Swedish Match are Europe, Latin America and parts of Africa. The consumption of matches shows a declining trend, particularly in Europe. The main markets for lighters are Russia, Europe and parts of Africa. Worldwide sales are generally stable, with declines in Europe partially offset by gains in other markets. Important brands for matches include *Solstickan* in Sweden, *Swan* in the UK, *Tres Estellas* in Spain, *Feudor* in France, *Fiat Lux* in Brazil and *Korona* in Hungary, among others. For lighters, the brand is *Cricket*.

Other operations primarily include the distribution of tobacco products on the Swedish market, some sales of pipe tobacco and accessories and corporate overhead costs.

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

Operating segments	Snus and snuff 2009	Snus and snuff 2008[1]	Chewing 2009	Chewing 2008[1]	Cigars 2009	Cigars 2008[1]	Lights 2009	Lights 2008[1]	Other operations 2009	Other operations 2008[1]	Swedish Match Group 2009	Swedish Match Group 2008[1]
External sales	4,250	3,725	1,112	934	4,426	3,644	1,574	1,525	2,843	2,783	14,204	12,611
Depreciations and amortizations	–150	–147	–21	–17	–241	–203	–45	–41	–11	–12	–468	–420
Share of profit in equity accounted investees	–9	0	–	–	17	10	1	1	1	–	10	11
Operating profit	**1,916**	**1,658**	**411**	**329**	**935**	**686**	**279**	**275**	**–123**	**–146**	**3,417**	**2,801**
Gain on sale of subsidiary and related assets	–	–	–	–	–	–	–	–	–	73	–	73
Operating profit, including larger one time items	**1,916**	**1,658**	**411**	**329**	**935**	**686**	**279**	**275**	**–123**	**–73**	**3,417**	**2,874**
Finance income											86	154
Finance costs											–529	–595
Profit before income tax											**2,974**	**2,433**
Significant non-cash items other than depreciations and amortizations												
Impairment losses	–	–	–	–	–30	–5	–	–	–	–	**–30**	**–5**
Restructuring charges	–	–	–	–	–44	–	–	–	–	–	**–44**	**–**
Gains/losses from sale of fixed assets	–2	–1	–	–	–	25	–	18	–	28	**–2**	**70**
Investments												
Property, plant and equipment[2]	317	173	19	14	61	53	71	74	3	4	**471**	**319**
Intangible assets	–	4	–	–	8	2	2	–	6	2	**16**	**8**

[1] 2008 has been restated for discontinued operation. For further information see *Note 5 Discontinued operations*.
[2] Investments in property, plant and equipment for Lights operations include investments in forest plantations.

During 2009 as well as in 2008, there were no impairment losses for intangible assets.

Geographic information

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

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

	Revenue from external customers				Fixed assets[1]			
	2009		2008		2009		2008	
Country	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	5,279	37	4,841	38	2,293	33	2,126	28
USA	5,202	37	4,160	33	2,569	37	2,844	37
Rest of the world	3,723	26	3,610	29	2,118	30	2,718	35
Total	**14,204**	**100**	**12,611**	**100**	**6,980**	**100**	**7,688**	**100**

[1] Non-current assets other than financial instruments, deferred tax assets and pension assets.

Information about major customers

Swedish Match generates its revenue from a diversed customer portfolio and the reliance on individual customer is therefore limited. Revenue from the Group's largest single external customer constituted 5 percent of the Group's total sales, whereof 2 percent in Cigars, 2 percent in Snus and snuff and 1 percent in Chewing tobacco.

4. Business combinations

On February 2, 2009, Swedish Match acquired 100 percent of the shares in Rocker Production AB from Philip Morris International for 31 MSEK in cash. Rocker Production is a producer of Swedish snus with a productions facility in Arvika, Sweden. At the date of the acquisition, the acquired company's fair value net assets amounted to 31 MSEK. Of the company's assets, tangible assets accounted for 21 MSEK, inventories for 12 MSEK and other assets for 3 MSEK. Acquired liabilities amounted to 5 MSEK. If the acquisition had occurred on January 1, 2009, the Group estimates that net sales for the Group would have increased by 1 MSEK and net profit would have decreased by 2 MSEK. Acquisition balances are reported in accordance with IFRS.

During 2009, 1 MUSD or 8 MSEK was paid out to the former owners of Havana Honeys, resulting from certain targets stipulated in the purchase agreement being achieved. No assets have been recognized due to the additional payment as it was included in the purchase price. Havana Honeys, Inc. was a privately-held company that was acquired in 2008. The company manufactures flavored cigars under the Havana Honeys brand.

During 2009, intangible assets of 1 MUSD or 8 MSEK were recognized due to additional considerations to the former owners of Cigars International, resulting from certain targets stipulated in the purchase agreement being achieved. Additional amounts will be recognized if certain targets are achieved for 2010. Cigars International is a US based distributor of premium cigars specializing in mail order and internet sales. The company was acquired in 2007.

No business acquisitions were made during 2008.

5. Discontinued operations

The discontinued operations refer to the sale of Swedish Match South African operations, which was completed September 14, 2009. The sales was completed at a sales price of 1,980 MZAR or 1,881 MSEK less an adjustment for cash and working capital amounting to 45 MZAR or 43 MSEK, with a tax exempt capital gain of 628 MSEK. The South African operation primarily manufacture and sell pipe tobacco and nasal snuff. It accounted for approximately 70 percent of the sales of the former pipe tobacco and accessories segment.

Result from discontinued operations	2009	2008
Sales	489	551
Expenses	–319	–338
Income taxes	–13	–43
Capital gain from sale of discontinued operations	628	–
Profit from discontinued operations, net after tax	**785**	**170**
Earnings per share from discontinued operations		
Basic (SEK)	3.21	0.68
Diluted (SEK)	3.21	0.67

6. Other operating income and expenses

Other operating income and expenses includes foreign exchange gains of 6 MSEK (8) and foreign exchange losses of 8 MSEK (7).

7. Personnel

The average number of employees in the Parent Company during 2009 was 58, and in the Group 11,037. The corresponding numbers in 2008 were 59 and 11,483 respectively.

Group employees by country are summarized in the table below:

	2009		2008	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	58	55	59	58
Subsidiaries				
Australia	57	58	52	58
Belgium	387	36	407	36
Brazil	703	70	748	69
Bulgaria	93	39	96	39
Dominican Republic	3,321	37	3,429	39
France	84	69	82	71
Honduras	1,472	47	1,817	50
Indonesia	2,001	15	1,983	17
Italy	5	40	7	57
Netherlands	232	77	230	79
New Zealand	8	50	7	43
Norway	45	67	42	69
Philippines	173	53	153	46
Poland	14	57	14	57
Portugal	19	79	19	74
Slovenia	15	87	14	86
Spain	48	79	45	80
Sweden	938	59	898	54
Turkey	16	69	23	78
United Kingdom	–	–	26	65
United States	1,343	65	1,325	64
Other countries	5	50	7	43
Total	**11,037**	**44**	**11,483**	**45**

Board and management by gender[1]:

	2009		2008	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	10	60	10	60
President and other management	6	100	7	100
Group				
Board members	119	81	140	77
President and other management	91	82	149	83

[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:

	2009			2008		
	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	86	53	12	106	50	12
Subsidiaries	1,812	548	179	1,600	411	98
Total	**1,898**	**601**	**191**	**1,706**	**461**	**110**

[1] Defined as service cost for defined benefit pension plans and contributions for defined contribution pension plans (excluding special employer contributions).

The pension costs for the Parent Company includes 5 MSEK (6) attributable to the President and other management consisting of seven persons during 2009 and eight persons in 2008. The defined benefit obligations for the Parent Company related to the President amounts to 4 MSEK (3) and other management amounting to 49 MSEK (43). Defined benefit obligations to the former President who resigned during 2008 amounts to 20 MSEK (20). The pension costs for the subsidiaries include 11 MSEK (14) attributable to Board members, Presidents and other management consisting of 46 persons (108 persons). The defined benefit obligations related to these persons amount to 107 MSEK (217). A more distinct definition of management within subsidaries has been applied for 2009 compared to prior years. 2008 data reflects a somewhat wider definition of management for smaller subsidaries.

NOTE 7 CONTINUED

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

	2009			2008		
	Board, President and other Management[1)]	of which, variable salaries and options	Other employees	Board, President and other Management[1)]	of which, variable salaries and options	Other employees
Parent Company						
Sweden	39	15	47	56	19	51
Subsidiaries						
Total in subsidiaries	128	42	1,684	144	31	1,456
Total	**167**	**57**	**1,730**	**200**	**50**	**1,507**

1) The Board, President and other management employed by the Parent Company consisted in average of 14 persons (15) and in the subsidiaries of 46 persons (108) , whereof 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 2009, 30 MSEK (39) including social charges were expensed to a profit-sharing foundation on behalf of Group personnel in Sweden.

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 28, 2009 decided, for the period up to and including April 27, 2010 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,575,000 SEK, the deputy chairman shall receive 745,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 630,000 SEK and that compensation for committee work shall amount to a maximum of 920,000 SEK in total of which the Chairmen of the Compensation Committee and the Audit Committee shall receive 230,000 SEK respectively and the other members of these committees shall each receive 115,000 SEK. 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 2009. In 2009 a study fee in the amount of 52,960 SEK was paid to each of the three employee representatives on the Board, and in the amount of 39,640 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 charged to the income statement for Board work during 2009 and 2008 are shown in the tables below:

Fees to Board members

	2009			
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	86	–	716
Andrew Cripps *Board member*	716	–	115	831
Karen Guerra *Board member*	630	–	–	630
Arne Jurbrant *Board member*	630	115	–	745
Kersti Strandqvist *Board member*	630	–	115	745
Meg Tivéus *Board member*	630	111	230	971
Total	**5,441**	**543**	**460**	**6,444**

	2008			
TSEK	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson *Board chairman*	1,556	225	–	1,781
Charles A. Blixt *Board member*	623	–	–	623
Andrew Cripps *Board member*	623	–	114	736
Karen Guerra *Board member*	473	–	–	473
Arne Jurbrant *Board member*	623	114	–	736
Kersti Strandqvist *Board member*	623	–	114	736
Meg Tivéus *Board member*	623	114	225	961
Total	**5,141**	**453**	**453**	**6,046**

Remuneration and other benefits to Group Management Team

Principles adopted by the 2009 Annual General Meeting

The Annual General Meeting on April 28, 2009 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group Management (i.e. the President, Divisional Presidents and Senior Vice Presidents in charge of Group functions reporting directly to the President).

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

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

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

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

   The Group Management Team may, subject to decision by the Annual General Meeting, be covered by a long term share related incentive program.
3. *Profit Sharing System:* All employees in Sweden are participating in the Swedish Match 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 Group Management Team is resident. Members of the Group Management Team residing in Sweden shall be covered by the ITP plan (supplementary pensions for salaried employees) for portions of their salary up to 30 times the income base amount and by defined contribution pensions for portions of their salary in excess thereof. Pensions for members of the Group Management Team residing outside Sweden shall preferably be through defined contribution pensions based on the fixed salary.
5. *Severance pay, etc:* A mutual period of notice of six months shall apply. Severance pay shall normally total a maximum of eighteen months fixed salary if notice of termination is given by the Company. The severance pay shall be reduced by income from other employment or assignments, but by no more than 50 percent thereof and no more than half of the severance pay. In individual cases the Board of Directors may approve severance arrangements where notice of termination given by the employee due to significant structural changes, in certain circumstances, is equated with notice of termination served by the Company.
6. *Other benefits:* Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to the market norm.
7. *The Board's right to deviate from the principles:* The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
8. *Committee work and decisions:* the Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the Group Management Team, except those regarding the President. The Committee shall also prepare and present proposals for the Board's decisions on issues relating to share related incentive schemes and for salary and other remuneration and employment terms for the President. In addition hereto, the Committee is authorized to decide (and in relation to the President to propose to the Board of Directors) the further details of how to set the criteria and targets on which the variable salary is based for the Group Management Team.

Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Options[2]	Other benefits	Pension costs	Total	Defined benefit	Severance Costs
President[1]	**2009**	**5,242**	**2,759**	**2,385**	**211**	**1,942**	**12,539**	**3,715**	**–**
	2008	6,991	3,474	1,783	145	2,514	14,907	23,601	9,630
Other members of Group Management Team employed by the Parent Company	**2009**	**11,835**	**4,582**	**4,994**	**672**	**3,508**	**25,591**	**48,634**	**–**
	2008	12,646	5,452	8,378	953	3,816	31,245	42,670	–
Other members of Group Management Team employed by subsidiaries	**2009**	**10,711**	**11,438**	**6,541**	**1,920**	**3,474**	**34,084**	**29,147**	**–**
	2008	10,655	3,534	5,757	2,178	3,679	25,803	16,506	11,400
Total	**2009**	**27,787**	**18,779**	**13,920**	**2,803**	**8,924**	**72,213**	**81,496**	**–**
	2008	30,293	12,460	15,918	3,276	10,009	71,956	82,777	21,030

[1] Includes costs for both Lars Dahlgren and Sven Hindrikes during 2008.
[2] Options costs are recognized in accordance with IFRS 2, excluding social security charges.

Comments to the table

- In the end of 2009, the Group Management Team consisted of ten persons including the President. During 2009, twelve persons, including the President, have been assigned to the Group Management Team. However, during 2009, the Group Management Team never consisted of more than ten members at the same time. The President and five other members of the Group Management Team are employed by the Parent Company and four members are employed by subsidiaries. In 2008, thirteen persons, including the President, were assigned to the Group Management Team. However, during 2008, the Group Management Team never consisted of more than ten members at the same time. As of June 1, 2008, Lars Dahlgren replaced Sven Hindrikes as President. The President and six members were employed by the Parent Company and three members were employed by subsidiaries. Each respective subsidiary pays salary and other remuneration to the members of the Group Management Team employed by that subsidiary.
- Variable salary pertains to accruals charged to the consolidated income statement based on the achieved results in 2009 and 2008 respectively. The variable salary accrued in 2008 is paid in 2009 and variable salary accrued in 2009 is paid in 2010.
- Options relate to the costs according to IFRS. Options accrued in 2008 are alloted in 2009 and options accrued in 2009 are allotted in 2010.
- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and contributions for defined contribution pension plans (excluding payroll taxes).

NOTE 7 CONTINUED

Variable salary

In 2009, Group Management Team participated in an incentive program (variable salary) described under the presentation of the principles for salary and other remuneration above.

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

Options

The Group had in 2009 an option program that can result in an allotment of call options on shares in Swedish Match AB. The allotment is subject to the fulfillment of the result of two mutually independent criteria: the improvement of the rolling three year average in the Group's earning per share and the result of the return after tax on operating adjusted capital compared to the previous three years average. In addition, participants need to retain as an employee at the end of the year in which the options are earned. The options are granted at the beginning of the year in which they are earned and vest at the end of the same year. In 2009 options were allotted to 64 senior executives, including the President and other members of Group Management Team, based on the results for 2008. In countries, such as Sweden, where the call options are taxed as income at allotment the participant receive options to the value of the net allotment and the amount of the income tax is paid in cash to the participant. Other participants receive options to the value of the gross allotment.

In 2009, 1,716,948 options were allotted. These can be exercised between March 1, 2012 and February 28, 2014. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 141.24 SEK per share. The options are valued by an external institution in accordance with the Black & Scholes model. The value at the time of distribution was 16.56 SEK per option, corresponding to a total of 28 MSEK. The valuation was based on the following conditions: the average share price ten trading days starting with the day the annual results 2008 was published which was 117.70 SEK, expected volatility was 30.6 percent and the risk-free interest rate was 2.03 percent. The expected volatility is mainly based on historic volatility of the Swedish Match AB share. An assumption about dividend growth is also made to compute the value of the options. Based on the results in 2009, options to a maximum value of 49 MSEK will be allotted in 2010 to maximum 74 participants. The exercise price will be 120 percent of the average share price ten trading days starting with the day the annual results 2009 were published.

The outcome for 2009 was 67 percent fulfillment of the two mutually independent criteria. In 2008, the allotment corresponded to 100 percent fulfillment of the two criteria taken together.

During 2009, the Group's consolidated income statement was charged with 30 MSEK (41), excluding social charges, and the Parent Company's income statement was charged with 11 MSEK (15), excluding social charges, pertaining to options vested during the year. For program participants in Sweden, the allotment of options constitutes a taxable income.

	2009		2008	
Number and weighted average of exercise prices for shares under options, SEK	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**
Outstanding at beginning of period	139.85	4,152,641	109.68	3,352,295
Granted during period	141.24	1,716,948	172.68	1,592,851
Exercised during period	88.22	573,645	78.22	792,505
Expired during period	–	–	–	–
Outstanding at period-end	**145.89**	**5,295,944**	**139.85**	**4,152,641**
Exercisable at period-end	113.34	1,054,443	93.76	1,104,271

The average share price for share options exercised in 2009 was 118.72 SEK (142.95).

The options outstanding at December 31, 2009 and which all are vested are specified in the table below:

Exercise period	**Exercise price**	**Number of underlying shares**	**Exercised options**	**Net outstanding options**
2008-03-03—2010-03-01	99.75	661,871	131,245	530,626
2009-03-02—2011-02-28	127.10	523,817	–	523,817
2010-03-01—2012-02-29	145.50	931,702	–	931,702
2011-03-01—2013-02-28	172.68	1,592,851	–	1,592,851
2012-03-01—2014-02-28	141.24	1,716,948	–	1,716,948
Total		**5,427,189**	**131,245**	**5,295,944**

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 those eight 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. The Company pays a pension premium amounting to 35 percent of fixed salary above 30 times the income base amount. Two members of Group Management Team, who are residents abroad, are covered by a defined benefit pension plan with a normal retirement age of 65. Annual variable salary is capped at 30 percent of the fixed salary in the calculation of retirement benefits for one of the Group Management Team members that recide abroad and 50 percent for the other.

Funding of pension commitments

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

All pension benefits are vested benefits.

Other employment conditions

Severance pay etc.

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

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

8. Audit fees

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

Audit fees	2009	2008
KPMG		
Audit	14	12
Other services	7	3
Total	**21**	**15**

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

9. Operating expenses classified by nature

Operating expenses	2009	2008
Personnel expenses	2,504	2,204
Depreciation/amortization	439	415
Impairment losses	30	5
Other operating expenses	7,822	7,197
Total	**10,795**	**9,821**

10. Net finance cost

Financial income	2009	2008
Interest income relating to pension receivables	6	16
Interest income relating to financial instruments held for trading	58	104
Interest income relating to cash and bank	22	34
Net gain on other financial liabilities	0	–
Total	**86**	**154**

Financial expenses	2009	2008
Interest expense relating to pension liabilities	–77	–34
Interest expense relating to financial liabilities measured at amortized cost	–404	–473
Interest expense relating to financial liabilities revalued to fair value	–24	–66
Net loss on financial liabilities revalued to fair value	–2	–2
Net foreign exchange losses	–6	–5
Other financial expenses	–17	–15
Total	**–529**	**–595**
Net finance cost	**–443**	**–441**

11. Income tax

The major components of income tax expense/income for the years ended 31 December 2009 and 2008 are:

Income tax expense reported in consolidated income statement	2009	2008
Current income tax	–578	–187
Adjustments of current income tax of previous year	–25	–49
Deferred income tax	–10	–106
Total	**–613**	**–342**

Income tax reported in consolidated statement of other comprehensive income	2009	2008
Actuarial net gains/losses attributable to pensions	56	295
Revaluation of cash flow hedges net gain/loss	–17	49
Total	**38**	**344**

NOTE 11 CONTINUED

The taxable temporary differences for the years ended 31 December 2009 and 2008 are summarized below:

Deferred income tax liabilities	2009	2008
Pension and medical benefits	96	39
Accelerated depreciation	657	741
Inventory reserves	58	57
Withholding tax on unremitted earnings of subsidiaries	9	54
Revaluation of financial items	37	–
Other	46	44
Netting of assets and liabilities	–91	–176
Net total	**812**	**759**

The deductible temporary differences that resulted in deferred tax assets for the years ended 31 December 2009 and 2008 are summarized below:

Deferred income tax assets	2009	2008
Tax losses carried forward	0	10
Provisions for bad debts	5	6
Revaluation of financial items	23	40
Pension and medical benefits	474	445
Accelerated depreciation	8	21
Inventory reserves	11	12
Other	280	234
Netting of assets and liabilities	–91	–176
Net total	**710**	**592**

During the year, the net of deferred tax liabilities and assets decreased by 64 MSEK (–163). An increase of 10 MSEK (106) is reported in the income statement. A decrease of 38 MSEK (–344) is reported in other comprehensive income and a decrease of 36 MSEK (75) originated mainly from divested units.

The tax losses carried forward expires as follows:

Year	Amount
2010	14
2011	25
2012	19
2013	10
2014	28
Thereafter	0
Total tax losses carried forward	**96**
Total tax losses carried forward not recognized	**96**

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended 31 December 2009 and 2008 is as follows:

	2009		2008	
Reconciliation of effective tax rate	**%**	**MSEK**	**%**	**MSEK**
Accounting profit before income tax excluding discontinued operations		**2,974**		**2,433**
Swedish statutory tax rate	**26.3**	**782**	**28.0**	**681**
Effect of tax rates in foreign jurisdictions	–5.0	–148	–11.7	–285
Effect of enacted change of tax rate	0 .0	0	–0.8	–20
Tax exempt items	–0.8	–24	–1.9	–46
Non-deductible amortization of intangible assets	0.0	0	0.3	8
Adjustments of current income tax for prior years	– 0.8	–25	–2.0	–49
Non-deductible expenses	0.3	9	1.8	44
Other items	0.6	19	0.4	9
Reported effective tax	**20.6**	**613**	**14.1**	**342**

12. Earnings per share

Basic	2009	2008
Profit from continuing operations attributable to equity holders of the Parent	2,361	2,091
Profit from discontinued operation attributable to equity holders of the Parent	785	170
Profit attributable to equity holders of the Parent	**3,146**	**2,261**
Weighted average number of shares outstanding, basic	**244,259,880**	**251,867,479**

Diluted	2009	2008
Profit from continuing operations attributable to equity holders of the Parent	2,361	2,091
Profit from discontinued operation attributable to equity holders of the Parent	785	170
Profit attributable to equity holders of the Parent	**3,146**	**2,261**
Weighted average number of shares outstanding, basic	244,259,880	251,867,479
Effect of issued options	180,177	344,254
Weighted average number of shares outstanding, diluted	**244,440,057**	**252,211,733**

Earnings per share, basic, SEK	2009	2008
From continuing operations	9.67	8.30
From discontinued operations	3.21	0.68
Including discontinued operations	12.88	8.98

Earnings per share, diluted, SEK	2009	2008
From continuing operations	9.66	8.29
From discontinued operations	3.21	0.67
Including discontinued operations	12.87	8.96

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

Certain of the options issued have an exercise price above the average market price during 2009. As of December 31, 2009 the Company has call options corresponding to 5.3 million shares outstanding. These call options can be exercised in gradual stages between 2010 and 2014 at exercise prices varying between 99.75 SEK and 172.68 SEK. For a table detailing options outstanding at December 31, 2009, see *Note 7 Personnel*.

13. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets [1]		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Cost at beginning of year	**3,215**	**2,848**	**2,538**	**2,487**	**197**	**167**	**5,950**	**5,503**
Purchases/investments	–	–	0	0	16	7	16	8
Companies acquired [2]	8	7	0	–	–	–	8	7
Companies divested	–442	–	–455	–	–	–	–898	–
Sales/disposals	–	–	–	–	0	–2	0	–2
Translation differences	–123	360	15	50	–11	24	–118	435
Cost at end of year	**2,658**	**3,215**	**2,097**	**2,538**	**202**	**197**	**4,958**	**5,950**
Accumulated amortization and impairment losses at beginning of year	**–50**	**–50**	**–1,067**	**–934**	**–131**	**–100**	**–1,248**	**–1,084**
Amortization for the year [3]	–	–	–108	–122	–20	–18	–128	–139
Companies divested	–	–	215	–	–	–	215	–
Sales/disposals	–	–	–	–	0	2	0	2
Translation differences	1	0	–12	–11	8	–15	–4	–26
Accumulated amortization and impairment losses at end of year	**–49**	**–50**	**–973**	**–1,067**	**–144**	**–131**	**–1,166**	**–1,248**
Net carrying value at end of year	**2,609**	**3,166**	**1,125**	**1,470**	**58**	**66**	**3,792**	**4,702**

[1] Other intangible assets mainly consist of software and licenses.
[2] An Earn-out of 8 MSEK (1 MUSD) for 2009 and 7 MSEK (1 MUSD) for 2008 based on pre-determined performance targets pertaining to the acquisition of Cigars International in 2007 has increased Goodwill.
[3] Amortization charges include discontinued operation up until July 2, 2009 when Swedish Match announced the agreement to sell the South Africa operation. Amortization from discontinued operations amounts to 11 MSEK (19).

No borrowing costs have been capitalized during 2009 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 charges and cost for research and development has been charged to the income statement as stated below;

	Amortization		Research and development costs	
	2009	2008	**2009**	2008
Cost of goods sold	–3	–2	–10	–9
Selling expenses	–106	–120	– 86	–79
Administrative expenses	–19	–17	–	–
Total	**–128**	**–139**	**–96**	**– 88**

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 at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their values in use. If the carrying value is higher, the difference is charged to the income statement. The value in use is calculated by using a valuation model based on discounted expected future cash flows. The cash flows used in the valuation model are projected considering current market conditions and historical market performance, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new facts become known. Calculations of value in use are sensitive to changes in market interest rates, as these are included in the calculations of discount rates. When goodwill was tested for impairment in 2009, the value in use exceeded the carrying values for all cash generating units. When performing sensitivity analyses by increasing the discount rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. However, for the Continental Europe cigar operations, the lighters operations and the matches operations the values in use were close to the carrying values.

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 in the 2009 testing is based on the budget for 2010. Sales growth and cost structure, which are the key assumptions for the projected cash flows during the explicit forecast period, are in line with historic development. For General Cigars a terminal growth rate of 1.5 percent has been applied to calculate the subsequent cash flows after the explicitly forecasted period. For Cigars International and Continental Europe cigar operations a terminal growth rate of 2.0 and 0.5 percent respectively has been assumed. Combined, these there cash generating units correspond to approximately 75 percent of the groups total reported goodwill.

			Goodwill in cash generating units	
Cash generating unit	**Operating segment**	**Average pre-tax Wacc 2009, %**	**2009**	2008
North America chewing tobacco operations	Chewing tobacco	8.9%	70	60
Continental Europe cigar operations	Cigars	7.8%	518	563
North America mass market cigar operations	Cigars	7.1%	289	343
General Cigars	Cigars	7.0%	854	923
Cigars International	Cigars	8.9%	584	624
Lighters operations	Lights	11.7%	49	51
Matches operations	Lights	22.2%	151	158
North America snuff operations	Snus and snuff	8.9%	69	60
Other operations	Other operations	10.9%*	25	384
Total			**2,610**	**3,166**

* Weighted average of impairment tests for Cyan d.o.o. Slovenia and SM Australia PTY LTD .

14. 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	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Cost at beginning of year	**1,296**	**1,212**	**3,674**	**3,227**	**678**	**676**	**246**	**219**	**5,894**	**5,334**
Purchases/investments[3]	6	8	138	120	41	57	271	126	456	311
Companies acquired	–	–	20	–	1	–	–	–	21	–
Divestments	–26	–	–83	–1	–7	–19	–2	–	–118	–20
Sales/disposals	–1	–56	–142	–62	–16	–34	–	–	–159	–152
Reclassifications[2]	17	44	88	71	8	1	–114	–115	0	0
Translation differences, etc.	–24	88	–92	320	17	–4	0	17	–99	421
Cost at end of year	**1,268**	**1,296**	**3,603**	**3,674**	**723**	**678**	**402**	**246**	**5,995**	**5,894**
Accumulated depreciation and impairment losses at beginning of year	**–495**	**–445**	**–2,598**	**–2,187**	**–428**	**–404**	**–1**	**–1**	**–3,522**	**–3,037**
Depreciation for the year[3]	–44	–40	–210	–192	–73	–73	–	–	–326	–304
Impairment losses during year	–	–	–	–5	–	–	–	–	–	–5
Divestments	5	–	48	1	4	15	–	–	58	17
Sales/disposals	0	40	110	44	15	32	–	–	124	116
Reclassifications[2]	–	–	5	–	–5	–	–	–	0	–
Translation differences, etc.	18	–50	75	–260	–13	2	0	0	80	–308
Accumulated depreciation and impairment losses at end of year	**–516**	**–495**	**–2,569**	**–2,598**	**–500**	**–428**	**–1**	**–1**	**–3,587**	**–3,522**
Net carrying value at end of year	**752**	**801**	**1,034**	**1,076**	**223**	**249**	**400**	**246**	**2,409**	**2,372**

[1] Buildings and land include land and land improvements at a book value of 143 MSEK (145).
[2] Reclassifications include property, plant and equipment reclassified from construction in progress.
[3] Capital expenditures include discontinued operations and depreciation charges include discontinued operations up until July 2, 2009 when Swedish Match announced the agreement to sell the South Africa operation. Capital expenditures from discontinued operations amount to 7 MSEK (12) and depreciation charges from discontinued operations amount to 5 MSEK (9).

Construction in progress primarily relates to investments in production facilities.

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

Depreciation for the year totaling 326 MSEK (304) was charged to cost of goods sold in the income statement in an amount of 236 MSEK (219), to administrative expenses of 8 MSEK (8), and to selling expenses of 82 MSEK (78). Loss from scrapping of tangible assets has been charged to the cost of goods sold in an amount of 30 MSEK and affected the result of Cigars. During 2008 impairment losses were charged to cost of goods sold of 5 MSEK for Cigars.

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

Tax assesment values	2009	2008
Buildings	383	360
Land	29	28
Total	**412**	**388**

15. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2009	2008
Carrying value at beginning of year	**86**	**91**
Purchases/investments/new planting	22	19
Change in fair value	0	–3
Transfer to inventories	–14	–14
Translation differences, etc.	22	–8
Carrying value at end of year	**116**	**86**

The Group's forest plantations comprise poplar and pine forests with a total area of 5,800 hectares at December 31, 2009. The age of the trees varies from newly planted seedlings up to 35 years. The forests are held to ensure the supply of wood for parts of the Lights operations.

Timber felled during the year had an estimated value of 14 MSEK at the time of felling, and made up 80,100 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 2009 had an insignificant negative effect on fair value, while higher market prices for timber had an insignificant positive effect on fair value, both less than 1 MSEK.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2009, 255 hectares (447) 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.

16. Investments in associates and joint ventures

Investments in associates and joint ventures are reported in subsidiaries. Associates and joint ventures are accounted for in accordance with the equity method.

Investments in associated companies

The numbers in the table below represent the change in carrying value.

Associates	2009	2008
Carrying value at beginning of year	**117**	**89**
Net profit of associated companies	19	11
Dividends from associated companies	–10	–
Translation differences	–6	17
Carrying value at end of year	**119**	**117**

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

2009	Country	Sales	Profit	Assets	Liabilities	Equity interest	Goodwill	Owner-ship,%	Book value
Arnold André GmbH & Co. KG	Germany	238	17	190	84	105	–	40	106
Malaysian Match Co. SDN. BHD.	Malaysia	20	1	13	5	8	5	32	13
Total		**258**	**18**	**203**	**90**	**113**	**5**	**–**	**119**
2008									
Arnold André GmbH & Co. KG	Germany	191	11	177	75	101	–	40	105
Malaysian Match Co. SDN. BHD.	Malaysia	17	1	14	6	8	5	32	12
Total		**209**	**11**	**190**	**82**	**109**	**5**	**–**	**117**

In the normal course of business, Swedish Match conducts various transactions with associated companies. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 35 MSEK (11). Total sales to associated companies amounted to 273 MSEK (42). Payables to these companies totaled 2 MSEK (1). Total purchases from associated companies amounted to 7 MSEK (9).

Investments in joint ventures

During the year Swedish Match and Philip Morris International established an exclusive joint venture company, SMPM International AB, to commercialize Swedish snus and other smokeless products worldwide, outside Scandinavia and the United States. The joint venture agreement is a 50 percent holding of SMPM International AB. Swedish Match proportion of the net loss for 2009 is 9 MSEK.

During 2008 Swedish Match entered into a joint venture with a 50 percent holding with Lorillard Tobacco Company, with the main activities pertaining to marketing of Scandinavian type of snuff on the US market. The Swedish Match proportion of the net loss during 2009 was 2 MSEK (7). At the end of 2009, Swedish Match and Lorillard agreed to end their joint venture testing of snus in the US. Swedish Match will continue to market snus in the US.

Joint ventures	2009	2008
Carrying value at beginning of year	**0**	**–1**
Investment in joint ventures	24	7
Net loss of joint ventures	–11	–7
Translation differences	0	0
Carrying value at end of year	**13**	**0**

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

	2009	2008
Sales	0	5
Expenses	–11	–12
Profit	**– 11**	**– 7**
Current assets	17	0
Total assets	**17**	**0**
Current liabilities	4	0
Total liabilities	**4**	**0**
Net assets	**13**	**0**

17. Other non-current receivables and other receivables

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

Non-current receivables	2009	2008
Non-current financial receivables	990	1,131
Finance lease[1)]	4	5
Net assets in pension plans	150	134
Other non-current receivables	207	305
Total	**1,351**	**1,575**

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

A large part of non-current financial receivables pertains to foreign exchange derivatives used to hedge the Parent Companys'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	2009	2008
Current financial receivables	10	122
VAT receivables	44	62
Other current receivables	199	164
Total	**253**	**348**

18. 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:

	2009			2008		
Inventories	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Finished goods	1,121	–	1,121	1,110	–	1,110
Work in progress	99	–	99	112	–	112
Leaf tobacco	1,045	454	1,499	1,198	507	1,705
Other input materials and consumables	306	–	306	276	–	276
Total	**2,571**	**454**	**3,025**	**2,695**	**507**	**3,202**

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

19. Trade receivables

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

Trade receivables	**2009**	**2008**
Trade receivables	1,785	1,866
Less provision for impairment of trade receivables	–39	–38
Net total	**1,746**	**1,828**

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

Trade receivable provision	**2009**	**2008**
Carrying value at beginning of year	**–38**	**–47**
Provision	–16	–11
Recovery	11	10
Write-off	8	8
Companies divested	1	1
Translation differences, other deductions or additions, etc.	–5	0
Carrying value at end of year	**–39**	**–38**

As of December 2009, trade receivables of 132 MSEK (165) were past due but not impaired. The aging of these trade receivables is as follows:

Aging of trade receivables	**2009**	**2008**
Current	1,614	1,663
Overdue <31 days	82	107
Overdue 31–60 days	27	30
Overdue >60 days	23	28
Total	**1,746**	**1,828**

Swedish Match does not generally hold collateral against trade receivable. The Group has a diverse customer base and the customer concentration level is insignificant. The ten largest customers represent 27 percent (27) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk.

20. Cash and cash equivalents, and other current investments

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

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

	2009	**2008**
Other investments		
Other financial investments	1	1
Cash and cash equivalents		
Cash and bank	2,530	1,835
Bank certificates	–	1,343
Total	**2,530**	**3,178**

21. 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 propose a dividend of 4.75 SEK (4.10) per share, equivalent to 49 percent (46) of the earnings per share for the year.

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

	Number of shares (thousands)		**Effect on equity (MSEK)**	
Shares in treasury	**2009**	**2008**	**2009**	**2008**
Balance at beginning of year	**5,840**	**11,125**	**–12,798**	**–11,882**
Repurchase of own shares during the year	18,434	7,507	–2,598	–996
Stock options exercised during the year	–574	–793	51	62
Allocated to retained earnings by cancellation of shares	–4,000	–12,000	6	18
Balance at end of year	**19,700**	**5,840**	**–15,339**	**–12,798**

The Annual General Meeting on April 28, 2009 renewed the mandate to repurchase up to 10 percent of the shares of the Company up to an amount of 3,000 MSEK. In addition, a decision was made to cancel 4.0 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 6.1 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 251 million shares with a quotient value of 1.5519 SEK. During the year, the Company issued 1,716,948 call options to senior management and key employees for the stock option program for 2008. These call options can be exercised from March 2012 to February 2014. The exercise price is 141.24 SEK.

During the year 18.4 million shares were repurchased for 2,598 MSEK at an average price of 140.94 SEK. As at December 31, 2009 Swedish Match held 19.7 million shares in its treasury, corresponding to 7.8 percent of the total number of shares. During the year the Company has also sold 0.6 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 231.3 million. In addition, the Company has call options outstanding at year end corresponding to 5.3 million shares exercisable in gradual stages from 2010–2014.

22. Supplementary information to comprehensive income, including changes in reserves, and minority interest

2008	Note	Hedge reserve	Translation reserve	Minority interest
Balance at beginning of year		**28**	**–514**	**4**
Profit for the year pertaining to minority interest		–	–	1
Translation differences related to foreign operations for the year		–	820	–
Translation differences included in profit and loss		–	6	–
Effective portion of changes in fair value cash flow hedges		–184	–	–
Income tax relating to components of other comprehensive income [1]	11	49	–	–
Balance at end of year		**–107**	**311**	**4**

2009	Note	Hedge reserve	Translation reserve	Minority interest
Balance at beginning of year		**–107**	**311**	**4**
Profit for the year pertaining to minority interest		–	–	1
Translation differences related to foreign operations for the year		–	–222	–
Translation differences included in profit and loss		–	163	–
Effective portion of changes in fair value cash flow hedges		41	–	–
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		25	–	–
Income tax relating to components of other comprehensive income [1]	11	–17	–	–
Balance at end of year		**–59**	**252**	**4**

[1] For further details on tax components relating to the various other comprehensive income items, see *Note 11 Income tax*.

Hedge reserve

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

Translation reserve

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

23. Interest bearing liabilities

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

Year	2009	2008
2010	10	1,682
2011	583	1,311
2012	2,130	2,192
2013	3,121	3,323
2014	1,410	1,467
2015 and later	998	–
Total	**8,252**	**9,975**

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

Current interest-bearing liabilities	2009	2008
Current portion of non-current loans	1,002	696
Bank overdraft facilities utilized	0	47
Other current loans	0	–
Total	**1,002**	**743**

See further information on interest-bearing liabilities in *Note 28 Financial instruments and financial risks*.

24. Employee benefits

Post-employment employee benefits

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

In accordance with the accounting principle for pension reporting the Group 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, 2009, are reported in the balance sheet under the following balance sheet items:

Post-employment defined benefits	2009	2008
Defined benefit plans, net liabilities	575	649
Post-employment medical benefits, net liabilities	706	634
Other long-term employee benefits, net liabilities	10	15
Provision for pensions and similar obligations	**1,291**	**1,298**
Defined benefit plans, net assets	–150	–134
Included in non-current receivables	**–150**	**–134**
Net post-employment liability	**1,141**	**1,165**

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

	Defined-benefit plans		Post-employment medical benefits	
Post-employment defined benefits	**2009**	**2008**	**2009**	**2008**
Present value of funded obligations	4,405	4,180	–	–
Fair value of plan assets	–4,197	–3,908	–	–
Deficit(+)/Surplus(–), net	**208**	**272**	**–**	**–**
Present value of unfunded obligations	100	96	704	634
Unrecognized past service costs	0	0	2	–
Unrecognized assets due to recoverability limit	118	148	–	–
Net asset(–)/liability(+) in the balance sheet	**425**	**516**	**706**	**634**
Amounts in the balance sheet				
Liabilities	575	650	706	634
Assets	–150	–134	–	–
Net asset(–)/liability(+) in the balance sheet	**425**	**516**	**706**	**634**

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	**2009**	**2008**	**2009**	**2008**
Current service costs	90	84	32	22
Interest on obligation	217	201	39	29
Expected return on plan assets	–218	–260	–	–
Recognized past service costs	0	0	–1	–1
Settlement from disposal of entity	–	–	–2	–
Gains on curtailments and settlements	–1	–12	–	–
Net income(–)/expense(+) reported in the income statement	**88**	**13**	**68**	**50**

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	**2009**	**2008**	**2009**	**2008**
Cost of goods sold	22	–3	15	11
Administrative expenses	14	9	1	2
Selling expenses	21	20	12	9
Interest income	–6	–19	–	–
Interest expense	37	6	40	29
Net income(–)/expense(+) reported in the income statement	**88**	**13**	**68**	**50**

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

	Defined-benefit pension plans		Post-employment medical benefits	
Defined benefit obligations	**2009**	**2008**	**2009**	**2008**
Balance at beginning of year	**4,276**	**3,390**	**634**	**457**
Reclassification	–	568	–	14
Current service cost	90	84	32	22
Interest cost	217	201	39	29
Contributions by plan participants	3	2	2	2
Actuarial losses (+)/gains (–)	320	108	83	23
Benefits paid	–275	–255	–26	–22
Settlements (liability)	–	–1	–	–
Curtailments	–1	–14	–	–
Settlement from disposal of entity	–	–	–2	–
Translation differences	–125	192	–58	110
Balance at end of year	**4,505**	**4,276**	**704**	**634**

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	**2009**	**2008**	**2009**	**2008**
Fair value at beginning of year	**3,908**	**3,528**	**0**	**0**
Reclassification	–	855	–	–
Expected return on plan assets	218	260	–	–
Actuarial losses (–)/gains (+)	252	–766	–	–
Employer contributions	174	191	24	21
Employee contributions	3	2	2	2
Benefits paid	–275	–255	–26	–22
Assets distributed on settlements	–	–5	–	–
Translation differences	–82	97	–	–
Fair value at end of year	**4,197**	**3,908**	**0**	**0**

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

Cumulative actuarial gains and losses recognized in other comprehensive income	**2009**	**2008**
Cumulative actuarial losses (+)/gains (–), beginning of year	**1,232**	**320**
Actuarial losses (+)/gains (–) during year	151	897
Translation differences	32	15
Cumulative losses (+)/gains (–), end of year	**1,415**	**1,232**

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 12 MSEK (17) and the defined benefit obligation by 92 MSEK (107). A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 10 MSEK (14) and the defined benefit obligation by 75 MSEK (90).

Historical information	**2009**	**2008**	**2007**	**2006**	**2005**
Present value of defined benefit obligation	4,405	4,180	3,329	3,423	3,718
Fair value of plan assets	–4,197	–3,908	–3,506	–3,461	–3,313
Deficit (+)/surplus(–)	**208**	**272**	**–176**	**–38**	**405**
Experience adjustments on plan liabilities losses (–)/ gains(+)	–54	–35	3	26	99
Experience adjustments on plan assets losses (–)/ gains(+)	252	–768	–35	85	100

Plan assets at December 31 are comprised as follows:

Plan assets	**2009**	**2008**
Equity securities	1,569	1,351
Debt instruments	2,101	2,172
Real estate	48	41
Other	480	343
Total	**4,197**	**3,908**

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

	Defined-benefit pension plans		Post-employment medical benefits	
Actuarial assumptions	**2009**	**2008**	**2009**	**2008**
Discount rate, %	4.8	5.2	5.6	6.3
Expected return on plan assets, %	5.3	5.7	–	–
Future salary increases, %	3.7	3.7	5.0	5.0
Future pension increases, %	2.0	3.0	–	–
Medical cost trend rate, %	–	–	8.5	9.5

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each country. Expected contributions to post-employment benefit plans for the year ending December 31, 2009 are 176 MSEK (98). The actual return on plan assets in 2009 was 470 MSEK (negative 506). The assumptions for expected return on plan assets are based on the asset groups as defined in each investment policy. The assumptions for expected rate of return are estimated in each country respectively based on the portfolio as a whole considering historical performance and outlook given the long term perspective. Gains and losses resulting from changes in actuarial assumptions, as well as other than expected return on plan assets are recognized in equity as they occur in accordance with the yearend valuation. Obligations for retirement pension and family pension for salaried personnel and workers in Sweden are funded by insurance policies with two superannuation funds, PSF and PSA. The pension plans funded with PSA was reclassified from post-employment defined benefit plan during 2008. The reason for this is that PSA was previously a multi-employer plan that was entirely assumed by Swedish Match during 2008.

Defined contribution plans

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

Defined contribution plans	**2009**	**2008**
Costs for defined contribution plans	67	49

25. Provisions

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

Non-current provisions	2009	2008
Income tax	131	150
Restructurings	19	26
Other operating provisions	198	220
Deferred compensation	141	126
Total non-current provisions	**489**	**522**

Current provisions	2009	2008
Restructurings	34	15
Other operating provisions	91	14
Total current provisions	**125**	**29**
Total provisions	**614**	**551**

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Total
Carrying value at beginning of year	**150**	**42**	**234**	**126**	**551**
Provisions made during the year	24	30	65	31	150
Provisions used during the year	–	–17	–12	–17	–47
Provisions reversed during the year and changes in estimates	–45	1	–11	–1	–55
Reclassifications	0	0	–13	13	0
Translation differences, etc.	2	–3	27	–11	15
Carrying value at end of year	**131**	**53**	**289**	**141**	**614**

Income tax provisions

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

Restructuring provisions

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

Other operating provisions

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

Deferred compensation

The deferred compensation provision represents obligations for earned remuneration, of certain employees who can select to defer a portion of the earned remuneration until a later date. These employees may defer their compensation up until the date of retirement. From retirement, payments may be spread over a period not to exceed 15 years.

26. Other liabilities

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

Other non-current liabilities	2009	2008
Non-interest bearing non-current liabilities	41	39
Non-current financial liabilities	109	–
Total	**150**	**39**

Other current liabilities at December 31 comprised the following:

Other current liabilities	2009	2008
Tobacco taxes	1,020	1,059
VAT liabilities	327	323
Other	63	290
Total	**1,410**	**1,672**

27. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2009	2008
Accrued wage/salary-related expenses	241	145
Accrued vacation pay	77	71
Accrued social security charges	66	84
Accrued interest	203	198
Other	425	501
Total	**1,012**	**999**

28. Financial instruments and financial risks

Operations

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

Financial instruments

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

Outstanding derivatives

	2009			2008		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	26	0	0	1,979	–	0
Interest-rate derivatives	9,553	598	11	9,588	1,064	146
Total	**9,579**	**598**	**11**	**11,567**	**1,064**	**146**
Of which hedge accounting						
Interest rate risk in financing						
Fair value hedges	400	9	–	950	146	–
Hedged item	400	–	9	950	–	156
Cash flow risk in financing						
Cash flow hedges	6,936	384	11	7,336	734	146

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 6 MSEK (5 loss) in operating profit and losses of 4 MSEK (6 loss) in net finance cost.

Transaction exposure

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

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 320 MSEK on an annual basis. Swedish Match 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, 2009, the exposure was limited and therefore no transaction exposure for 2010 has been hedged. A general rise of 1 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by approximately 4 MSEK (4) for the year ending December 31, 2009.

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 the Brazilian real (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 3,936 MSEK in USD (36 percent), 5,934 MSEK in EUR (55 percent) and in other currencies 935 MSEK (9 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 1 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be positive in an amount of approximately 110 MSEK, based on the exposure at December 31, 2009.

Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match's policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group´s objective for interest rate binding is to achieve an even and low cost of interest. Interest rate swaps and currency swaps are used mainly to convert borrowings into SEK and fixed interest rates. At December 31, 2009, the average interest maturity period for Group loans was 2.8 years (2.3 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2009 was as follows:

	Loans		Loans incl. derivatives	
Year	Fixed	Variable	Fixed	Variable
2010	409	603	–	1,012
2011	–	583	206	377
2012	850	1,280	1,667	463
2013	3,121	–	3,121	–
2014	638	772	1,153	257
2015–	998	–	998	–
Total	**6,016**	**3,238**	**7,145**	**2,109**

At December 31, 2009, a general rise of 1 percent (100bp) in interest rates was estimated to increase consolidated earnings before tax by approximately 6 MSEK (– 5) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 7,188 MSEK (7,640). 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 43 MSEK.

NOTE 28 CONTINUED

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 200 MEUR, which matures in mid 2010. This was unutilized at year-end and contained no financial covenants. In addition Swedish Match has one committed credit line, of the amount of 500 MSEK, maturing in April 2010. At year-end 2009, available cash funds and committed credit facilities amounted to 5,089 MSEK. Of this amount, confirmed credit lines amounted to 2,559 MSEK and cash and cash equivalents making up the remaining 2,530 MSEK. In the beginning of 2010 a syndicated loan has been renegotiated and certain bi-lateral credit lines have matured. Following this change, the amount of unutilized committed credit lines is 160 MEUR.

Most of the Swedish Match 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, 2009, a total of 970 MSEK of the Swedish program and 8,284 MSEK of the global program were outstanding. In addition, Swedish Match established a short term commercial paper program during 2007. The limit is 2,000 MSEK and the program has not yet been utilized for any borrowings. At December 31, 2009, there was no outstanding debt under this program. The average maturity of the Group's bond borrowing at December 31, 2009 was 3.0 years.

Swedish Match's aggregated 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 cash flows	Total Booked value
2010	1,155	102	653	1,910	1,718
2011	738	58	–	796	636
2012	2,273	31	–	2,304	2,179
2013	3,165	77	–	3,242	3,145
2014	1,410	–	–	1,410	1,410
2015–	1,060	–	–	1,060	998
Total	**9,801**	**268**	**653**	**10,722**	**10,086**

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, 2009 were as follows:

	2009	2008
Swedish MTN, %	3.0	4.5
Global MTN, %	4.2	5.0
Other loans, %[1)]	–	3.5

[1)] Relates mainly to loans in the Group's US subsidiaries.

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

Accounting principles, measurement and hedge accounting

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

Trade receivables are recognized at nominal value. Financial liabilities are mainly measured at the amortized cost. In cases where financial liabilities are included in a hedging relation, they are measured at fair value. In those cases derivatives are entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39.

Cash flow hedges

When derivatives are used in order to convert floating interest rate bindings into fixed interest rate bindings or to convert a stream of interest payments in foreign currency into a stream of interest payments in SEK, hedge accounting according to the cashflow hedge technique is applied. Fair value changes arising from the revaluation of derivatives that are part in a cashflow hedge relationship and are considered to be effective as described in IAS39 are recognized in other comprehensive income, and any ineffective portion is recognized directly in earnings. There was no ineffectiveness in cash flow hedge accounting during 2009.

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.

	2009				2008		
Changes in hedge reserve	Jan. 1	Change of Market Value	Allocated to Earnings	Dec. 31	Jan. 1	Change of Market Value	Dec. 31
Hedging instruments, derivatives	–146	41	25	–80	38	–184	–146
Total	**–146**	**41**	**25**	**–80**	**38**	**–184**	**–146**

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.

	2010	2011	2012	2013	2014	2015–
Interest payment from loans	210	211	201	162	26	–
Market-value derivatives	–29	–26	–13	–5	–7	–

Fair value hedges

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

	2009			2008		
	Jan. 1	Earnings	Dec. 31	Jan. 1	Earnings	Dec. 31
Hedged item	–156	147	–9	–51	–105	–156
Hedging instruments, derivatives	146	–137	9	43	103	146
Total	**–10**	**10**	**0**	**–9**	**–2**	**–10**

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, 2009, the average interest maturity for the Group's current investments was approximately 0.5 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least BBB+ from Standard & Poor's or equivalent from Moody's. To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2009, credit exposure in derivative instruments amounted to 605 MSEK, and credit exposure in cash and deposits at banks amounted to 2,530 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 1,746 MSEK.

Credit ratings

At December 31, 2009, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

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

Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each type of financial instruments at December 31, 2009. Trade receivables and trade liabilities have a short duration and are reported at nominal value without discounting. 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.

2009	Items carried at fair value via the income statement [1]	Loans and receivables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	–	1,746	–	–	–	–	1,746	1,746
Non-current receivables	211	–	–	484	–	655	1,351	1,351
Other receivables	0	–	–	–	9	244	253	253
Prepaid expenses and accrued income	15	–	–	4	3	164	186	186
Other investments	1	–	–	–	–	–	1	1
Cash and cash equivalents	663	1,867	–	–	–	–	2,530	2,530
Total assets	**890**	**3,613**	**–**	**488**	**12**	**1,063**	**6,067**	**6,067**
Loans and borrowings	–	–	9,254	–	–	–	9,254	9,541
Other liabilities	1	–	–	107	–	1,452	1,560	1,560
Accrued expenses and deferred income	–	–	175	26	–	811	1,012	1,012
Trade payables	–	–	653	–	–	–	653	653
Total liabilities	**1**	**–**	**10,082**	**133**	**0**	**2,263**	**12,479**	**12,766**

[1] All items relates to instruments held for trading.

2008	Items carried at fair value via the income statement [1]	Loans and receivables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non-financial instruments	Total carrying value	Estimated fair value
Trade receivables	–	1,828	–	–	–	–	1,828	1,828
Non-current receivables	150	–	–	733	147	545	1,575	1,575
Other receivables	76	–	–	–	–	272	348	348
Prepaid expenses and accrued income	7	–	–	9	19	158	193	193
Other investments	1	–	–	–	–	–	1	1
Cash and cash equivalents	699	2,479	–	–	–	–	3,178	3,178
Total assets	**933**	**4,307**	**–**	**742**	**166**	**975**	**7,123**	**7,123**
Loans and borrowings	–	–	10,718	–	–	–	10,718	10,728
Other liabilities	53	–	–	146	–	1,512	1,711	1,711
Accrued expenses and deferred income	50	–	–	115	29	805	999	999
Trade payables	–	–	754	–	–	–	754	754
Total liabilities	**103**	**–**	**11,472**	**261**	**29**	**2,317**	**14,182**	**14,192**

[1] All items relates to instruments held for trading.

29. Operating lease agreements

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

Minimum lease payments	2009	2008
Within one year	82	70
Between 1–5 years	168	155
Later than 5 years	58	15
Total	**308**	**240**

The Group's leasing expenses for operating lease agreements amounted to 82 MSEK (86).

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

30. Pledged assets

Pledged assets	2009	2008
Receivables pledged	–	2
Other assets pledged[1)]	20	13
Total	**20**	**15**

1) Pertains to endownment insurance policies pledged as security for pension obligations. A corresponding amount is recognized as an operating liability in the balance sheet.

31. Commitments and contingent liabilities and assets

Contingent liabilities

Guarantees on behalf of subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes, and to additional payments for the acquisition of Cigars International conditioned on certain targets being achieved.

Contingent liabilities	2009	2008
Guarantees on behalf of subsidiaries	418	647
Guarantees to external companies	5	6
Other guarantees and contingent liabilities	214	201
Total	**636**	**854**

Legal disputes

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

Cubatabaco has been seeking to cancel General Cigar's registration for the Cohiba trademark in the US in a proceeding started in 1997 in Federal District Court in New York. The District Court ruled in favor of Cubatabacco but the US Court of Appeals of the Second Circuit concluded that General Cigar was the rightful owner of the Cohiba trademark in the US. The matter was appealed to the US Supreme Court, and in June 2006, the Supreme Court denied review of the case. In 2008 the District Court reopened the case on the basis that there had been a change in New York State law and again ruled in favor of Cubatabaco. A final opinion of the District Court was issued in December 2009. General Cigar has filed its appeal of the judgment in the Second Circuit, and will seek to have the appeal given expedited consideration. There are in the opinion of management good defenses against Cubatabaco's claims and the case will be vigorously defended.

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

Contingent assets

As per December 31, 2009, the Group had no contingent assets.

32. Group companies

Subsidiary holdings[1]	Subsidiary's domicile, country	Ownership share, % 2009	2008
SM Australia Pty Ltd.	Australia	100	100
SM Belgium NV	Belgium	100	100
SM Cigars NV	Belgium	100	100
Humphrey Investments NV	Belgium	–	100
Bogaert Cigars NV	Belgium	100	100
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	Bulgaria	99.9	99.9
SM d.o.o. Zagreb	Croatia	100	100
General Cigar Dominicana S.A.	Dominican Republic	100	100
SM France SARL	France	100	100
SM Deutschland GmbH	Germany	100	100
Honduras American Tabaco, S.A. de C.V	Honduras	100	100
SM Hungaria KFT	Hungary	–	100
PT SM Cigars Indonesia	Indonesia	100	100
Maga T.E.A.M. S.r.L	Italy	100	100
Brasant Tobacco (PTY) Ltd.	Namibia	–	100
EMOC BV	Netherlands	–	100
P.G.C. Hajenius BV	Netherlands	100	100
SM Benelux Sales BV	Netherlands	100	100
SM Cigars BV	Netherlands	100	100
SM Dominicana BV	Netherlands	100	100
SM Group BV	Netherlands	100	100
SM Holdings Dominicana BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Sales.com BV	Netherlands	100	100
Tobacco Service Holland BV	Netherlands	100	100
SM New Zealand Pty Ltd.	New Zealand	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
SM Polska Sp z o.o.	Poland	100	100
SM Fosforos Portugal S.A.	Portugal	97	97
CYAN import-export d.o.o.	Slovenia	100	100
Best Blend Tobacco (PTY) Ltd.	South Africa	–	100
Brasant Enterprises (PTY) Ltd.	South Africa	–	100
Leonard Dingler (PTY) Ltd.	South Africa	–	100
SM South Africa (PTY) Ltd.	South Africa	–	100
SM Tabaco Espana S.L.	Spain	100	100
SM Fireproducts Espana S.L.	Spain	100	100
GC Sweden AB	Sweden	100	100
Intermatch Sweden Aktiebolag	Sweden	100	100
SM Distribution AB	Sweden	100	100
SM Industries Aktiebolag	Sweden	100	100
SM North Europe AB	Sweden	100	100
SM United Brands AB	Sweden	100	100
Svenska Tändsticks Aktiebolaget	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
Tobak Fastighetsaktiebolaget	Sweden	100	100
Swedish Match US AB	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri Anonim Sirketi A.S.	Turkey	100	100
General Cigar Co. Inc.	USA	100	100
General Cigar Holdings Inc.	USA	100	100
SM Cigars Inc.	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100
DM Holding USA Inc.	USA	100	100
Cigars International Holding	USA	100	100
Cigars International	USA	100	100

[1] The designation includes both directly and indirectly owned companies. Dormant companies are not included.

33. Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is presented in *Note 20 Cash and cash equivalents and other current investments*.

Interest paid and interest received	2009	2008
Interest received	94	122
Interest paid	–424	–514
Total	**–330**	**–392**

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

Adjustments for non cash items and other	2009	2008
Depreciation and amortization	439	415
Impairment losses	30	5
Share in profits/loss in equity accounted investees	–10	–12
Dividend received from equity accounted investees	10	21
Capital gain/loss from sale of non-current assets	–	–152
Expense for share-based payments	35	49
Change in fair value of forest plantations	0	3
Change in provisions	–61	–145
Change in accrued interest	19	9
Change in market value revaluations and unrealized exchange rate differences	–66	55
Realized exchange rate differences	115	–35
Total	**511**	**213**

NOTE 33 CONTINUED

Acquisitions of subsidiaries and other business units	2009
Acquired assets and liabilities	
Property, plant and equipment	21
Intangible assets	0
Inventories	12
Trade receivables	0
Other receivables	1
Cash and cash equivalents	2
Accounts payable	2
Other liabilities	2
Purchase consideration paid	**33**
Less cash and cash equivalents acquired	–2
Final payment Havana Honeys	8
Investments in joint venture	23
Effect on cash and cash equivalents	**63**

The acquisitions of subsidiaries during 2009 pertain to Rocker Production AB acquired from Philip Morris International of 31 MSEK, investment of 23 MSEK in the Swedish Match and Philip Morris International´s joint venture company and final payment for the acquisition of Havana Honeys´ assets of 8 MSEK. For further information about the acquisitions see *Note 4 Business combinations*.

No subsidiaries were acquired during 2008.

Divestments of subsidiaries and other business units	2009	2008
Divested assets and liabilities		
Intangible fixed assets	683	6
Tangible fixed assets	60	22
Inventories	130	26
Trade receivables	72	53
Deferred income tax receivables	0	21
Other receivables	2	6
Cash and cash equivalents	244	13
Total assets	**1,191**	**147**
Accounts payable	–33	–46
Non-current provisions	–1	–
Non-current financial liabilities	–2	–
Other liabilities	–136	–16
Total liabilities	**–173**	**–62**
Divested assets, net	**1,018**	**85**
Purchase price consideration received	**1,810**	**163**
Less cash and cash equivalents in divested operations	–241	–13
Additional payment subsidiares sold in previous years	8	5
Effect on cash and cash equivalents	**1,577**	**155**

The cash flows from sale of subsidiaries during 2009 pertain to the disposal of the Swedish Match South African operations of 1,568 MSEK and additional payment received of 8 MSEK relating to the disposal of Swedish Match UK Ltd. and related assets in 2008. For further information see *Note 5 Discontinued operations*.

The cash flows from sale of subsidiaries during 2008 pertain to the disposal of Swedish Match UK Ltd. and related assets of 150 MSEK and additional payment received of 5 MSEK attributable to the disposal of the Arenco Group in 2006.

34. Subsequent events

On January 15, 2010, it was announced that Swedish Match has signed a letter of intent with Scandinavian Tobacco Group (STG) to form a new company, combining the tobacco business of STG with the premium and machine made cigar businesses of Swedish Match (with the exception of the US mass market cigar business). The new company would also include the pipe tobacco and accessories businesses of Swedish Match, as well as distribution of lights products in relevant markets.

Swedish Match would hold 49 percent of the shares in the new company, with the remaining 51 percent of the shares held by STG. The letter of intent also includes minority protection clauses and the right for STG to appoint the CEO of the new company.

On the basis of preliminary valuations, which are subject to due diligence by both parties, STG would compensate Swedish Match by approximately 40 MEUR to account for the planned shareholding and the relative differences in enterprise values on a cash and debt free basis. In the letter of intent, a financial strategy for the new company has been agreed to, stipulating a net debt of two to three times EBITA, ensuring distribution of free cash flow and financial discipline for the new company.

The completion of this transaction is subject to due diligence by both parties, final transaction agreements, and regulatory approvals. Signing is expected to take place during the first half of 2010 with completion as soon as possible thereafter. Please note that there can be no assurance as to whether the transaction will be completed.

35. 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 Rosenlundsgatan 36, SE-118 85 Stockholm, Sweden.

The consolidated financial statements for 2009 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	2009	2008
Sales	1	**2**	**1**
Gross profit		**2**	**1**
Selling expenses	7	–2	–11
Administrative expenses	2, 7, 8	–282	–300
Other operating income and expenses	3	33	26
Operating loss		**–249**	**–284**
Result from participation in group companies	4	6,006	3,651
Result from participation in joint venture	4	–9	–
Income from other investments and receivables carried as fixed assets	4	213	20
Other interest income and similar items	4	70	215
Other interest expense and similar items	4	–1,291	–1,706
Profit after financial items		**4,740**	**1,896**
Appropriations	5	2	11
Profit before income tax		**4,742**	**1,907**
Income tax	6	–164	7
Profit for the year		**4,578**	**1,914**

Statement of comprehensive income

MSEK	Note	2009	2008
Profit for the year		**4,578**	**1,914**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		41	–184
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		25	–
Income tax relating to components of other comprehensive income	6	–17	49
Total other comprehensive income, net of tax		**48**	**–135**
Total comprehensive income		**4,626**	**1,779**

Parent Company balance sheet

MSEK	Note	December 31, 2009	December 31, 2008
Assets			
Intangible assets	7	1	4
Tangible assets	8	1	2
Non-current financial assets			
Participations in group companies	9	44,008	50,351
Participation in joint venture	10	14	–
Receivables from group companies	11	6,424	83
Other non-current receivables	12	715	1,043
Deferred tax assets	6	29	51
Total non-current financial assets		**51,190**	**51,528**
Total non-current assets		**51,192**	**51,534**
Current receivables			
Receivables from group companies		6,384	2,250
Income tax receivables	6	–	13
Other receivables	13	37	83
Prepaid expenses and accrued income	14	41	64
Total current receivables		**6,462**	**2,410**
Cash and cash equivalents[1)]		–	2,702
Total current assets		**6,462**	**5,112**
TOTAL ASSETS		**57,654**	**56,646**
Equity	15		
Restricted equity			
Share capital, 251 000 000 shares at 1.5519 and 255 000 000 at 1.5275 respectively		390	390
Unrestricted equity			
Hedge reserve		–59	–107
Retained earnings		18,321	19,952
Profit for the year		4,578	1,914
TOTAL EQUITY		**23,229**	**22,148**
Untaxed reserves	16	**0**	**2**
Other provisions		**25**	**16**
Non-current liabilities			
Bond loans	17	8,252	9,514
Liabilities to group companies	18	18,100	18,100
Other liabilities	19	111	–
Total non-current liabilities		**26,462**	**27,614**
Current liabilities			
Bond loans		1,002	619
Trade payables		15	18
Liabilities to group companies		6,535	5,759
Current tax liabilities	6	126	8
Other liabilities		5	211
Accrued expenses and deferred income	20	254	251
Total current liabilities		**7,937**	**6,866**
TOTAL EQUITY AND LIABILITIES		**57,654**	**56,646**
Pledged assets	21	20	15
Contingent assets	21	–	8
Contingent liabilities	21	422	1,197

[1)] Cash and cash equivalents include current investments with maturity of less than 90 days from acquisition.

Statement of changes in Parent Company equity

		Restricted equity	Unrestricted equity			
2008	**Note**	**Share Capital**	**Hedge reserve**	**Retained earnings**	**Profit for the year**	**Total equity**
	15					
Equity at beginning of year		**390**	**28**	**4,725**	**17,039**	**22,182**
Allocation of profit		–	–	17,039	–17,039	–
Total comprehensive income		–	–135	–	1,914	1,779
Dividends		–	–	–886	–	–886
Repurchase of own shares		–	–	–996	–	–996
Stock options exercised		–	–	62	–	62
Cancellation of shares		–18	–	18	–	–
Bonus issue		18	–	–18	–	–
Share-based payments, IFRS 2		–	–	6	–	6
Equity at end of year		**390**	**–107**	**19,952**	**1,914**	**22,148**
2009						
Equity at beginning of year		**390**	**–107**	**19,952**	**1,914**	**22,148**
Allocation of profit		–	–	1,914	–1,914	–
Total comprehensive income		–	48	–	4,578	4,626
Dividends		–	–	–1,024	–	–1,024
Repurchase of own shares		–	–	–2,598	–	–2,598
Stock options exercised		–	–	51	–	51
Cancellation of shares		–6	–	6	–	–
Bonus issue		6	–	–6	–	–
Share-based payments, IFRS 2		–	–	5	–	5
Share-based payments, contributions from subsidiaries		–	–	21	–	21
Equity at end of year		**390**	**–59**	**18,321**	**4,578**	**23,229**

Cash flow statement for the Parent Company

MSEK	Note	2009	2008
	22		
Operating activities			
Profit after financial items		4,740	1,896
Adjustments for non-cash items and other		–3	2,760
Income tax paid/received		–28	51
Net cash generated from operating activities before changes in working capital		**4,709**	**4,707**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in operating receivables		–19	–2
Increase (+)/Decrease (–) in operating liabilities		–20	–25
Net cash generated from operating activities		**4,670**	**4,680**
Investing activities			
Purchase of property, plant and equipment		–	–1
Proceeds from sale of property, plant and equipment		1	–
Acquisition of subsidiaries, net of cash acquired		–9	–
Capital redemption subsidiaries		6,350	–
Liquidation of subsidiaries		2	31
Acquisition of joint venture, net of cash acquired		–23	–
Shareholders contribution paid		–	–1,100
Change in other current investments		2	3
Net cash from/used in investing activities		**6,323**	**–1,067**
Financing activities			
Repurchase of own shares		–2,598	–996
Stock options exercised		51	62
Proceeds from non-current borrowings		998	786
Repayment of borrowings		–1,485	–1,176
Dividends paid		–1,024	–886
Share-based payments, contributions from subsidiaries		21	–
Changes in financial receivables/liabilities group companies		–9,714	–1,544
Other		56	35
Net cash used in financing activities		**–13,695**	**–3,719**
Net decrease in cash and cash equivalents		**–2,702**	**–106**
Cash and cash equivalents at the beginning of the year		2,702	2,808
Cash and cash equivalents at end of year		**–**	**2,702**

Notes for the Parent Company financial statements

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2008.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 7 Personnel*.

1. Sales

The Parent Company receives a royalty based on sales of nasal snuff in Europe. The royalty amounted to 2 MSEK (1).

2. Audit fees

Expenses for auditors fees are included in the administrative expenses as set out in the table below:

Audit fees	2009	2008
KPMG		
Audit	4	6
Other services	5	2
Total	**9**	**8**

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

3. Other operating income and expense

Other income mainly pertains to the portion of administration costs charged to group companies 34 MSEK (27). Other expense consists of foreign exchange losses amounting to 1 MSEK (1).

4. Financial items

	Result from participations in group companies		Result from participation in joint venture	
	2009	2008	2009	2008
Dividends received	4,235	4,673	–	–
Group contribution	1,771	1,698	–	–
Impairment losses	–	–2,720	–9	–
Total	**6,006**	**3,651**	**–9**	**–**

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

The result of –9 MSEK relates to SMPM International AB, a joint venture together with Philip Morris International.

	Income from other investments and receivables carried as fixed assets		Other interest income and similar items	
	2009	2008	2009	2008
Interest income relating to group companies	218	6	14	109
Interest income relating to financial instruments held for trading	–	–	18	104
Interest income relating to cash and bank	–	–	–	13
Interest income relating to other financial instruments held for trading	–	–	33	–
Net foreign exchange gains/losses	–5	14	5	–11
Total	**213**	**20**	**70**	**215**

Other interest expense and similar items	2009	2008
Interest expense relating to group companies	–872	–1,193
Interest expense relating to financial liabilities measured at amortized cost	–384	–442
Interest expense relating to financial liabilities revalued to fair value	–24	–66
Net loss on financial liabilities held for trading	–2	–2
Other financial expenses	–9	–3
Total	**–1,291**	**–1,706**

5. Appropriations

Difference between reported amortization and amortization according to plan	2009	2008
Trademarks	2	11
Total	**2**	**11**

6. Income tax

Reported income tax in income statement	2009	2008
Tax expense for the period	–159	–3
Deferred tax due to temporary differences	–5	10
Total	**–164**	**7**

Reconciliation of effective tax rate	2009 (%)	2009	2008 (%)	2008
Income before tax		**4,742**		**1,907**
Swedish tax rate	**26.3**	**–1,247**	**28.0**	**–534**
Non-taxable dividends	–23.5	1,114	–68.6	1,308
Non-deductible impairment losses	0.1	–2	40.0	–762
Tax attributable to prior years	0.6	–27	0.2	–3
Other non taxable/ non-deductible items	0.1	–2	0.1	–2
Reported effective tax	**3.5**	**–164**	**–0.4**	**7**

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

	Current tax assets		Current tax liabilities	
	2009	2008	2009	2008
Opening balance at beginning of year	**13**	**67**	**8**	**8**
Current tax expense/ income	–	–3	159	–
Paid tax	–	18	–41	–
Tax refund	–13	–69	–	–
Closing balance at end of year	**–**	**13**	**126**	**8**

Tax liability amounts to 126 MSEK and consists of 94 MSEK to be paid on income for the year and 32 MSEK relating to tax attributable to prior years. In 2008 tax receivable amounting to 13 MSEK represented amount to be recovered on income for the year.

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

	Deferred tax assets		Deferred tax liabilities	
	2009	2008	2009	2008
Hedge reserve	21	38	–	–
Tax-loss carryforwards	–	6	–	–
Provision	7	4	–	–
Other	1	3	–	–
Total	**29**	**51**	**–**	**–**

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.

2009	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	38	–	–17	21
Tax loss carry forwards	6	–6	–	–
Provision	4	3	–	7
Other	3	–2	–	1
Total	**51**	**–5**	**–17**	**29**

2008	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	–11	–	49	38
Tax loss carry forwards	–	6	–	6
Provision	3	1	–	4
Other	–	3	–	3
Total	**–8**	**10**	**49**	**51**

7. Intangible assets

	Trademarks		Other intangible assets		Total	
	2009	2008	2009	2008	2009	2008
Cost at beginning of year	**114**	**114**	**4**	**6**	**118**	**120**
Purchase	–	–	0	–	0	–
Sales/disposals	–114	–	–1	–2	–115	–2
Cost at end of year	**–**	**114**	**3**	**4**	**3**	**118**
Accumulated amortization at beginning of year	**–111**	**–100**	**–3**	**–4**	**–114**	**–104**
Amortization for the year	–2	–11	–1	–1	–3	–12
Sales/disposals	114	–	1	2	115	2
Accumulated amortization at end of year	**–**	**–111**	**–2**	**–3**	**–2**	**–114**
Net carrying value at end of year	**–**	**3**	**1**	**1**	**1**	**4**

Amortization is included in the following lines of the income statement:

Amortization	2009	2008
Administrative expenses	–1	–1
Selling expenses	–2	–11
Total	**–3**	**–12**

All intangible assets are acquired.

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

No borrowing costs have been capitalized during 2009 for intangible assets.

8. Tangible assets

Equipment, tools and fixtures	2009	2008
Cost at beginning of year	**6**	**7**
Purchase	–	1
Sales/disposals	–4	–1
Cost at end of year	**2**	**6**
Accumulated depreciation at beginning of year	**–4**	**–5**
Depreciation for the year	–1	–1
Sales/disposals	3	1
Accumulated depreciation at end of year	**–2**	**–4**
Net carrying value at end of year	**1**	**2**

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

No borrowing costs have been capitalized during 2009 for tangible assets.

9. Group companies

2009	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Balance 31 Dec.
Cost	**59,761**	9	–	–6,350	–2	–	**53,418**
Revaluations	**1,645**	–	–	–	–	–	**1,645**
Impairments	**–11,055**	–	–	–	–	–	**–11,055**
Carrying value	**50,351**	**9**	**–**	**–6,350**	**–2**	**–**	**44,008**

2008	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Balance 31 Dec.
Cost	**58,691**	–	1,100	–	–31	–	**59,761**
Revaluations	**1,645**	–	–	–	–	–	**1,645**
Impairments	**–8,335**	–	–	–	–	–2,720	**–11,055**
Carrying value	**52,001**	**–**	**1,100**	**–**	**–31**	**–2,720**	**50,351**

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

Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2009	2008
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	15,750
Swedish Match Distribution AB	556571-7039	Stockholm	1,000	100	2,350	2,350
Svenska Tändsticks AB	556105-2506	Stockholm	1,000	100	1,100	1,100
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm	34,403,000	100	286	286
Intermatch Sweden AB	556018-0423	Stockholm	710,000	100	167	167
Swedish Match Industries AB	556005-0253	Tidaholm	30,853	100	95	95
Swedish Match United Brands AB	556345-7737	Stockholm	200,000	100	32	32
Swedish Match US AB	556013-4412	Stockholm	96,000	100	9	–
Svenskt Snus AB	556367-1261	Stockholm	1,000	100	1	1
Svenska Tobaks AB	556337-4833	Stockholm	8,000	100	1	1
Tobak Fastighets AB	556367-1253	Stockholm	2,000	100	0	0
Swedish Match Treasury SEK SA[1)]	0890.171.968	Belgium	9,999,999	99,99	11,751	18,101
Swedish Match Treasury USD SA[1)]	0894.153.126	Belgium	999,999	99,99	5,065	5,065
Swedish Match Treasury EUR SA[1)]	0440.934.581	Belgium	20,169	99,99	429	429
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	3,931	3,931
General Cigar Holdings, Inc.[1)]	13-3922128	USA	11,204,918	63,52	1,573	1,573
Swedish Match North America Inc	62-1257378	USA	100	100	849	849
General Cigar Dominicana, S.A.[1)]		Dominican Republic	8,972,394	99,99	387	387
DM Holding USA Inc.	45-0571257	USA	1,000	100	207	207
Honduras American Tabaco, S.A. de C.V.[1)]		Honduras	226,972	99,77	18	18
Swedish Match Sales.com B.V. under liquidation	17154863	Netherlands	100	100	7	9
Nitedals Taendstiker A/S	930567647	Norway	500	100	1	1
SA Allumettiére Causemille[2)]			10,000	100	0	0
The Burma Match Co Ltd[3)]			300,000	100	0	0
Vulcan Trading Co. Ltd[4)]			4,000	100	0	0
Carrying value at end of year					**44,008**	**50,351**

[1)] Remaining shares owned by subsidiary.
[2)] Nationalized in 1963.
[3)] Nationalized in 1968.
[4)] Nationalized in 1969.

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

10. Joint venture

	Balance at beginning of year	Shareholder's contribution	Impairments	Balance at end of year
Cost	–	23	–	**23**
Impairments	–	–	–9	**–9**
Carrying value	**–**	**23**	**–9**	**14**

Impairments for the year are reported in the result from participation in joint venture in the income statement. The company is in the phase of organization build up and is therefore not generating any income, consequently the share is written down to correspond to the value in the company´s equity.

Company name/Corp. Reg.no./Domicile	Number of shares	Nr of votes & Ownership, %	2009	2008
SMPM International AB, 556771-7128, Stockholm	500	50	14	–
Carrying value at end of year			**14**	**–**

11. Receivables from group companies

Receivables from Group companies	2009	2008
Carrying value at beginning of year	**83**	**70**
Increase of lending	6,350	–
Repayments	–2	–1
Foreign exchange loss/gain	–6	14
Carrying value at end of year	**6,424**	**83**

12. Other non-current receivables

Other non-current receivables	2009	2008
Pledged assets	20	13
Derivatives	695	1,030
Carrying value at end of year	**715**	**1,043**

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.

13. Other receivables

Other receivables	2009	2008
Special income tax relating to pension costs	23	–
Currency forwards	–	41
Derivatives related to current loans	9	33
VAT receivables	2	3
Other current receivables	3	6
Carrying value at end of year	**37**	**83**

14. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2009	2008
Accrued interest income, non-group companies	22	36
Accrued compensation for pension costs	4	3
Prepaid rent	3	3
Prepaid insurance premiums	2	2
Other prepaid expenses	10	20
Carrying value at end of year	**41**	**64**

15. Equity

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

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

Number of registered shares	2009	2008
Issued at beginning of year	255,000,000	267,000,000
Cancellation	–4,000,000	–12,000,000
Total shares outstanding at end of year	**251,000,000**	**255,000,000**
Of which held by Swedish Match AB	–19,700,000	–5,840,000
Total shares outstanding, net of shares held by Swedish Match AB	**231,300,000**	**249,160,000**

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2009, the Parent Company's holding of treasury shares amounted to 19,700,000 shares (5,840,000).

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

Effect on equity	2009	2008
Treasury shares at beginning of year	**–12,890**	**–11,956**
Repurchase of own shares during the year	–2,598	–996
Stock options exercised during the year	51	62
Cancellation of shares	6	18
Bonus issue	–6	–18
Treasury shares at end of year	**–15,437**	**–12,890**

The Annual General Meeting on April 28, 2009 renewed the mandate to repurchase up to 10 percent of the shares of the Company up to an amount of 3,000 MSEK. In addition, a decision was made to cancel 4.0 million shares held in treasury, with a contemporaneous bonus issue, without issuing new shares, of an amount equivalent to the amount represented by the cancelled shares or 6.1 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 251 million shares with a quotient value of 1.5519 SEK. During the year, the Company issued 1.7 million call options to senior management and key employees for the stock option program for 2008. These call options can be exercised from March 2012 to February 2014. The exercise price is 141.24 SEK.

During the year 18.4 million shares were repurchased for 2,598 MSEK at an average price of 140.94 SEK. As at December 31, 2009 Swedish Match held 19.7 million shares in its treasury, corresponding to 7.8 percent of the total number of shares. During the year the Company has also sold 0.6 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 231.3 million. In addition, the Company has call options outstanding at year end corresponding to 5.3 million shares exercisable in gradual stages from 2010–2014.

Dividend

After the balance-sheet date, the Board proposed that the dividend for the year amount to 4.75 SEK (4.10) per share. The dividend then amounts to 1,099 MSEK based on the number of shares outstanding at the end of 2009. Prior year total dividend amounted to 1,024 MSEK.

16. Untaxed reserves

Excess amortization	2009	2008
Intangible assets		
Carrying value at beginning of year	2	13
Excess amortization for the year	–2	–11
Carrying value at end of year	**0**	**2**

17. Bond loans

Liabilities due for payment later than five years after the balance-sheet date amount to 998 MSEK (1,467).

18. Liabilities to group companies

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

19. Other liabilities

109 MSEK (–) pertains to derivatives with a due date within five years.

20. Accrued expenses and deferred income

Accrued expenses and deferred income	2009	2008
Accrued interest expenses	201	194
Personnel expenses	22	30
Accrued bonus incl. social security charges	15	18
Accrued costs studies	6	–
Other accrued expenses	10	9
Carrying value at end of year	**254**	**251**

21. Pledged assets and contingent liabilities/assets

Pledged assets	2009	2008
Receivables pledged	–	2
Other assets pledged[1)]	20	13
Total	**20**	**15**

[1)] Pertains to endownment insurance policies pledged as security for pension obligations. A corresponding amount is recognized as an operating provision in the balance sheet.

Contingent liabilities	2009	2008
Guarantees on behalf of subsidaries	417	1,191
Guarantees to external companies	5	6
Total	**422**	**1,197**

Contingent assets

As per December 31, 2009, the Parent Company had no contingent assets.

22. Supplementary information to cash flow statement

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

Cash and cash equivalents	2009	2008
Cash and bank	–	1,359
Bank certificates	–	1,343
Carrying value at end of year	**–**	**2,702**

Interest paid and received and dividend received	2009	2008
Dividend received	4,235	4,673
Interest received, non-group companies	65	122
Interest paid, non-group companies	–400	–506
Interest received, group companies	178	116
Interest paid, group companies	–873	–1,195
Total	**3,205**	**3,210**

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

Adjustments for non cash items and other	2009	2008
Depreciation and amortization	4	13
Impairment losses	9	2,720
Share based payments, IFRS 2	14	20
Change in accrued interest	–35	6
Change in market value revaluations	1	3
Unrealized exchange rate differences	57	31
Realized exchange rate differences	–56	–35
Changes in the value of financial instruments	–	1
Other	3	1
Total	**–3**	**2,760**

23. Related parties

	Subsidiaries		Joint venture	
Summary of transactions with related parties	**2009**	**2008**	**2009**	**2008**
Revenues				
Dividends	4,235	4,673	–	–
Group contribution	1,771	1,698	–	–
Interest income	232	115	–	–
Sale of goods/services	41	44	2	–
Expenses				
Group contribution	–	–	–	–
Interest expenses	–872	–1,193	–	–
Purchase of goods/services	–17	–10	–	–
Receivables	**12,808**	**2,333**	**0**	**–**
Liabilities	**24,635**	**23,859**	**–**	**–**
Guarantees	**417**	**1,191**	**–**	**–**

Transactions with related parties are determined at an arms-length basis. For remunerations to leading executives, see *Note 7 Personnel* for the Group.

24. Carrying value and fair value of financial instruments

Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each type of financial instruments at December 31, 2009. Trade receivables and trade payables have a short duration and are reported at nominal value without discounting. 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 IFRS7. The values presented are indicative and may not necessarily be realized.

2009	Items carried at fair value via the income statement [1]	Loans & receivables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	211	–	–	484	–	20	715	715
Other receivables	–	–	–	–	9	28	37	37
Prepaid expenses and accrued income	15	–	–	4	3	19	41	41
Cash and cash equivalents	–	–	–	–	–	–	–	–
Total assets	**226**	–	–	**488**	**12**	**67**	**793**	**793**
Loans and borrowings	–	–	9,254	–	–	–	9,254	9,541
Other liabilities	1	–	–	107	–	8	116	116
Accrued expenses and deferred income	–	–	175	26	–	53	254	254
Trade payables	–	–	15	–	–	–	15	15
Total liabilities	**1**	**–**	**9,444**	**133**	**–**	**61**	**9,639**	**9,926**

[1] All items relates to instruments held for trading.

2008	Items carried at fair value via the income statement [1]	Loans & receivables	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	150	–	–	733	146	14	1,043	1,043
Other receivables	76	–	–	–	–	7	83	83
Prepaid expenses and accrued income	7	–	–	9	20	28	64	64
Cash and cash equivalents	–	2,702	–	–	–	–	2,702	2,702
Total assets	**233**	**2,702**	**–**	**742**	**166**	**49**	**3,892**	**3,892**
Loans and borrowings	–	–	10,133	–	–	–	10,133	10,143
Other liabilities	53	–	–	146	–	12	211	211
Accrued expenses and deferred income	50	–	–	115	29	57	251	251
Trade payables	–	–	18	–	–	–	18	18
Total liabilities	**103**	**–**	**10,151**	**261**	**29**	**69**	**10,613**	**10,623**

[1] All items relates to instruments held for trading.

25. Employee benefits

Post-employment employee benefits

Certain pensions are covered by a Swedish pension trust and as of December 2009 an additional Swedish pension plan has been included which previously has been classified as a multiemployer plan. As per December 31, 2009 the pension plan has a surplus. Prior years have not been restated. As of December 2008 Swedish Match AB also assumed a pension trust for employees in the divested Swedish Match UK Ltd. The tables below specifies the pension obligations pertaining to these three pension arrangements.

Defined-benefit pension plan	2009	2008
Present value of funded obligations	–720	–539
Fair value of separately held assets	803	693
Surplus, net	**83**	**154**
Net surplus in pension trust not recognized in balance sheet	–83	–154
Net pension liability recognized in the balance sheet	**0**	**0**

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

Net pension liability	2009	2008
Net pension liability recognized in the balance sheet at beginning of year	**0**	**0**
Costs recognized in income statement attributable to pension	4	0
Benefits paid	–7	–3
Contribution received from pension trust	4	3
Net pension liability recognized in the balance sheet at end of year	**0**	**0**

40 MSEK (32 MSEK) of the total net pension asset is covered by Swedish law "Tryggandelagen".

Income and expenses attributable to pension consist of the following items:

Income and expenses attributable to pension	2009	2008
Current service costs	0	2
Difference between contribution received from pension trust and benefits paid	0	0
Interest cost on obligation	37	35
Actual return on separately held assets	–81	19
Net expenses for pension	**–44**	**56**
Pensions covered by insurance premiums:		
Costs for pension insurance premiums recognized in income statement	18	29
Increase in surplus in pension trust	44	–56
Net pension costs recognized in income statement attributable to pension	**18**	**29**

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

The actual return on separately held assets expressed in percentage is 10 percent (negative 3).

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

Separately held assets	2009	2008
Equity securities	195	180
Debt instruments	599	513
Other	9	–
Total	**803**	**693**

Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 5.3 percent (6.4).

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

26. Sick leave within the Parent Company

Percent	2009	2008
Total sick leave	0.96	0.98
of which long-term sick leave	–	0.88
Sick leave for men	0.47	1.09
Sick leave for women	1.59	0.84
Sick leave for employees under 29[1)]	–	–
Sick leave for employees age 30–49	1.03	1.15
Sick leave for employees age 50+	1.20	0.88

[1)] No data provided if the group comprises less than 10 persons.

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

Proposed distribution of earnings

According to the Parent Company's balance sheet, the funds available for distribution by the Annual General Meeting amount to 22,840 MSEK, of which –59 MSEK is hedge reserve and 4,578 MSEK is net profit for the year.

The Board of Directors proposes that the 22,840 MSEK which is at the disposal of the Annual General Meeting be distributed so that shareholders receive a dividend of 4.75 SEK per share, amounting to a total of 1,099 MSEK, based on the number of shares at end of the year, and that –59 MSEK be carried forward as a hedge reserve and that the remaining earnings be carried forward.

The income statements and balance sheets will be presented to the Annual General Meeting on April 27, 2010 for adoption. The Board of Directors also proposes April 30, 2010 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 24, 2010

Conny Karlsson Chairman of the Board	Andrew Cripps Deputy Chairman	Charles A. Blixt Board member	Kenneth Ek Board member
Karen Guerra Board member	Arne Jurbrant Board member	Eva Larsson Board member	Joakim Lindström Board member
Kersti Strandqvist Board member	Meg Tivéus Board member	Lars Dahlgren President and CEO	

Our Auditor's report was submitted on March 10, 2010

KPMG AB

Thomas Thiel
Authorized Public Accountant

Auditor's report

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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Swedish Match AB (publ) for the year 2009. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 48–98. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

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

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

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

Stockholm, 10 March, 2010
KPMG AB

Thomas Thiel
Authorized Public Accountant

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

GOVERNANCE REPORT

Swedish Match is subject to a variety of rules that affect its governance including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on the NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations. The Articles of Association, adopted by the general meeting of shareholders, are available on the Company's website at www.swedishmatch.com.

Swedish Match applies the Swedish Code of Corporate Governance, which is available on the NASDAQ OMX website at www.nasdaqomx.com. The Company is not reporting any deviations from the Code for 2009, except with regard to the Code's regulation that auditors shall review the Company's half-year or nine-month report. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems.

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

General Meeting

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

The Annual General Meeting must be held within six months of the close of the fiscal year. At the Annual General Meeting, resolutions are adopted concerning such matters as dividends, approval of the Annual Report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, where applicable, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

The Annual General Meeting for 2009 was held on April 28, 2009. The minutes of the meeting are available on the Company's website at www.swedishmatch.com.

Nominating Committee

The Nominating Committee is established according to the principles resolved by the Annual General Meeting each year. Pursuant to the decision of the Annual General Meeting 2009 the Nominating Committee shall include the Chairman of the Board of Directors and one representative of each of the four largest shareholders who wish to appoint a representative to the Committee. The four largest shareholders are identified on the basis of the known numbers of votes in due time before the date falling six months before the coming Annual General Meeting.

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

In the autumn of each year the Board of Directors commissions an external consultant to conduct an evaluation of the Board as regards the conduct and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board Members and the requirements for the future.

The Nominating Committee shall meet as often as necessary to discharge its duties, and at least once per year. Proposals to the Nominating Committee can be submitted to the Nominating Committee's secretary, the General Counsel of Swedish Match. The 2009 Annual General Meeting decided

that no fees should be paid to the members of the Nominating Committee, but that any expenses of the Nominating Committee were to be borne by the Company.

Nominating Committee for the AGM 2009

The Nominating Committee for the Annual General Meeting in 2009 comprised the following five persons; Michael Allison (Morgan Stanley Investment Management), William N. Booth (Wellington Management Company), Andy Brown (Cedar Rock Capital), Mads Eg Gensmann (Parvus Asset Management), and the Chairman of the Board. Mads Eg Gensmann served as Chairman of the Nominating Committee. The Committee held three meetings during the period between the 2008 and 2009 Annual General Meetings combined with informal contacts and discussions between the members. A report on the work of the Nomination Committee was presented to the AGM 2009.

Nominating Committee for the AGM 2010

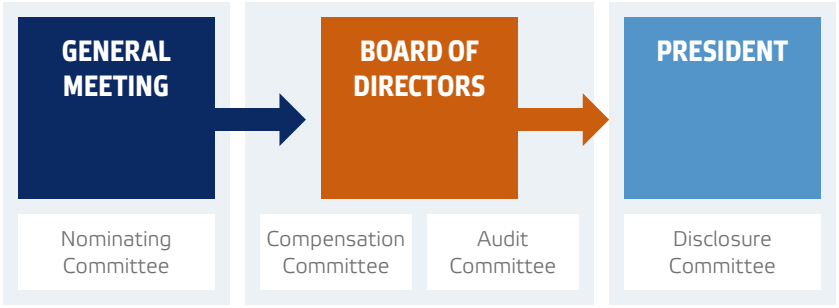
The Nominating Committee for the Annual General Meeting in 2010 was announced in a press release on October 27, 2009 with the following members, in addition to the Chairman of the Board; Andy Brown (Cedar Rock Capital), Mads Eg Gensmann (Parvus Asset Management), KG Lindvall (Swedbank Robur Funds), and William Lock (Morgan Stanley Investment Management). Mads Eg Gensmann serves as Chairman of the Nominating Committee.

Contacting the Nominating Committee

Shareholders may submit its proposals to the Company's Nominating Committee at any time. However, any proposal should be submitted to the Committee no later than two months prior to the AGM, so that the Nominating Committee can consider proposals received with due care.

Proposals shall be submitted to:
Swedish Match AB
The Nominating Committee
c/o General Counsel
SE-118 85 Stockholm, Sweden
E-mail: nominating.committee@swedishmatch.com

GOVERNANCE OF THE SWEDISH MATCH GROUP



Board of Directors

Board composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2009, the Swedish Match Board of Directors consisted of seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

During the year, the Board of Directors consisted of the following directors elected by the General Meeting: Conny Karlsson, Charles A. Blixt, Andrew Cripps, Karen Guerra, Arne Jurbrant, Kersti Strandqvist, and Meg Tivéus. During the year, Kenneth Ek, Eva Larsson, and Joakim Lindström served as employee representatives on the Board, with Håkan Johansson, Eeva Kazemi Vala, and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on pages 106–107.

Board meetings

The Board of Directors convenes for six ordinary meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is called to additional meetings convened at the discretion of any director or of the President.

The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also met with the Board without the presence of the President or any other member of the executive management.

Responsibilities of the Board of Directors

The Board of Directors is primarily responsible for establishing the Swedish Match strategic and financial Long-Range Plan, monitoring the performance of the oper-

ations on an ongoing basis, ensuring that there is a satisfactory process for monitoring the Company's compliance with laws and regulations, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

The Board of Directors appoints and issues instructions for the President and monitors his work. The Board also determines the President's salary and other compensation within the framework of the guidelines established at General Meetings.

The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose, and conducts ongoing evaluations of the financial position of the Company, of management guidelines, and of the investment of company funds. The Board also safeguards the Company's financial accounting, internal control and the quality of its financial reporting through the system for internal control described in detail in the section entitled "Report on internal control" on page 105.

Working procedures for the Board of Directors

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President, and the guidelines for financial reporting to the Board. The working procedures stipulate that the Company shall have an Audit Committee and a Compensation Committee.

Activities of the Board of Directors during 2009

The number of Board meetings during 2009 was seven, of which six were scheduled meetings and one was a statutory meeting. The Board of Directors elected at the 2009 Annual General Meeting held its 2009 statutory meeting on the same day as the Annual General Meeting, when decisions were made concerning the working procedures for the Board and instructions for the Compensation and Audit Committees. In addition, customary decisions were made concerning the election of the secretary (General Counsel Fredrik Peyron) and authorized signatories, and the appointment of members of the Compensation and Audit Committees.

In addition to a financial review of the business and distribution of surplus funds, the Board during the year devoted considerable time to the Company's strategy and organization, management benefit structures and to divestments and acquisitions.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AND NUMBER OF MEETINGS AND ATTENDANCE DURING 2009

	Audit Committee	Compensation Committee	Board of Directors
Total number of meetings	**5**	**7**	**7**
Conny Karlsson		7	7
Charles A. Blixt		7	7
Andrew Cripps	5		7
Karen Guerra			6
Arne Jurbrant		7	6
Kersti Strandqvist	5		7
Meg Tivéus	5		7
Kenneth Ek			7
Eva Larsson			7
Joakim Lindström			7
Håkan Johansson			7
Eeva Kazemi Vala			7
Gert-Inge Rang			7

All of the meetings held during the year followed an approved agenda. Prior to each meeting, a proposed agenda and, where applicable, documents relevant to the items on the agenda were sent to the Board. The Company's auditors attended the Board meeting in February to present the audit report and observations from the audit. In conjunction with the Board's meetings in June, the Board visited the Company's cigar manufacturing facility in Houthalen, Belgium.

Chairman of the Board

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. Through regular contact with the President, the Chairman of the Board monitors the Company's operations and development, ensures that the Board of Directors continuously receives the information required for upholding the quality of the Board's work, and monitors that this work is performed in compliance with the Swedish Companies Act.

The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors. During 2009, Conny Karlsson served as Chairman of the Board.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. In 2009, the members were Meg Tivéus, (Chairman), Andrew Cripps, and Kersti Strandqvist. Although the Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for overseeing procedures for accounting and financial reporting and for the organization of internal control. It also oversees the audit of the Group's accounting records. Its reviews focus on the quality and integrity of the Group's financial statements and related disclosure, the performance of the Company's internal control function and independent auditors, the independent auditors' qualifications and independence, the Group's compliance with applicable laws

and regulations and, as required, related party transactions. In conjunction with the Audit Committee's review of the financial reports, the members of the Audit Committee also discuss accounting issues relating to the Company's financial reporting. The Audit Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

Decision-making powers have been delegated to the Committee by the Board pertaining to:

(i) advance approval of non-audit services to be provided by the auditors;
(ii) advance approval of transactions between the Company and related parties;
(iii) matters pertaining to special review of interim reports by auditors, and
(iv) the need for a separate review function (internal audit).

The Chairman of the Committee kept the Board of Directors informed on an ongoing basis of the work and decisions of the Committee throughout the year. Prior to the 2009 Annual General Meeting, the Audit Committee evaluated the auditors' work and informed the Nominating Committee of the results of the evaluation.

In consultation with Committee members, the Chairman of the Committee shall decide where and how frequently the Committee shall meet. The number of meetings in 2009 was five including one by telephone. The Company's auditors participated in all of the meetings of the Audit Committee in 2009 and, in connection with two of these meetings, also met with the Committee without the presence of Company representatives

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members in 2009 were Conny Karlsson, Chairman, Arne Jurbrant, and Charles A. Blixt. The Company's President presents reports on certain issues, but is not a member of the Committee and is not present when the Committee prepares decisions regarding compensation to the President.

The Committee's duties are to prepare and submit to the Board proposals for decisions on the following issues:

(i) guidelines to be proposed to the Annual General Meeting, for the determination of salaries and other compensation, as well as other terms of employment for the Company's President and other members of Group Management Team;
(ii) any share-related incentive programs;
(iii) salary and other compensation as well as other terms of employment for the Company's President, including annual salary review;
(iv) other compensation and employment term matters which, by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors; and
(v) approval of significant engagements outside the Company with respect to the President.

The Board of Directors has delegated decision-making authority to the Committee for the following issues:

(i) calculation and payment of variable salary to the Company's President and other members of the Group Management Team;
(ii) the allotment of options, within the framework for the call option program, as resolved by the Annual General Meeting;
(iii) payment of funds to the Company's profit-sharing system in Sweden, pursuant to the rules stipulated by the Board for the Swedish profit-sharing system;
(iv) salary and other compensation which, within the framework of the guidelines resolved by the Annual General Meeting, shall be paid to, and other terms of employment that shall apply for, members of Group Management Team other than the President;
(v) approval of significant engagements outside the Company with respect to other members of the Group Management Team than the President; and
(vi) study fees paid to the employee representatives on the Board.

The Committee's Chairman kept the Board of Directors informed on an ongoing basis about the Committee's work and decisions during the year.

The Committee shall meet as often as necessary but at least twice annually. The number of meetings held during 2009 was seven including two by means of correspondence.

During 2009, the Committee devoted special attention to determination of variable compensation for 2008 to be paid in 2009, proposals to the Board concerning adjustments to the President's salary and variable compensation for 2010, determination of salaries and variable compensation for other members of the Group Management Team for 2010 and proposals for long term incentive programs. In addition, the Committee submitted a proposal to the Board, prior to the 2009 Annual General Meeting, to have the Company issue call options in respect of the 2008 options program and a proposal for guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

MEMBERS OF THE COMMITTEES OF THE BOARD OF DIRECTORS 2009

COMPENSATION COMMITTEE	AUDIT COMMITTEE
Conny Karlsson *(Chairman)*	Meg Tivéus *(Chairman)*
Charles A. Blixt	Andrew Cripps
Arne Jurbrant	Kersti Strandqvist

Evaluation of the work of the Board of Directors

The Board of Directors shall ensure that its work is evaluated annually. During the autumn of 2009, the Board's work was evaluated with the assistance of an independent consulting company. The Nominating Committee was informed of the result of the evaluation.

Independence of Board members

All of the Board members are considered to be independent under the rules of the Swedish Code of Corporate Governance in relation to the Company's major shareholders and in relation to the management and the Company.

Compensation to the Board of Directors

The Nominating Committee submits proposals to the General Meeting regarding compensation to the Board of Directors. The Meeting then votes on the matter.

Directors' fees were paid during 2009 pursuant to the resolution of the Annual General Meeting in 2009. No compensation for Directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2009 Annual General Meeting, compensation to the Board for the period from the 2009 Annual General Meeting up to and including the 2010 Annual General Meeting amounted to 1,575,000 SEK to the Chairman of the Board, 745,000 SEK to the deputy Chairman and 630,000 SEK to each member of the Board elected by the General Meeting. In addition, a total of 920,000 SEK was granted for committee work, with the Chairman of the Compensation and Audit Committees receiving 230,000 SEK each and other members serving on these committees receiving 115,000 SEK each.

For further information about Directors' fees for 2009, see *Note 7 Personnel*, page 66.

Management

President

The President is appointed by the Board of Directors, and manages the Company's operations within the framework established by the Board. The President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive and relevant information prior to Board meetings, enabling the Board to reach well-founded decisions. The President also submits reasoned proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Company and the Group, while also providing the Chairman with ongoing information regarding the operations of the Company and the Group. During 2009 Lars Dahlgren served as President and CEO.

Group Management Team

In 2009, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and CEO; Mats Adamson, Senior Vice President Group Human Resources; Bo Aulin, Senior Executive Advisor (until May 31, 2009); Henrik Brehmer, Senior Vice President Corporate Communications; Rich Flaherty, President of North America Division, until August 31, 2009 and thereafter President of US Sales Division; Lennart Freeman, Executive Vice President and President of Swedish Match International; Martin Källström, President of North Europe Division from May 1, 2009 until August 31, 2009 and thereafter President of Smokefree Division; Lars Olof Löfman, Senior Vice President of Global Smokefree Products until August 31, 2009 and thereafter President of Other Operations; Jonas Nordquist, President of Scandinavia Sales Division from September 1, 2009; Fredrik Peyron, Senior Vice President Legal Affairs; Joakim Tilly, CFO and Senior Vice President Group Finance and IT, and Torbjörn Åkeson, acting President of North Europe Division (until April 30, 2009).

Compensation to Group Management

The 2009 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 7 Personnel*, page 66.

For information concerning compensation and other benefits to the Group Management Team and the Company's options program, see *Note 7 Personnel*, page 66.



Audit and auditors

The auditors are elected by the General Meeting. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2008 up to and including the Annual General Meeting in 2012. Thomas Thiel, authorized public accountant, serves as auditor in charge.

The duties of the external auditors include reviewing the management of the Board and President and the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board. During 2009, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to testing of IT-controls, due-diligence reports and tax services.

For information concerning compensation to the Swedish Match auditors during 2009, see *Note 8 Audit fees*, page 70.

Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports and press releases whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing routines. Members of the Committee during 2009 were the Company's Senior Executive Advisor, Bo Aulin, (until May 31, 2009), and the heads of Corporate Communications, Investor Relations, Group Reporting and Tax (from June 1, 2009), and Legal Affairs. The head of Legal Affairs served as the Chairman of the Committee.

Report on internal control

The Board of Directors is responsible for internal control pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance. This report on internal control was prepared in accordance with the Swedish Code of Corporate Governance and is limited to internal control over financial reporting. The report is a separate section in the Corporate Governance Report. The report on internal control is not a part of the official Annual Report and has not been examined by the Company's auditors.

Control environment

The basis for internal control over financial reporting is the control environment that has been documented and communicated in governing documents such as internal policies on business ethics, delegation of authority, related party transactions and fraud response. In addition a set of policies and instructions for accounting and reporting, as well as for internal control and IT security, have been established. All policies are regularly updated and distributed through a system where key individuals confirm implementation within their area of responsibility. Fundamental to creating an effective control environment is the establishment of clear decision-making and review structures. Swedish Match has established a system of regular review meetings between Group, Division and local management where the Group values are reinforced.

Risk assessment

The Group applies a risk assessment and risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment the Group defines a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition each Group company is charged with the responsibility to assess company specific risks and identify additional key internal controls not covered by the standardized system of controls. Furthermore the foundation of the annual evaluation of effectiveness of the internal control structure is the annually updated risk assessment of each Group company.

Control activities

Based on the framework of Group policies and instructions the Division president is charged with the responsibility to establish the internal controls over financial reporting. Control activities are established in all business processes and systems supplying information to the financial reports in order to safeguard the reliability of the information.

Information and communication

Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting the financial reporting.

Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. The Group Internal Audit department, which reports directly to the CFO and the Audit Committee, conducts the evaluation of internal controls.

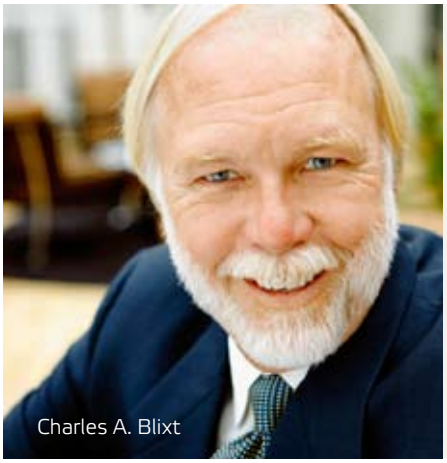
Financial reports are provided on a monthly, quarterly and annual basis to Division and Group management through a common reporting and consolidation system. Management, financial as well as operating management, reviews the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. The Disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

Stockholm, February 24, 2010

The Board of Directors of
Swedish Match AB

Board of Directors


Conny Karlsson


Charles A. Blixt

CHARLES A. BLIXT Born 1951. J.D. and B.A. Board member since 2007. Member of the Compensation Committee.
Other Board Assignments: Corporate Board memberships Targacept Inc. (NASDAQ: TRGT) and Krispy Kreme Doughnuts, Inc. (NYSE: KKD). Also Board member of Salem Academy and College Board of Trustees.
Previous positions: Interim General Counsel, Krispy Kreme Doughnuts; Executive Vice President and General Counsel, RJ Reynolds Tobacco Holdings; Executive Vice President and General Counsel, Reynolds American Inc.
Own and related parties´ shares: 7,090

ANDREW CRIPPS Born 1957, B.A., University of Cambridge. Board member since 2006. Deputy Chairman and member of the Audit Committee.
Other Board Assignments: Non-executive Director and Chairman of Audit Committee of Booker Group plc. Non-executive director and Chairman of the Remuneration Committee of Molins Plc. Non-executive Director and Chairman of the Audit Committee of Helphire Group plc.
Previous positions: Non-executive director, Trifast Plc; Director, Carreras Group Ltd; Head of Acquisitions and Head of Strategy Development, British American Tobacco; Director of Corporate Finance, Rothmans International; Managing Director, Rothmans Holdings BV; President, Ed. Laurens International SA. Chartered Accountant.
Own and related parties´ shares: 12,200


Andrew Cripps


Karen Guerra Arne Jurbrant

CONNY KARLSSON Born 1955, MBA. Chairman since 2007. Board member since 2006. Chairman of the Compensation Committee.
Other Board Assignments: Board member of TeliaSonera AB and CapMan OYJ.
Previous positions: President, Duni AB; Marketing Director, Procter & Gamble UK; Marketing Director and Regional Director, Procter & Gamble Scandinavia; Marketing Director, Procter & Gamble E&SO.
Own and related parties´ shares: 21,000

KAREN GUERRA Born 1956. BSc. Board member since 2008.
Other Board Assignments: Non Executive Director with Samlerhuset Group BV, a private European direct marketing company.
Previous positions: Non Executive Director and member of the Remuneration Committee, Inchcape PLC; Non Executive Director, More Group PLC; President, Colgate Palmolive France SAS; Chairman and Managing Director, Colgate Palmolive UK Ltd; Marketing Manager Pepsi-Cola Holland and Ireland, Pepsi Cola International.
Own and related parties´ shares: 3,100

ARNE JURBRANT Born 1942, MBA. Board member since 2002. Member of the Compensation Committee.
Other Board Assignments: Member of the IF L/MTC Foundation.
Previous positions: CEO, Kraft Foods Nordic Region; President, Kraft Freia Marabou Nordic Region; President, General Foods Sweden/Denmark; President, General Foods Denmark; Sales Manager, General Foods; Marketing Manager, General Foods Sweden; Product Manager, Pripps Bryggerier; President's assistant, Pripps Bryggerier.
Own and related parties´ shares: 15,233 (including endowment assurance)

Holdings of own and related parties shares as of December 31, 2009. For a detailed report of remuneration and benefits to the Board of Directors, refer to *Note 7*, page 66.


Kersti Strandqvist

KERSTI STRANDQVIST Born 1963, M. Sci., Techn. Lic., Master of Strategic Marketing. Board member since 2005. Member of the Audit Committee. Vice President Feminine Care within SCA Personal Care.
Previous positions: Business Area Manager Baby Care, SCA Personal Care; Director R&D Incontinence Care, SCA Hygiene Products; Technical Manager Sourcing, SCA Hygiene products; Marketing Manager, Elf Atochem (France); various positions in R&D and sales, Neste Chemicals (Sweden, Finland, Belgium).
Own and related parties´ shares: 8,100


Meg Tivéus

MEG TIVÉUS Born 1943, MBA. Board member since 1999. Chairman of the Audit Committee.
Other Board Assignments: Chairman of Folktandvården in Stockholm, Frösunda LSS AB and Sprit och Vinleverantörerna. Board member of Cloetta AB, Billerud AB, Apoteket Farmacci AB and Nordea Fonder AB.
Previous positions: President and CEO, 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: 12,000

Changes in the Board of Directors during 2009

There were no changes in the Board of Directors during 2009.

Independence in relation to the 2009 Board of Directors

All Board members are, as defined in the Swedish Code of Corporate Governance, independent of the Company and its management and of the Company's major shareholders.

Secretary to the Board of Directors

Fredrik Peyron General Counsel. Senior Vice President, Legal Affairs since 2007.

EMPLOYEE REPRESENTATIVES


Kenneth Ek Eva Larsson Joakim Lindström

KENNETH EK Born 1953. Board member since 1999. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Board member of the Swedish Association of Management and Professional Staff (Ledarna) at the snus plant in Gothenburg and Kungälv, Sweden. Works with strategic technical projects at Swedish Match plant in Gothenburg/Kungälv.
Previous positions: Technical Manager; Electrical Manager; Electrician, Swedish Match AB.
Own and related parties´ shares: 0

EVA LARSSON Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the trade union association at the match plant in Tidaholm, Sweden. Insurance Manager for insurance policies of persons employed under collective agreements at Swedish Match match plant in Tidaholm.
Previous positions: Line Operator, Swedish Match match plant in Tidaholm.
Own and related parties´ shares: 0

JOAKIM LINDSTRÖM Born 1965. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman and member of the nomination body of the Swedish Food Workers' (Livs) trade union association in Solna, Stockholm, Sweden. Module technician at Swedish Match distribution facility in Solna.
Previous positions: Module Technician, Swedish Match distribution facility in Solna.
Own and related parties´ shares: 0

www.swedishmatch.com
For updated information on Board members and their shareholdings and options, please refer to the Company's website.

EMPLOYEE REPRESENTATIVES (DEPUTIES)


Håkan Johansson Eeva Kazemi Vala Gert-Inge Rang

HÅKAN JOHANSSON Born 1963. Deputy member since 2004. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Module Technician at Swedish Match distribution facilities in Gothenburg.
Previous positions: Module Technician, Swedish Match distribution facilities in Malmö, Line Operator at Svenska Tobaks AB in Malmö.
Own and related parties´ shares: 0

EEVA KAZEMI VALA Born 1949. Deputy member since 2004. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chairman of Unionen for Swedish Match in Stockholm/Solna. Works with Exports of pipe tobacco and snus.
Previous positions: Market Coordinator Pipe tobacco, Market Research Manager, Marketing Assistant, Research Chemist, Bioanalyst, Swedish Match North Europe Division. Stockholm University, Casco AB and Karolinska Institutet.
Own and related parties´ shares: 1,500

GERT-INGE RANG Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chairman of the Swedish Association of Management and Professional Staff (Ledarna) at the factory in Vetlanda, Sweden. Supervisor, Splint department at Swedish Match Industries in Vetlanda.
Previous positions: Supervisor, Swedish Match Industries in Vetlanda.
Own and related parties´ shares: 1,000

AUDITORS

KPMG AB *Senior Auditor:* Thomas Thiel. Born 1947. Authorized Public Accountant. Swedish Match Auditor since 2004. Thomas Thiel's other auditing assignments include Atlas Copco, Axfood, Folksam, PEAB, Ratos, Skandia, SKF and Stena.



Group Management


Lars Dahlgren

LARS DAHLGREN President and CEO of Swedish Match AB since 2008. Joined Swedish Match in 1996. Member of Group Management Team since 2004. Born 1970, M. Sc. Business and Economics from Stockholm School of Economics.
Previous positions: Chief Financial Officer and Senior Vice President, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg.
Own and related parties´ shares: 5,400
Call options: 156,358


Lennart Freeman

LENNART FREEMAN Executive Vice President of Swedish Match AB since 2005. President of Swedish Match International since November 2008. Joined Swedish Match in 1975. Member of Group Management Team since 1999. Born 1951, MBA.
Previous positions: President, Swedish Match North America; President, Swedish Match Cigarette Division; Managing Director Cricket Lighters, Swedish Match Lights Division. Several marketing and business development positions within various tobacco and lights operations, Swedish Match.
Own and related parties´ shares: 300
Call options: 274,595

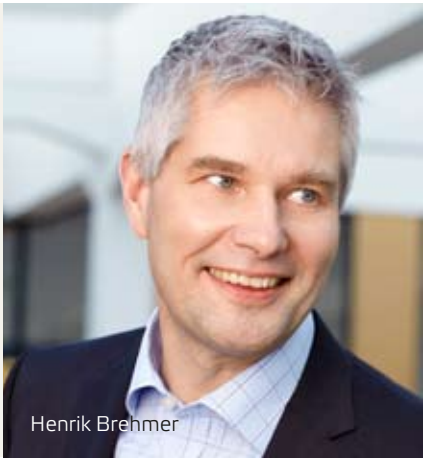

Mats Adamson

MATS ADAMSON Senior Vice President, Group Human Resources since 2007. Joined Swedish Match in 1994. Member of Group Management Team since 2007. Born 1959, Human Resources Executives Program from Stockholm School of Economics Executive Education. He also holds a rank of Major within the Swedish Armed Forces.
Previous positions: Vice President Human Resources, Swedish Match North Europe Division; Director Human Resources, Eesti Tubakas AS.
Own and related parties´ shares: 650
Call options: 74,993


Richard Flaherty

RICHARD FLAHERTY President of US Sales Division since September 2009. Joined Swedish Match in 2000. Member of Group Management Team since 2008. Born 1958, BA Economics, JD Law, LLM Taxation.
Previous positions: Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever.
Own and related parties´ shares: 0
Call options: 131,088

HENRIK BREHMER Senior Vice President, Corporate Communications since 2007. Employed and Member of Group Management Team since 2007. Born 1964, Bachelor Human Resources Management and Business Administration. Background as an Officer in the Swedish Armed Forces.
Previous positions: Vice President Corporate Communications, Ericsson AB in Sweden and UK; Senior Vice President Investor Relations and Group Communication, Securitas AB in UK.
Own and related parties´ shares: 0
Call options: 45,130


Henrik Brehmer


Martin Källström

MARTIN KÄLLSTRÖM President of Smokefree Division. Employed and Member of Group Management Team since May 2009. Born 1961. BSc, School of Business, Economics and law at Göteborg University.
Previous positions: Vice President Category Management, Personal Care SCA Group. Prior to this he has, over the past 25 years, served in several leading positions both in Sweden and internationally at SCA Personal Care division.
Own and related parties´ shares: 0
Call options: 0


Joakim Tilly

JOAKIM TILLY Chief Financial Officer and Senior Vice President, Group Finance and IT since 2008. Joined Swedish Match in 1994. Member of Group Management Team since 2008. Born 1970, M. Sc. Business and Economics from Stockholm School of Economics.
Previous positions: Senior Vice President Group Finance ,Swedish Match AB; Vice President Group Finance, Swedish Match AB; CEO and CFO, Netgiro International; CFO, Swedish Match Lighter Division.
Own and related parties´ shares: 0
Call options: 58,097


Lars Olof Löfman

LARS OLOF LÖFMAN President of Other Operations. Joined Swedish Match in 1987. Member of Group Management Team since 2004. Born 1956, MSc Eng, Controller DIHM.
Previous positions: President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match AB.
Own and related parties´ shares: 1,400
Call options: 132,170


Jonas Nordqvist

JONAS NORDQUIST President of Scandinavia Sales Division. Joined Swedish Match in May 2006. Member of Group Management Team since September 2009. Born 1971, M. Sc. Electrical Engineering from Royal Institute and Technology and M. Sc. Business and Economics from Stockholm School of Economics.
Previous positions: CFO, Swedish Match North Europe Division, Head of Siemens Mobile Phones, Siemens Division in India; various management positions in Germany and India, Siemens AG.
Own and related parties´ shares: 0
Call options: 32,748


Fredrik Peyron

FREDRIK PEYRON General Counsel and Senior Vice President, Legal Affairs since 2007. Joined Swedish Match in 2000. Member of Group Management Team and Secretary to the Board since 2007. Born 1967, Bachelor of Laws (LLB).
Previous positions: Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel AB; Associate, Mannheimer Swartling Advokatbyrå.
Own and related parties´ shares: 1,500
Call options: 76,036

Changes in the Group Management Team during 2009

Martin Källström was appointed President of Smokefree Division and Lars Olof Löfman President of Other Operations. Jonas Nordquist was appointed President of Scandinavia Sales Division and Richard Flaherty President of US Sales Division.

Holdings of own and related parties shares and call options as of December 31, 2009. For a detailed report of remuneration and benefits to senior executives, refer to *Note 7*, page 66.

www.swedishmatch.com

For updated information on members of the Group Management Team and their shareholdings and call options, refer to the Company's website.



SWEDISH MATCH

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