

2010

ANNUAL REPORT

☆☆☆
SWEDISH MATCH

SCANDINAVIAN HERITAGE

Snus – the Scandinavian tobacco product of choice with a worldwide reputation.

QUALITY AS A HALLMARK

– influences and encompasses every facet of the Company's business.



General Long Portion

– a longer slimmer format

CONTENT

2 This is Swedish Match	42 Regulatory affairs	<i>Parent Company financial statements</i>
4 CEO comment 2010	44 Shareholder information	94 Income statement
6 Swedish Match and Scandinavian Tobacco Group	44 Shareholder communications	94 Statement of comprehensive income
8 Our business	46 The share	95 Balance sheet
10 Snus and snuff	48 Five year summary 2006–2010	96 Statement of changes in equity
18 Other tobacco products	50 Quarterly data 2009–2010	97 Cash flow statement
22 Lights	51 Definitions used in financial tables	98 Notes for the Parent Company
24 Corporate sustainability	52 Financial reports	106 Proposed distribution of earnings
28 Code of Conduct	52 Contents	107 Auditor's report
29 Developing employees to excellence	54 Report of the Board of Directors	108 Corporate Governance
32 Social responsibility and community involvement	<i>Consolidated financial statements</i>	108 Governance report
36 The environment	62 Income statement	113 Risk management and internal control over financial reporting
40 GRI Index 2010	62 Statement of comprehensive income	114 Board of Directors
	63 Balance sheet	116 Group Management
	64 Statement of changes in equity	
	65 Cash flow statement	
	66 Notes for the Group	



CEO comment 2010

CEO Lars Dahlgren comments on actions taken during the year to drive excellence throughout the organization.

Our business

Swedish Match product areas include Snus and snuff, Other tobacco products (US mass market cigars and chewing tobacco), and Lights. During 2010, the Group launched a number of new products as line extensions and product improvements to existing brands as well as new brands into the market place.

Sustainability

Sustainability is an important part of the Company's strategy for growth and value creation. During the course of 2010, Swedish Match has engaged in an in-depth analysis of its business from a corporate sustainability standpoint, clarifying the Company's vision, reviewing business drivers as well as interviewing and engaging prioritized stakeholders.

THE GROUP

Swedish Match develops, manufactures and sells market-leading brands in the product areas Snus and snuff, Other tobacco products (US mass market cigars and chewing tobacco), and Lights (matches and lighters). The Group sells products across the globe, with production units in seven countries. From October 1, 2010 Swedish Match holds a 49 percent ownership of Scandinavian Tobacco Group (STG). The Company also has an independent distribution company in Sweden. Swedish Match generates more than a third of its sales and more than half of its operating profit from snus and snuff. The Swedish Match share is listed on the 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 six operating units: Smokefree Products Division, Scandinavia Division, US Division, Lights Latin America, Lights International and Swedish Match Distribution AB.

Consolidated comparable sales for 2010 amounted to 11,222 MSEK and the average number of employees was 3,908 excluding employees transferred to STG. Swedish Match's production units are located in: Brazil, Bulgaria, the Dominican Republic, the Netherlands, the Philippines, Sweden, and the US. ■

PRODUCT NEWS



CATCH PURE MINT

A fresh peppermint flavor delivered in a discrete portion

Catch Pure Mint Portion was first launched in September 2010 in Norway and shortly thereafter in Sweden – in its distinctive recyclable steel can, with strong visual and taste appeal. Consumers' interest in different varieties of flavored snus is increasing and mint is one of the most sought after flavors. Another common consumer request is for discrete portion pouches that are not visible under the lip. The *Catch Pure Mint Portion* pouches are available in a slim fit format. ■



GENERAL LONG PORTION

Classic snus in a longer slimmer format

One of the world's most popular snus brands, *General*, has introduced a new portion format: Long. The new portions have a longer and slimmer format than *General Original Portion*. The flavor is the traditional *General*, but the recipe has been optimized for enhanced taste and better moisture retention. ■

THE NUMBERS 2010

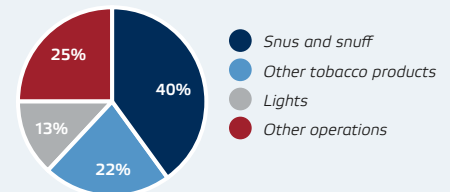
COMPARABLE SALES

11,222 MSEK

COMPARABLE OPERATING PROFIT

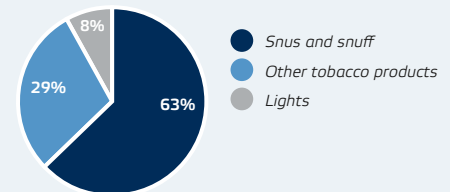
3,158 MSEK

COMPARABLE SALES
BY PRODUCT AREA¹⁾



¹⁾ Excluding businesses transferred STG.

COMPARABLE OPERATING PROFIT
BY PRODUCT AREA^{1) 2)}



¹⁾ Excluding Other operations.

²⁾ Excluding businesses transferred to STG, share of net loss from STG, and larger one time items.

KEY DATA, MSEK	2010	2009	2008
Comparable sales ¹⁾	11,222	10,678	9,559
Sales	13,606	14,204	12,611
Comparable operating profit ²⁾	3,158	2,900	2,375
Operating profit ³⁾	4,169	3,417	2,874
Comparable operating margin, % ²⁾	28.1	27.2	24.8
Comparable EBITDA ²⁾	3,441	3,226	2,647
EBITDA	3,813	3,885	3,222
Profit for the year from continuing operations	2,958	3,146	2,091
Earnings per share (basic), SEK	13.12	9.67	8.30
Dividend per share, SEK	5.50 ⁴⁾	4.75	4.10

¹⁾ Sales excluding businesses transferred to STG.

²⁾ Excluding businesses transferred to STG, share of net loss in STG and larger one time items.

³⁾ Including operating profit from businesses transferred to STG for 2009 and 2008, and in the first nine months of 2010, as well as the share of net loss in STG in the fourth quarter of 2010.

⁴⁾ Board proposal.

www.swedishmatch.com

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

THIS IS SWEDISH MATCH

SNUS AND SNUFF



OPERATING PROFIT

2,080 MSEK

Main brands:

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

Swedish Match has a leading position in Scandinavia. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company.

Main markets: Sweden, Norway, the US

Production units: Sweden, the US

	2010	2009
Sales, MSEK	4,522	4,250
Operating profit, MSEK	2,080	1,916
Operating margin, %	46.0	45.1

Read more about Snus and snuff on page 10.

OTHER TOBACCO PRODUCTS

Main brands:

US mass market cigars: *White Owl, Garcia y Vega, Game by Garcia y Vega*
Chewing tobacco: *Red Man, Red Man Golden Blend, Red Man Silver Blend, Southern Pride, J.D.'s Blend, Granger Select*

Swedish Match maintains a significant presence for US mass market cigars. Swedish Match is the largest manufacturer of US chewing tobacco with market leading brands.

Main markets: the US

Production units: the US, the Dominican Republic



OPERATING PROFIT

942 MSEK

	2010	2009
Sales, MSEK	2,440	2,337
Operating profit, MSEK	942	804
Operating margin, %	38.6	34.4

Read more about Other tobacco products on page 18.

LIGHTS

Main brands:

Matches and fire related products:

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

	2010	2009
Sales, MSEK	1,429	1,403
Operating profit, MSEK	279	312
Operating margin, %	19.5	22.2

Read more about Lights on page 22.

OPERATING PROFIT

279 MSEK



Quality – a part of the Swedish Match Scandinavian heritage

Drawing from its rich Scandinavian heritage, strong brands, and a talented organization, Swedish Match will continue to endeavor to be the global smokefree leader. Success will derive from working closely together in building on the strong brand portfolio, maintaining and improving technological leadership, leveraging the Company's unique Swedish heritage, and providing consumers with products they enjoy.

Quality has always been a tradition and hallmark of Swedish Match corporate philosophy and heritage. Quality influences and encompasses every facet of the Company's business and is key when fulfilling its vision toward global opportunities. Quality governs the Company's focus on innovation, its investments in highly advanced and technical manufacturing processes, as well as the utilization of materials, transport and energy in a way that limits the Company's environmental impact.

Quality and innovation:

The ability to innovate – to create knowledge and convert it into viable products and services – has long been the centerpiece of Swedish Match tradition. It has led to investments in technology at state of the art manufacturing facilities for ongoing innovation in products, design, and packaging. With continued innovation and development of new and improved products while leveraging its brands' strengths, Swedish Match ensures meeting the ever changing desires of the market.

The ability to innovate has also meant that Swedish Match can provide a unique guarantee of quality to snus consumers via the **GothiaTek®** standard. Developed and owned by Swedish Match, **GothiaTek®** uses the latest available knowledge, science, and a unique production process of stringent controls to maintain the highest quality throughout all stages of snus production – from seed to can. From the **GothiaTek®** production and quality assurance process, to continuous innovation and product improvements, Swedish Match strives to give customers and consumers what they desire.



Quality and employees:

With experienced and skilled employees and the ability to capitalize on opportunities associated with changing consumer trends, Swedish Match can quickly respond to deliver quality products for its own brands and for specialized markets, in Scandinavia, the US, and along with its business partners, across the globe.

Swedish Match employs approximately 3,900 people in offices and highly efficient factories for snus, snuff, cigars, chewing tobacco, matches and lighters in Europe, the United States, Asia, and Latin America. The commitment of its employees to bring quality to everything they do allows Swedish Match to better compete and grow. ■

“Our employees have an exceptional ability to embrace change and promote a culture of openness and trust”.

CEO COMMENT 2010

DRIVING EXCELLENCE



Swedish Match competes in a dynamic and ever changing environment, and continually works to adjust and adapt in order to better position itself for the future. Our vision is clear – Swedish Match, as the global smokefree leader, will proactively adapt changing conditions in the marketplace, delivering outstanding value and quality, with trusted and well known brands, delivering products that consumers desire. As a leading manufacturer of Other tobacco products (mass market cigars and chewing tobacco) on the US market, we will continue to drive operational excellence, and explore and develop new varieties and products to meet the changes in consumer demand. For Lights, we will continue to search for ways to deliver high quality in the most efficient and sustainable ways possible.

The Swedish Match that ended the year was a leaner and more efficient organization, better adapted to grow and develop in line with its vision. Swedish Match has strong partnerships and excellent prospects ahead.

We have built on our strengths, and improved our likelihood of success, by partnering up with two world class organizations. Through our joint venture with Philip Morris International (PMI), we will now be able to more effectively explore opportunities for snus outside of Scandinavia and the US. While this should be viewed as a long term process, the joint venture has begun

tests and small launches of snus products in both Taiwan and Canada. Swedish Match has, since October 2010, held a 49 percent ownership of Scandinavian Tobacco Group (STG) as a result of Swedish Match contributing its US premium cigars, machine made cigars outside of the US, and its pipe tobacco businesses to the new STG. The old STG contributed its tobacco products businesses (machine made cigars, pipe tobacco, and fine cut tobacco). The resulting business has world leading positions in pipe tobacco and cigars.

These arrangements provide us with greater opportunities for growth of our smokefree and other tobacco products throughout the world.

The year in brief

During the year, much focus and effort were devoted to the completion of the STG transaction on October 1. With the creation of the new STG, approximately 6,500 former Swedish Match employees engaged in the manufacturing, selling and marketing of premium cigars, machine made cigars and pipe tobacco left Swedish Match to join a truly global and leading player in pipe tobacco and cigars.

At the same time, we stayed close to our remaining businesses and excluding the business transferred to STG, sales grew in both local currency terms and in Swedish kronor for all product areas. Operating

profit growth was also solid, growing by 12 percent in local currency and 9 percent in Swedish kronor. At the new STG, integration work has come off to a quick start with several structural measures already implemented. With restructuring charges the reported share of net loss from STG for the period October to December when Swedish Match owned 49 percent was 60 MSEK.

Basic earnings per share reached 13.12 SEK, up 36 percent from the previous year. For 2010 the proposed dividend will be 5.50 SEK, an increase of 16 percent. The Company bought back 17.0 million shares as part of its ongoing share repurchase program.

During 2010 the two most important markets for snus and snuff, Scandinavia and the US, were going through very different competitive dynamics. In Scandinavia, the overall market continued to grow, while Swedish Match market shares in those markets were relatively stable, an improvement from previous years when share declines were more pronounced. The Norwegian market grew by approximately 8 percent in volume terms during the year, while on the more mature Swedish market growth was lower. In the US, taxation, new FDA regulation, and new low priced competition caused disruption in traditional trends, but the result was that the US moist snuff market grew at a faster rate, and consumption of Swedish Match products increased.¹⁾ For snus outside of

¹⁾ Source: Nielsen YTD December 25, 2010.



Scandinavia, we have established a good platform for future growth of our snus products under the *General* brand, a brand recognized for its quality and authenticity. In the US, while still available in a relatively limited number of stores, the number continues to grow, and the *General* brand sells well wherever it is available. Outside of Scandinavia and the US, the joint venture SMPM International began to conduct tests and small launches of its concepts in Taiwan and Canada.

For Other tobacco products, we successfully converted almost our entire portfolio of US mass market cigars to have FoilFresh™ packaging, ensuring highest quality freshness for our products. This, combined with the launch of *White Owl Sweets* cigars, enabled the Company to significantly improve its competitive position in the marketplace. The chewing tobacco category continued to decline but manufacturing efficiencies aided by our co-pack agreement with National Tobacco, pricing and market share gains allowed us to sustain strong profitability.

Our lights businesses are highly efficient, continue to generate solid results, and are highly cash generative.

During the year, a great deal of emphasis has been made on improving our dialogue with our major stakeholders, and working to better communicate on issues relevant to them. With this year's annual report, we begin the process of reporting along the

guidelines of the GRI (Global Reporting Initiative), which helps to provide structure and clarity in communication of our sustainability efforts.

What the future brings

Today, Swedish Match has the people, products, and systems in place which will allow the Company to continue to grow and develop along with the trends and desires of adult tobacco consumers. Our employees have an exceptional ability to embrace change and promote a culture of openness and trust. Swedish Match will continue to leverage its leadership in snus and effectively compete in the snus and moist snuff markets in Scandinavia and the US, while exploring opportunities in other markets through the SMPM International joint venture. We will work to build on recent successes in US machine made cigars and leverage the strong platform in chewing tobacco by focusing on productivity and sound pricing strategies. We will continue to strive for ongoing operational excellence in our Lights businesses, developing our brands and constantly focus on productivity. We will actively manage our minority holding of STG to realize the full potential of the new company. We will continue to return cash not needed by the business to our shareholders through share repurchases and dividends. At the upcoming Annual General Meeting of shareholders, the Board of

Directors will propose both an increased dividend, to 5.50 per share, and a continuation of the Swedish Match share repurchase program.

To all the former Swedish Match employees who joined the new STG on October 1, I would like to express my sincere gratitude for the dedication, hard work, and outstanding contribution to Swedish Match throughout the years. To all remaining employees, the 3,900 men and women, who are the heart and soul of Swedish Match, I would like to extend my deepest admiration for their devotion and hard work, day in and day out to deliver some of the best products available anywhere. I am convinced that their continued work and devotion will be the driving force in delivering value to our customers, our consumers, and to you, our shareholders.

Stockholm, March, 2011

Lars Dahlgren
President and CEO

On October 1, 2010, Swedish Match completed its transaction with Scandinavian Tobacco Group, thereby creating a new Scandinavian Tobacco Group, the largest dedicated cigar and pipe tobacco company in the world. With its 49 percent holding of Scandinavian Tobacco Group, Swedish Match is an active owner sharing the vision with Scandinavian Tobacco Group to become an even stronger, more competitive company, with greater potential for growth and profitability.

SWEDISH MATCH AND SCANDINAVIAN TOBACCO GROUP

A STRONG PARTNERSHIP

Operational highlights

- The new Scandinavian Tobacco Group formed on October 1, 2010, 49 percent owned by Swedish Match
- Swedish Match share of net loss from Scandinavian Tobacco Group during the October 1 – December 31 period was 60 MSEK
- The share of net loss from Scandinavian Tobacco Group includes restructuring charges, transaction costs and IFRS acquisition adjustments of 175 MSEK before tax
- Integration process proceeding, several structural measures implemented
- Some further restructuring charges and adjustments will occur during 2011, with benefits from restructuring beginning to appear already in 2011

Scandinavian Tobacco Group

Individually, they were important players in their respective cigar, pipe tobacco, and fine cut tobacco markets. Combined, the new Scandinavian Tobacco Group is the world's largest manufacturer of cigars.¹⁾ It is the leading European machine made cigar company, with market leading positions in most Western European markets. Scandinavian Tobacco Group is the market leader in US long-filler cigars¹⁾, and the number two US long-filler cigar catalog and Internet retailer. The company is the world's leading pipe tobacco company. The company also has the leading position for fine-cut (roll-

your-own) tobacco in Denmark, and the number two position in Norway¹⁾. Scandinavian Tobacco Group also distributes Swedish Match lights products in a number of countries, primarily in Europe, Australia, and New Zealand.

The new Scandinavian Tobacco Group is better able to meet the demands of consumers and customers. One clear area of savings will be in Scandinavian Tobacco Group's supply chain management, with a better allocation of capital and resources. There are also opportunities to have a more efficient selling organization by combining sales forces. Consumers will enjoy the same great brands they did before, and with the level of quality they have come to expect. They may see new brands, new options and more innovation as the two companies combine to take the best of the best.

Scandinavian Tobacco Group ownership and management

The new Scandinavian Tobacco Group is owned 51 percent by the Danish company Skandinavisk Holding A/S and 49 percent by Swedish Match AB. Skandinavisk Holding is owned by two foundations, who take a long term perspective on the development of the company. The Group Management Team in December 2010 consisted of Anders Colding Friis, Chief Executive Officer (CEO), Christian Hother Sørensen, Executive Vice President Sales & Marketing, Sisse Fjelsted Rasmussen, Chief Financial

Officer (CFO), Rob Zwarts, Executive Vice President Supply Chain, Dan Carr, President General Cigar, and Keith Meier, President Cigars International. The Supervisory Board of Scandinavian Tobacco Group consists of Jørgen Tandrup (Chairman), Conny Karlsson (Deputy Chairman), Lars Dahlgren, Anders Obel, Tommy Pedersen, Henning Kruse Petersen, Joakim Tilly, and Fredrik Peyron. Lindy Larsen and Hanne Malling are the employee elected representatives.

Financial development

Swedish Match's share of the net loss in Scandinavian Tobacco Group during the October 1 – December 31 period amounted to 60 MSEK. The share of net loss from Scandinavian Tobacco Group for the fourth quarter includes restructuring charges, transaction costs and IFRS acquisition adjustments of 175 MSEK before tax. Scandinavian Tobacco Group has begun integration work with several structural measures already implemented.

Markets and brands

The US long-filler cigar market is estimated to have declined during 2010. The main Scandinavian Tobacco Group brands for the US long filler premium cigar market include Macanudo, Partagas, Punch, Hoyo de Monterey, Cohiba, La Gloria Cubana, Excalibur, and CAO.

¹⁾ Source: Scandinavian Tobacco Group and Swedish Match estimates.



The European machine-made cigar market is estimated to have declined slightly in 2010, to about 5 billion cigars¹⁾, with Scandinavian Tobacco Group selling more than 1.5 billion cigars under its own brands, as well as having contract manufacturing agreements and private label manufacturing. Scandinavian Tobacco Group brands include Café Crème, La Paz, Mercator, Colts, Henri Wintermans, Petit, Salsa, and Hollandia.

The global pipe tobacco market continues its long term decline. It is estimated that the most important markets in North America and Europe account for approximately 3,500¹⁾ tons per year. Scandinavian Tobacco Group has the number one or strong positions in these key markets, as well as sales through the Travel Retail class of trade and contract manufacturing and private label manufacturing for third parties, for a combined volume of approximately 1,800 tons annually. As the world's largest pipe tobacco company, Scandinavian Tobacco Group brands include Borkum Riff, Erinmore, Clan, Colts, Sweet Dublin, Orlik, Skandinavik, Half & Half, and W.Ø. Larsen. Scandinavian Tobacco Group is also present in fine-cut tobacco with brands as Bali, Crossroad, Escort, and Tiedemanns.

Scandinavian Tobacco Group has production facilities in Europe, the US, Latin America, and Indonesia, supplying prod-

ucts throughout the world. Light products distributed by Scandinavian Tobacco Group are manufactured by Swedish Match. Scandinavian Tobacco Group products are distributed through the company's own sales subsidiaries and third party distributors.

The main competitor to Scandinavian Tobacco Group for cigars is Imperial Tobacco.

In January, 2011, Scandinavian Tobacco Group and Reynolds American announced plans for STG to acquire the US pipe tobacco, fine cut tobacco, and little cigars businesses of Lane Limited, (US) from Reynolds American. (The transaction was approved by the US Federal Trade Commission and concluded on March 1, 2011.) The acquisition will further strengthen Scandinavian Tobacco Group's positions in these businesses on the US market.

Scandinavian Tobacco Group facts and figures¹⁾

- Approximately 10,000 employees in 20 countries
- Roughly three fourths of Scandinavian Tobacco Group sales and gross profit come from cigars
- Approximately 2.5 billion machine-made cigars and 115 million hand-made cigars sold annually in more than 100 countries
- 1,800 tons of pipe tobacco and 2,100 tons of fine-cut tobacco sold annually in 66 countries
- Manufacturing units in 8 countries
- Sales companies in 16 countries
- The world's number one manufacturer of cigars, number one in US long-filler cigars, and number one in European machine-made cigars
- The world's number one in pipe tobacco
- Strong market positions in fine-cut tobacco, primarily in Scandinavia

¹⁾ Proforma, structure from October 1, 2010.

¹⁾ Source: Scandinavian Tobacco Group and Swedish Match estimates.

OUR BUSINESS

LEANER – MORE FOCUSED

Swedish Match operates in three main product areas – Snus and snuff, Other tobacco products (US mass market cigars and chewing tobacco), and Lights. Swedish Match production units are located in Brazil, Bulgaria, the Dominican Republic, the Netherlands, the Philippines, Sweden, and the US. Swedish Match generates more than a third of its sales and more than half of its operating profit from snus and snuff.

In addition to its own businesses, the Company has a 49 percent holding of Scandinavian Tobacco Group (STG), a strong player in cigars, pipe tobacco, and fine cut tobacco and a 50/50 joint venture through SMPM International for smokeless products outside of Scandinavia and the US.



THE STRATEGY OF SWEDISH MATCH IS TO:

Position the Company as the global smokefree leader

- Leverage our unique heritage, technological lead, talented organization, and strong brand portfolio globally
- Pursue growth opportunities on a global basis through SMPM International
- Be the preferred choice by consumers
- Be the most valued partner to the trade
- Remain the industry authority for regulators and opinion makers

Leverage strong platforms to maximize long term profitability in Other tobacco products

- Drive profitable growth in US mass market cigars through consumer driven innovation and strong sales execution
- Capitalize on leading position in the chewing tobacco category and continuously drive productivity improvements

Continue to focus on operational excellence and profitability in Lights

- Strong market positions
- Efficient supply chain

Realize the potential of STG through active ownership

- Decisively pursue synergy opportunities
- Leverage brand portfolio and scale to drive profitable growth

FINANCIAL HIGHLIGHTS 2010

- Comparable sales¹⁾ for the full year increased by 5 percent to 11,222 MSEK (10,678). Sales for the full year, including businesses transferred to STG²⁾ on October 1, 2010, were 13,606 MSEK (14,204)
- In local currencies, comparable sales¹⁾ for the full year increased by 7 percent
- Comparable operating profit³⁾ for the full year increased by 9 percent to 3,158 MSEK (2,900)
- In local currencies, comparable operating profit³⁾ for the full year increased by 12 percent
- Operating profit including businesses transferred to STG, share of net loss from STG and larger one time items⁴⁾ for the full year increased by 22 percent to 4,169 MSEK (3,417)
- EPS (basic) for the full year amounted to 13.12 SEK (9.67)
- The Board proposes an increased dividend to 5.50 SEK (4.75)

¹⁾ Sales excluding businesses transferred to STG.

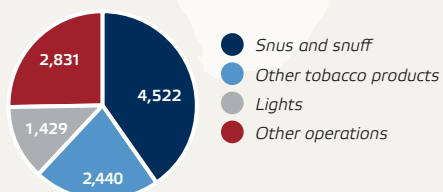
²⁾ In accordance with IFRS, includes sales for businesses transferred to STG for the full year of 2009 and for the first nine months only of 2010.

³⁾ Operating profit excluding businesses transferred to STG, share of net loss from STG and larger one time items.

⁴⁾ Larger one time items include a gain from pension settlements, capital gains from businesses transferred to STG, and reversals of amortization and depreciation relating to assets held for sale.

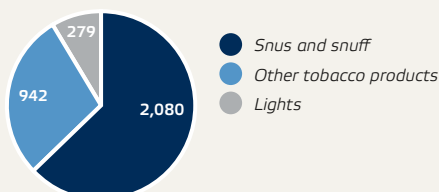


COMPARABLE SALES BY PRODUCT AREA, MSEK¹⁾



¹⁾ Excluding businesses transferred STG.

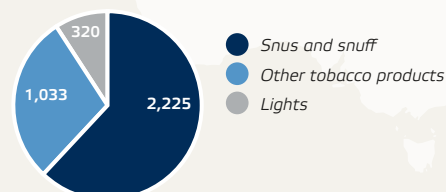
COMPARABLE OPERATING PROFIT BY PRODUCT AREA, MSEK¹⁾²⁾



¹⁾ Excluding Other operations.

²⁾ Excluding businesses transferred to STG, share of net loss from STG, and larger one time items.

COMPARABLE EBITDA BY PRODUCT AREA, MSEK¹⁾



¹⁾ Excluding businesses transferred to STG, share of net loss from STG, and larger one time items.

As the world's largest snus company, Swedish Match holds a unique position. In Sweden, snus is the tobacco of choice for approximately 20 percent of adult men, and a growing number of women. In Norway, snus consumption has risen rapidly in recent years, as more and more people are switching from cigarettes to snus. The values of snus mirror the values of Swedish Match, of quality, trust, and innovation. From the **GothiaTek**® production and quality assurance process, and through continuous innovation and product improvements, Swedish Match strives to give customers and consumers what they desire. Today, snus is mainly a Scandinavian phenomenon and the Company believes that many markets in the world would appreciate what snus has to offer. A snus market is developing in the US, and other markets outside the US and Scandinavia are being explored by Swedish Match (through SMPM International, the joint venture with Philip Morris International). In the US, Swedish Match primarily sells moist snuff, but more and more resources are dedicated to the growing snus category.

SNUS AND SNUFF

SCANDINAVIAN HERITAGE – A GLOBAL FUTURE

Strategy

Drawing from its rich Scandinavian heritage, Swedish Match will continue to endeavor to be the global smokefree leader. With leadership comes responsibility and an obligation to work in close partnership with all stakeholders.

Success will derive from working closely together in building on the strong brand portfolio, maintaining and improving technological leadership, leveraging the Company's unique Swedish heritage and market leadership in Scandinavia, and providing consumers with products they enjoy.

Swedish Match strength in smokefree products has its foundation in the portfolio of well established brands in combination

with deep consumer insight. Swedish Match will continue to innovate and develop new and improved products while leveraging its brands' strengths in order to meet the ever changing desires of the market.

The Group will pursue organic growth opportunities in its home markets and through its joint venture partnership, SMPM International, to explore organic growth internationally.

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 moist snuff.

An organization designed to facilitate progress

The process of bringing such iconic brands as *General*, *Göteborgs Rapé*, *Ettan*, or *Longhorn* to the consumer, providing them with products they want and trust, and ensuring freshness and value, requires a simultaneous focus on the supply chain, the customer, the consumer, as well as the Company's employees and production methods.

In order to facilitate progress throughout the entire value chain, the Swedish Match organizational structure allows for flexibility, innovative new products, improved dialogue and partnerships with customers, providing opportunities to test new concepts anytime, anywhere.

OPERATIONAL HIGHLIGHTS

- *Scandinavia snus sales volumes up more than 2 percent*
- *US moist snuff sales up 3 percent in local currency*
- *US snus store distribution increased to 1,200 stores*
- *SMPM International initiated test launches of General snus in Taiwan and Canada*

Supply chain management, production and product development are managed by the Smokefree Products Division. The US Division and the Scandinavia Division are then free to focus on local marketing and partnerships with customers and be close to both the customer and the consumer. Whereas the Smokefree Products Division makes sure that new products are developed to meet changing consumer tastes and wants, the two geographic divisions ensure that customers perceive Swedish Match to be a true partner in helping to build their businesses while delivering consumers high quality products they desire.

Financial development

Sales during the year increased by 6 percent to 4,522 MSEK (4,250). Operating profit for the year increased by 9 percent to 2,080 MSEK (1,916).

In the Scandinavian market, Swedish Match sales increased by 10 percent, from improved pricing and 2 percent higher shipment volumes. Shipment volumes increased in all Scandinavian markets (Sweden, Norway, and Travel Retail) during the year. In the US, moist snuff sales grew despite declines in market share in a rapidly growing market. After growing 1.6 percent in 2009, the US moist snuff market grew by 9.8 percent in 2010¹⁾, due to dramatic shifts in pricing and promotional activity and a number of new product launches. Swedish Match shipment volumes in the US decreased by 2 percent.

The operating margin was 46 percent for the year (45). The improved operating margin stems primarily from positive price and volume effects in Scandinavia.

Market overview

The global market for snus and moist snuff is estimated to be in excess of 1.5 billion cans, and growing.¹⁾ Scandinavia and the

¹⁾ Source: Nielsen.

Swedish Match main brands

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

US: *Longhorn, Timber Wolf, Red Man*

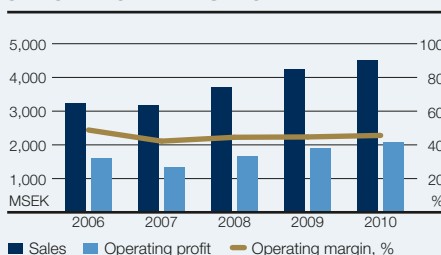


OPERATING PROFIT

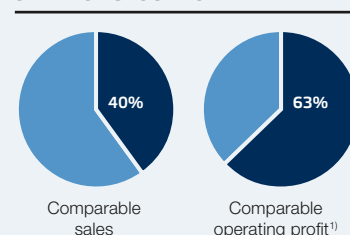
2,080 MSEK

KEY DATA, MSEK	2010	2009	2008
Sales	4,522	4,250	3,711
Operating profit	2,080	1,916	1,667
Operating margin, %	46.0	45.1	44.9
Investments in property, plant and equipment	192	317	173
Average operating capital	1,957	1,833	1,643
Average number of employees	969	959	911

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL



¹⁾ Excluding Other operations.

US are by far the world's largest markets for snus and moist snuff. Scandinavia is a pasteurized snus market, while the US market is dominated by the fermented variety of 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, which is also the largest snus market in the world measured in per capita consumption. Norway and Travel Retail (serving consumers throughout the Nordic area) are faster growing markets, while the Swedish market volumes have been stable.

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 2010, two of the largest US tobacco companies aggressively pursued a strategy to increase awareness and trial of snus, with the result that the US snus market has grown to a size estimated by Swedish Match to be in the range of 30–40 million cans, more than double the size of the previous year. While still a very small category in the US compared to moist snuff, Swedish style

snus is considered to have 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 its own brands, such as *General*, and has met with success in both consumer acceptance and product rotation. The *General* brand is now available in approximately 1,200 stores, and distribution is being continuously expanded.

Moreover, through the joint venture company, SMPM International, with Philip Morris International, Swedish Match is pursuing growth opportunities outside Scandinavia and the US, beginning with limited launches in Taiwan and Canada. While still undeveloped, the markets outside Scandinavia and the US 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 consumers 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 modest declines in volume. In 2010, this trend was reversed as some varieties of premium brands were being sold at prices on par with the value priced brands. In 2010, using the traditional definition of segment by brand positioning, the premium branded segment grew at its fastest pace in years, while growth in the value branded segments slowed down. When segmenting the market by price positioning however, both the premium and the value priced segments have grown at a similar pace.

Snus in Scandinavia

Main brands

The largest Swedish Match brands on the Scandinavian market are *General*, *Göteborgs Rapé*, *Ettan*, *Grovsnus*, *Catch*, and *Kronan*. The *General* brand is the best selling snus brand in both Sweden and Norway. During 2010, the Group launched a number of new products, as line extensions or product improvements of existing brands, (some notable ones being for example *Ettan White Portion*, *Catch Pure Mint Portion*, and *Kronan*

¹⁾ Source: Swedish Match and industry estimates.

SNUS HISTORY, SCANDINAVIA

1822 *Ettan* is one of the most popular snus products and one of Swedish Match's 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 tobacco was grated to ensure the correct texture. The name provides a sense of exclusivity and separates it from other types of snus.



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 in northern Sweden. *Grovsnus Original Portion* was launched in 1983 and is now available both as white portion and black portion.

Vit) or under new brands. Late in 2009, the Group launched *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 products have in 2010 successfully met specific consumer needs in Norway. Beginning September, 2010, *Catch Pure Mint Portion* in a distinctive recyclable steel can, with strong visual and taste appeal was launched first in Norway and shortly thereafter in Sweden. *General Long Portion*, launched late in 2010, provides all of the benefits of the *General Original Portion* snus in a new, longer and slimmer format.

In Scandinavia, growth of the share of white-portion snus continued, and during the year Swedish Match upgraded its *Ettan White Portion* product, now with the upscale star formation packing technique in both Sweden and Norway. *Kronan*, the Group's value priced brand in Sweden, holds a number one position in the value priced segment. In 2010 the *Kronan* packaging was redesigned. 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. During the year, *Onico* was launched in a new variety, *Onico+*, with a fresh and mod-

ern taste. On the Norwegian market, the Group has continued to grow volumes with such strong traditional brands as *General*, *Catch*, *Göteborgs Rapé*, and *Röda Lacket* as well as *Lab Series 01* and *02*.

Market development

In 2010, consumption in the Scandinavian snus market is estimated by Swedish Match to have grown to more than 260 million cans. It is estimated that close to one of five Swedish men use snus on a regular basis, while in Norway the percentage of men using the product is lower, but growing.¹⁾ 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 in both countries.

Swedish Match is the leading manufacturer of snus, with a volume share in Sweden of approximately 86 percent in October–November 2010.²⁾ In Norway, Swedish Match estimates its volume share to be 73 percent.²⁾ 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 approximately one percent in 2010, as the market is fairly mature. The Norwegian

market has grown by double digits in recent years, and in 2010 is estimated to have grown by approximately 8 percent.³⁾ 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 in 2010 compared to previous year.

Over the past several years, consumers have moved from traditional loose products to portion packed (pouch) snus, which now accounts for approximately 70 percent of volumes in Scandinavia.³⁾

Tobacco excise taxes in Sweden, based on weight, constitute a significant proportion of the retail price of a can of snus.

In 2010, like in 2009, the weight-based excise tax for snus was unchanged in Sweden. As a result 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. In Norway, the excise tax increased by 6.5 percent during 2010.


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


¹⁾ Source: Ipsos Sweden, Market Report, 2010.

²⁾ Source: Nielsen.

³⁾ Source: Nielsen and Swedish Match estimates.




1984 When *Catch*, with a licorice flavor, was launched, it was the first pouch snus with a nontraditional snus flavor. The line extension, *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 nicotine-free product. Soon after it was launched the brand became popular among consumers.



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



2009 *General White Portion* in star formation is a unique production technology whereby each portion 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 *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.

airports and ferries. The sales price is set by the retailers, with the result that prices can vary.

Snus is merchandised from coolers to help ensure freshness and quality. The Scandinavia Division works very closely with retailers to optimize their business in selling snus to consumers. Through in depth discussions and active dialogue, retailers, together with Swedish Match, can evaluate product assortment and display, along with floor plans and cooler size and location, to improve their total snus business. This partnership approach is very valuable to Swedish Match, and both reinforces and deepens the commitment to the Company's customers.

During 2010, Swedish Match continued its efforts with its consumer website for the Swedish market. By logging in to www.swedishmatch.com/consumer, Swedish consumers can easily explore the Swedish Match product range.

Competitors

The largest competitor in Scandinavia is British American Tobacco (BAT). In October–November 2010, BAT had a market volume share of approximately 9 percent in Sweden.¹⁾ Other competitors on the Scandinavian market include Japan Tobacco and Imperial

¹⁾ Source: Nielsen.

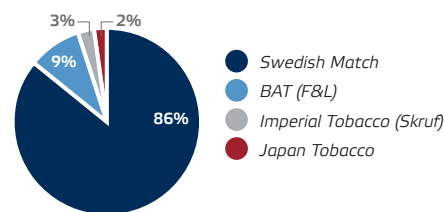
Tobacco Group. Imperial Tobacco Group is the largest competitor in Norway, with a market share of approximately 23 percent.¹⁾ In Sweden, most competitive brands are positioned in the value-priced segment, while in Norway most competitive brands are premium priced.

Snus in the US

Market development

Swedish Match, as well as competitors, continued efforts to assess and develop a market for Swedish style snus in the US market. Still a small category in the US, Swedish style snus is considered to have a long term growth potential. Consumption in 2010 is estimated by Swedish Match to be in the range of 30–40 million cans significantly higher than prior year. The category has received substantial media attention during the year, including a feature segment on the CBS television news program, "60 Minutes."

COMPETITORS – SWEDEN



Source: Nielsen October–November, 2010.

The main Swedish Match brand for snus in the US is *General*, the authentic Swedish snus, available in selected tobacconists. During the year, following highly successful trials, the *General* brand was expanded into more outlets and is available in approximately 1,200 stores.

Point of sales and merchandising

The main distribution channels for Swedish Match for snus in the US are specialty cigar and tobacco stores, as well as the Internet – places where consumers are able to spend more time to learn about snus and the Swedish snus experience. Snus is also sold in selected convenience stores and gas stations, discount tobacco outlets, and supermarkets. The product is merchandised through point of sale displays, often in coolers. By logging in to www.generalsnus.com, consumers can find more information about *General* snus.

Competitors

The largest competitors on the US market are Reynolds American and Altria, who both have increased the investments behind their snus brands during 2010.

Snus outside of Scandinavia and the US

With the establishment of SMPM International, the joint venture company with Philip Morris International, Swedish Match

SNUFF AND SNUS HISTORY, THE US

1994 *Timber Wolf* is one of America's best selling value priced brands and is available in a wide variety of flavors and formats.



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



1994



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

2010



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

now has more opportunities to reach markets outside of Scandinavia and the US. SMPM International, 50 percent owned by Swedish Match, sources its products from Swedish Match, and sells them through Philip Morris International's sales and distribution network. SMPM International thereby has both state of the art products and outstanding distribution opportunities.

During 2010, SMPM International entered into the field research and limited launch phase, by marketing the snus product in a selected number of stores in Taiwan and Canada under the *General* brand.

Moist snuff in the US

Main brands

The largest brands of moist snuff for Swedish Match on the US market are *Longhorn*, *Timber Wolf*, and *Red Man*. 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. The *Timber Wolf* brand is available in a wide variety of cuts and flavors, and includes *Timber Wolf Pouches*, 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 this price segment.

Market development

The US is the world's largest moist snuff market, with consumption in 2010 estimated by Swedish Match to be approximately 1.3 billion cans. During the past five years, can volume in the moist snuff market has grown at the rate of 6 percent annually, on average. In 2010 the market growth rate was 9.8 percent.¹⁾ This growth comes primarily from new consumers, including cigarette smokers, who recognize the advantages of this smokefree product. Moist snuff is sold throughout the US, and volumes are particularly strong in the Southeast, Southwest, and mid-Atlantic states.

The premium priced segment has exhibited faster growth than in prior years, but is still growing slower than the value priced segment. This is due to the fact that a major competitor began pricing its premium products much more aggressively. The Swedish Match portfolio is almost exclu-



sively in the value priced segment, with both traditional loose and pouch products. *Longhorn*, the largest deep discount brand, grew by 18 percent in volume terms during 2010, with its market share growing from 5.1 percent to 5.4 percent.¹⁾ Swedish Match estimates the growth in the pouch segment to have been 26 percent in volume terms, and now accounts for approximately 10 percent of the cans of moist snuff sold in the US. Swedish Match estimates that its share of the total pouch segment for moist snuff was 9 percent in 2010.

From June 22, 2010, the Food and Drug Administration began full implementation of the regulation of tobacco products, including snus and moist snuff. Regulations cover products and product ingredients,

product labeling, advertising, and product sampling, among other things. The most notable change for Swedish Match was that from this date, the Company no longer engaged in sponsorships of NASCAR activities. Also, cans were modified to comply with new health warning requirements. Promotional schedules were modified taking into account the June 22 date, resulting in distortions in year on year shipment and market share figures. Swedish Match is fully compliant with all FDA requirements.

Moist 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 2010, the Swedish Match market share by volume was 12.0 percent, down from 12.9 percent in

¹⁾ Source: Nielsen.

2009.¹⁾ While the *Longhorn* brand experienced share gains, *Timber Wolf* and *Red Man* experienced market share declines in 2010, with *Timber Wolf* losing 1.0 percentage points of market share and *Red Man* losing 0.4 percentage points of market share.¹⁾ In the second half of 2010, Red Man was made available with a unique FlavorFresh™ Lid, helping to ensure longer lasting freshness and addressing an important consumer need.

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 products are merchandised through point of sale displays, and supported by both in store and adult lifestyle related activities.

¹⁾ Source: Nielsen.

Competitors

The largest competitors on the market are Altria (USSTC), with a market share by volume of 56.0 percent for 2010, and Reynolds American (American Snuff Company), with a market share of 30.3 percent.¹⁾

Production and distribution

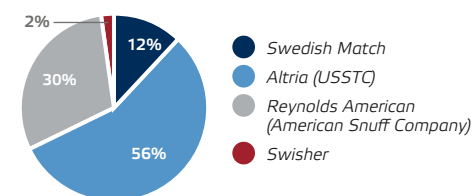
In Sweden, production of snus takes place in Gothenburg and Kungälv. The Kungälv facility opened in 2003, and was expanded in 2009 and 2010. This state of the art unit specializes in portion-packed (pouch) products including the Swedish Match proprietary white-portion technology.

In the US, production of moist snuff takes place in Owensboro, Kentucky, in the US. The Owensboro factory, in addition to moist snuff, produces chewing tobacco. The plant has developed a flexible production platform 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 tobacco.

All tobacco products in Sweden, including products from other manufacturers, are shipped from the Group's distribution facilities in Stockholm and Gothenburg. The Group has a high level of purchase orders through its webshop and supplementary electronic purchase systems. Products are

COMPETITORS – THE US



Source: Nielsen YTD December 25, 2010.

QUALITY FROM SEED TO CAN

The entire production process for Swedish snus adheres to the Swedish Match quality standard, **GothiaTek®**.



INGREDIENTS The main ingredients in the preparation of snus are ground tobacco, water, salt (ordinary cooking salt) and sodium carbonate. Additional ingredients are aromatic compounds and moisture-preserving agents.

PRODUCTION There are three main stages in the production of Swedish snus in accordance with the **GothiaTek®** standard: grinding, preparation and packing.

TOBACCO Swedish snus is produced using highest quality air-dried tobaccos. Systematic control of the composition of the tobacco is required in order to meet the **GothiaTek®** specifications. Swedish Match has developed special methods for cultivating and drying tobacco.



1. GRINDING The tobacco is broken up, dried and fed into a grinder, where it is ground. The ground tobacco is screened into coarse, intermediate and fine meal. Depending on the recipe, different amounts are sent to a blending silo, where the snus meal is blended. Each type of meal is stored in a separate silo and retrieved automatically when snus is to be produced.

most often delivered on a weekly basis to retain freshness.

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.



2. PREPARATION In the first stage of preparation, tobacco meal is weighed and transported to closed blenders. Water and salt are added while the mixture is stirred, after which the snus is heated up. The temperature of the snus mixture and the stirring process are computer controlled via a special program. This part of the process is traditionally known as sweating and can be compared with pasteurization. Thereafter, the snus is cooled and other ingredients are added. Samples are taken for purposes of quality control. If all the measurement values are approved, the batch is ready for packing.



COLD STORAGE All ready packaged snus is stored in cold storage rooms for a number of days before being released to retailers. Cold storage is important for allowing the snus to mature and acquire its characteristic aroma and flavor.



3. PACKING

Loose snus cans are filled in automatic packaging machines. After filling, the cans are closed with a lid, after which the cans are weighed and labeled.

Portion snus requires a more complicated process. The portions are measured and inserted into a tube made from cellulose fiber. The portions are sealed and cut apart. The finished portion pouches are packed into a plastic can, which is then sealed with a lid, after which the cans are weighed and labeled.



Packaging materials: loose snus is mainly packaged in paraffin coated carton board cans. When the cans are produced, two different grades of carton board are used, one for the frame and one for the base of the can. The lid is made from polypropylene plastic. Polypropylene cans are used for portion snus. Portion snus is more sensitive to drying out than loose snus, mainly because the amount of snus is smaller in a can of portion snus. The use of plastic cans for portion snus is primarily motivated by durability considerations.





Swedish Match main brands

US mass market cigars: *White Owl, Garcia y Vega, Game by Garcia y Vega*

Chewing tobacco: *Red Man, Southern Pride, J.D.'s Blend, Granger Select*

OPERATING PROFIT

942 MSEK

OPERATIONAL HIGHLIGHTS

- *Sales increased by 11 percent in local currency*
- *Operating profit increased by 24 percent in local currency*
- *US mass market cigar sales up 22 percent in local currency*
- *US mass market cigar volumes up 35 percent from new products and packaging*
- *Chewing tobacco volume market share increased to 45.7 percent, according to Nielsen*

With the contribution of the US premium and European cigar businesses to the new STG company (49 percent owned by Swedish Match) the US businesses for mass market cigars and chewing tobacco have been combined into a new reporting segment: Other tobacco products. Both are US only businesses and are sold by the same sales force to similar classes of trade. The cigar market for mass market cigars has exhibited long term volume growth, and Swedish Match has experienced rapid growth in market share and volume over the past year brought on by its successful FoilFresh™ packaging and the entrance into new product segments, such as smaller sweet cigars. Swedish Match is the largest player in the mature, but declining chewing tobacco market.

OTHER TOBACCO PRODUCTS: US MASS MARKET CIGARS AND CHEWING TOBACCO

IMPROVED PROFITABILITY DRIVEN BY STRONG CIGAR VOLUMES

Strategy

In the product area Other tobacco products, Swedish Match will strive to leverage strong platforms in order to maximize long term profitability.

For US mass market cigars, the Company will drive profitable growth through consumer driven innovation and strong sales execution. The Company will continue to innovate, delivering high quality products in segments where Swedish Match has

historically participated as well as segments underrepresented in the Swedish Match mass market cigars portfolio.

For chewing tobacco, the Company will capitalize on its leading position in the category and continuously drive productivity improvement. Chewing tobacco holds a unique position in the Swedish Match portfolio as a genuine American product. With an efficient production, well known and trusted brands, and category leadership

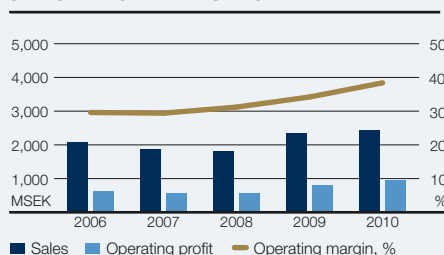
toward both consumers and customers, the Group has been able to leverage its strengths in a declining category to sustain profits over time.

Financial development

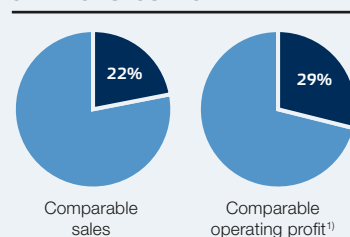
Sales for the year increased by 4 percent to 2,440 MSEK (2,337), and operating profit increased by 17 percent to 942 MSEK (804). In local currency terms, sales grew by 11 percent. Mass market cigars experienced

KEY DATA, MSEK	2010	2009	2008
Sales	2,440	2,337	1,811
Operating profit	942	804	569
Operating margin, %	38.6	34.4	31.4
Investments in property, plant and equipment	30	39	21
Average operating capital	1,175	1,341	1,449
Average number of employees	1,407	1,351	1,296

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL



¹⁾ Excluding Other operations.

significant sales and volume growth. For chewing tobacco sales were flat in local currency terms. The operating margin was 38.6 percent (34.4).

Market overview

The market for mass market cigars in the US is estimated by Swedish Match to amount to approximately 9 billion cigars, and has been growing at an average rate of 2 percent per year in volume terms over the past several years. After a decline in 2009, the US mass market cigar market is estimated to have grown by approximately 2 percent in volume in 2010¹⁾. During the past year, the US mass market cigar market has been subject to a number of challenges, from smoking bans to state tax increases and other regulatory restrictions, requiring rapid and well executed adaptations to this ever changing environment.

The market for mass market cigars is segmented by brand, size, wrapper, flavor, and price point, with product innovation and packaging improvements leading growth within the overall mix. The market for smaller, less expensive cigars has grown at the expense of larger, natural wrapper cigars.

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 of consumption of chewing tobacco.

The market for chewing tobacco 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.

Mass market cigars

Main brands

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

Market development

It is estimated by Swedish Match that the US mass market cigar market grew slightly in 2010 in volume terms. Excluding little cigars, however, the US mass market cigar market declined. During the early part of 2009, retail prices increased dramatically. These increases were brought on by significant rises in the federal excise tax on April 1, 2009 and had the most effect on little cigars,

a segment where Swedish Match does not participate. The cigarillo segment has grown in recent years relative to the larger cigar segment.

In the US, manufacturers typically introduce several new products using well established brands every year. During 2010, Swedish Match launched a number of new products under both the *Garcia y Vega* and *White Owl* brands using its FoilFresh™ concept. FoilFresh™ cigars ensure that consumers can always find a softer, “fresher” cigar. During 2010, *White Owl Sweets* was launched. Previously, *White Owl* cigars did not have a sweet offering. The sweet cigar segment is estimated to be approximately 1 billion pieces, and provides the Company with an opportunity for incremental volume growth.

Point of sales

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

Competitors

Swisher International is the largest competitor in the US market for mass market cigars. Other major competitors are Imperial (Altadis USA), and Altria (Middleton). Swedish Match's market share by volume in this sector is approximately 6 percent, or 12 percent excluding little cigars.¹⁾

¹⁾ Source: Nielsen.



Chewing tobacco

Main brands

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

Market development

The US chewing tobacco market declined by 10.7 percent in 2010¹⁾, an accelerated rate versus prior years, in part due to significant retail price increases in mid 2009 in large chewing tobacco states, such as Texas and Florida. The market continued to decline at a faster rate for premium priced products.

In April 2009, federal excise taxes increased for all tobacco products, including chewing tobacco. Combined with tax increases by individual states, this has caused significant year on year retail price increases in many states during 2010, leading to some down trading to value priced brands. With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability.

In June 2010, the Food and Drug Administration imposed new regulations for chewing tobacco with many of the measures relating to marketing, covering product placement requirements at retail, regulations on new products, labeling, advertising, and product sampling.

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 US market include Reynolds American (American Snuff Company), National Tobacco, and Swisher. American Snuff Company is the largest competitor.

Other markets

Swedish Match has very limited sales of mass market cigars and chewing tobacco outside the US, having discontinued the *Piccanell* chewing tobacco brand in Sweden during 2010.

Production and distribution

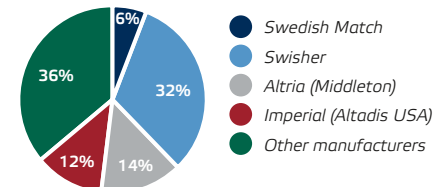
Mass market cigars for the US market are produced both in Santiago in the Dominican Republic and Dothan, Alabama, in the US.

All production for chewing tobacco takes place in Owensboro, Kentucky, in the US. In addition to producing its own products, Swedish Match also produces chewing tobacco for National Tobacco, which has approximately 18 percent¹⁾ of the chewing tobacco market.

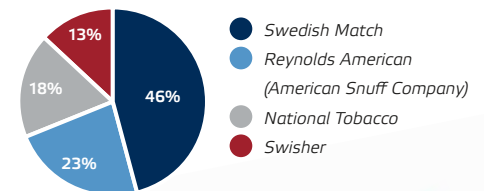
¹⁾ Source: Nielsen.

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

COMPETITORS - US MASS MARKET CIGARS



COMPETITORS - CHEWING TOBACCO



Source: Nielsen YTD December 25, 2010.



A humble match. A handsome lighter. Few products are so simple and unassuming. But consistency, quality, ease of use, and design are vital to the success in such seemingly straightforward products. Match brands may vary from country to country, and lighter designs change periodically, but one thing stays the same, an assurance of consistency and quality carries on, one light at a time. Swedish Match produces matches, fire related products (such as firelogs) and lighters. Some of the best known brands for matches and fire related products include *Solstickan*, *Fiat Lux*, *Swan*, *Tres Estrellas*, *Feudor*, and *Redheads*. *Cricket* is one of the best selling quality disposable lighter brands in Russia and several other countries in Europe as well as in certain markets in the rest of the world.

LIGHTS: MATCHES AND LIGHTERS

QUALITY PRODUCTS BEHIND EVERY BRAND – LIGHT AFTER LIGHT

Strategy

With its portfolio of well known brands and strong market positions, Swedish Match works for continuous operational excellence in its lights businesses. The Group is committed to maintaining and improving on 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. The lights business is organized in two separate operations: Lights Latin America and Lights International (covering all markets outside of Latin America).

Financial development

Sales for the year increased by 2 percent to 1,429 MSEK (1,403). Operating profit decreased to 279 MSEK (312). The operating margin was 19.5 percent (22.2).

Market overview

Swedish Match sells matches through its own distribution networks, and also through the distribution network of Scandinavian Tobacco Group. The main markets for Swedish Match are in Europe, Latin America and parts of Asia. Consumption of matches is declining in most markets.

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

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.

OPERATIONAL HIGHLIGHTS

- Sales increased by 2 percent
- Operating profit declined by 11 percent on lower match volumes
- Operating margin reached 19.5 percent

KEY DATA, MSEK	2010	2009	2008
Sales	1,429	1,403	1,375
Operating profit	279	312	294
Operating margin, %	19.5	22.2	21.4
Investments in property, plant and equipment	52	70	73
Average operating capital	790	784	740
Average number of employees	1,271	1,256	1,308

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. Match consumption in Brazil continued to decline in 2010. Swedish Match estimates its market share in Brazil to be approximately 45 percent for matches, in terms of volume.

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.

Europe

Main brands

For matches, brands tend to be local, with one brand being iconic in its own country. Some of the best known brands in Europe include *Solstickan* (Sweden), *Swan* (UK), *Tres Estrellas* (Spain), and *Feudor* (France), 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 traditional matches continued to decline during 2010, 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 within the premium disposable category. The Group also has solid positions in the Nordic countries, the UK, and France. Retail sales of

Swedish Match brands in the European market are estimated by Swedish Match to have been lower during 2010 compared with 2009. *Cricket* lighters are marketed using the key selling points of quality, design, and safety.

Point of sales

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

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

Other markets

Swedish Match sells matches in a number of markets outside Europe and Latin America, but the value of these sales are relatively low. Swedish Match is the market leader for matches in Australia with the brand *Redheads*. Swedish Match also has lighter and/or match sales in a number of African and Asian markets, for example Malaysia, which has exhibited solid growth in its lighters businesses over the past several years.

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

Production of matches and fire related products takes place in Sweden (Tidaholm and Vetlanda), in Bulgaria (Kostenetz), and in Brazil (Curitiba and Piraí do Sul). Lighter facilities are located in the Philippines (Manila), in the Netherlands (Assen), and in

Brazil (Manaus). Swedish Match ships its lights products to distributors in many countries, and also uses its own sales and distribution network when appropriate. From October 1, 2010, the distribution in an number of countries in Europe as well as Australia/New Zealand is handled by Scandinavian Tobacco Group, a company in which Swedish Match has a 49 percent holding.



Swedish Match main brands

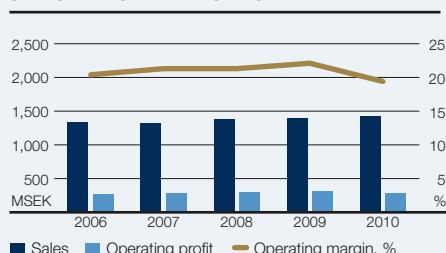
Matches and fire related products:

Solstickan, Fiat Lux, Swan,

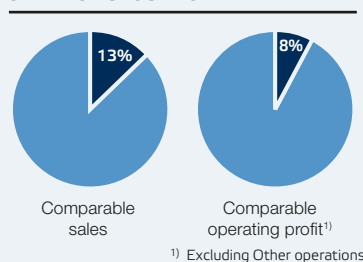
Tres Estrellas, Feudor, Redheads

Lighters: *Cricket*

SALES AND OPERATING PROFIT



SHARE OF GROUP TOTAL



OPERATING PROFIT

279 MSEK

CORPORATE SUSTAINABILITY:

AN ONGOING JOURNEY

CEO STATEMENT:

TO OUR SHAREHOLDERS AND OTHER STAKEHOLDERS,



When addressing the topic of corporate sustainability at Swedish Match, we begin with our core values, and how we view, adapt, and evolve as a company in the face of, changing economic, social, and environmental issues. Swedish Match has many stakeholders – investors, customers, consumers, regulators and scientists, and suppliers, to name a few, but it is our employees and their efforts combined with their values that will do the most in ensuring that Swedish Match is a profitable, sustainable company. The values of Swedish Match are the foundation of our Code of Conduct, which in turn is the bedrock of the Group's sustainability.

During the course of 2010, we have engaged in an in depth analysis of our business from a corporate sustainability standpoint, clarifying our vision, reviewing business drivers, interviewing and engaging all of our prioritized stakeholders. Over the coming months and years, we will work to provide more and clearer communication with regard to our efforts and activities concerning our employees, our environment, and society at large.

Vision and strategy

The sustainability vision of Swedish Match is a simple one; it means that Swedish Match will deliver more and better value to its shareholders over the long run. Swedish Match envisions a global future for its prod-

ucts and brands, drawing on its rich Scandinavian heritage, in producing and selling high quality smokefree tobacco, lights products, and cigars. The Company will continue to be actively engaged in an open dialogue with its most important stakeholders in order to help ensure a long term, sustainable business model as the global smokefree leader, with operational excellence in Lights, and leveraging our strong platforms to maximize long term profitability in Other tobacco products.

A central strategic focus for the Company is to develop products that consumers desire, products that have a high quality/value relationship, mindful of its responsibilities on social, economic, and environmental issues. Ultimately, it means operating as efficiently as possible, with reduced waste and a gentler environmental footprint; motivating employees in such a way that they are happier, better workers; giving back to local communities to strengthen the bonds between the Group and its neighbors; working with trends in society, and adapting to them, rather than working against them. The Group will continually work to improve its efficiencies throughout the supply chain, and thereby improving its long term profitability and competitiveness.



A FEW HIGHLIGHTS OF 2010

- Updated and expanded company policies, including the Code of Conduct and the Group Environmental Policy
- Easier navigation of the Company's sustainability efforts on the website
- Continued reporting of carbon emissions according to the Carbon Disclosure Project
- Initialization of a project to report according to the Global Reporting Initiative (GRI)
- In December 2010, the Company's Swedish operation was awarded Universum's prize "New Thinker of the Year" for its Employer Branding efforts
- The Company is listed on the OMX GES Sustainability Index Sweden

I would like to point out a few highlights of 2010. We updated and improved a number of company policies, including the Code of Conduct. Our environmental and travel policies now provide more specific recommendations which will help the Group not only to save cost, but also to promote actions which can reduce waste, energy, and carbon use. We continued to report carbon emissions according to the Carbon Disclosure Project. We also embarked on a project to begin

reporting according to the Global Reporting Initiative (GRI). The GRI reporting process takes time and effort, but, ultimately, provides better structure and a basis for further improvements in our sustainability efforts. Much of what you will read in the sustainably section of this year's annual report is a direct result of our efforts toward following the GRI reporting framework.

During 2011, the Group will embark on a more detailed target setting process,

together with production planning, in order to improve not only our long term environmental footprint but to make the Group more sustainability profitable, in line with trends in society.

Sincerely,

Lars Dahlgren
President and CEO

The Swedish Match approach to sustainability

Sustainability is an important part of the Group's strategy for growth and value creation. Sustainability activities make Swedish Match more competitive and help to reduce long term costs and risks. Much of the focus is on the manufacturing, purchasing, transport, and distribution level, as Swedish Match sees these areas as having some of the greatest impacts on the Group's business, cost structure, flexibility, and competitiveness.

The Swedish Match sustainability strategy involves using a systematic approach, in order to provide improved transparency and a focus on business operations. This approach clearly defines areas for improvement – including areas where current activity and future targets can be communicated to stakeholders.

The Swedish Match sustainability organization

The Swedish Match sustainability organization is comprised of individuals representing all product areas and production units. The Senior Vice President of Corporate Communications and Sustainability reports to the CEO, and provides status updates to the Board of Directors at least once per year. The Group Management Team (GMT) forms the Sustainability Committee, which ensures that all employees in the organization are represented and considered when actions are decided upon.

The corporate sustainability team within Swedish Match AB is responsible for gathering information of key performance indicators and other aspects and communicating that information to relevant personnel within Swedish Match, and, on a selected basis, to stakeholders outside of the Company. The team is also responsible for ensuring continuous stakeholder dialogue with the Group's identified priority stakeholders. The corporate sustainability team works very closely with two active, ongoing decision making bodies; the Environmental Council, which consists of managers trained in environmental and quality systems and reporting for the various production units,

and the HR Council, consisting of the heads of Human Resources for the various operating units.

The Global Reporting Initiative (GRI)

Successful sustainability activities require a methodical approach to reporting. In 2010, the Company decided to work toward reporting its sustainability information according to the standards set forth by GRI G3 guidelines, in order to reach measurable, transparent, clear, and comparable results. Beginning with the 2010 annual report Swedish Match reports according to GRI.

Also, the information provided in this report covers all fully owned manufacturing facilities (as well as transportation and logistics of its products) with regard to environmental aspects. For social, economic, and some environmental aspects, all fully owned facilities, including sales and administrative offices, are covered. For partner and associated companies, as well as major suppliers, Swedish Match has established guidelines in its Code of Conduct, as well as supplier policies, which ensure that sustainability issues are being addressed.

The current ambition level for Swedish Match GRI reporting is a self reported C level.

Stakeholder dialogue and materiality analysis

Swedish Match has always maintained an active dialogue with its various stakeholders. In 2010, the Company conducted an internal stakeholder identification analysis in order to identify and prioritize key stakeholders to the organization. Shareholders, customers, consumers, suppliers, regulators and scientists, and employees were recognized as the prioritized stakeholders.

Following the stakeholder identification analysis, the Company initiated a sustainability survey with the prioritized stakeholders, with the goal to determine which aspects of sustainability are the most important and/or have the most impact on Swedish Match today, and in the future.

The input from this stakeholder dialogue was then used in a materiality analysis

which was performed internally within the corporate sustainability team. A number of issues were selected for action and reporting. The analysis was based on external stakeholders' assessment of issues important to Swedish Match, impact on the Company's operations in 3–5 years, and to the feasibility and reliability of data collection. The result of that analysis was a matrix with input from all prioritized stakeholders, and, ultimately, a clearly defined set of areas in which the Company will seek to further develop its activities and communications efforts. See matrix on the next page.

Prioritized sustainability key indicators

From an economic perspective, Swedish Match will follow strategies toward becoming the global smokefree leader, maximizing long term profitability for Other tobacco products, while maintaining operational excellence in Lights, and will also play an active role, working with its partners and associated companies for future organic growth, thereby ensuring long term economic sustainability and financial performance.

From a social perspective, Swedish Match also needs to make sure to recruit the right people and retain and develop employees. Swedish Match has identified several social HR related indicators: ethical business practices; occupational health and safety; talent attraction and retention; workforce diversity and non-discrimination; as well as workforce training and development. Swedish Match has also identified customer satisfaction; product quality and safety; responsible marketing communication; and responsible product labeling as prioritized social indicators. From a societal perspective, the Company must live according to its values, outlined and clarified through business practices in its Code of Conduct, behaving in a socially responsible and ethical manner, engaged with all of its stakeholders as a responsible supplier and manufacturer of tobacco products. These areas include but are not limited to corruption and fraud and human rights issues.

From an environmental perspective, activities and more efficient production

should help to reduce cost per unit sold. For the environment, Swedish Match has identified carbon dioxide emissions; energy use; water use; and waste management as key indicators for measuring, reporting,

and targeting. Other issues identified and prioritized include corporate governance and transparency; open and honest communication; as well as productivity in operations.

All the identified sustainability issues are shown in the matrix below, where Swedish Match has chosen to primarily work with the two upper boxes which contains the most material issues identified.

SWEDISH MATCH SUSTAINABILITY MATERIALITY MATRIX¹⁾

IMPORTANCE TO STAKEHOLDERS	High to very high	<ul style="list-style-type: none"> Child labor issues Emissions to air and water (climate impact) Energy consumption Human right issues Occupational health and safety Waste management Workforce diversity and non-discrimination 	<ul style="list-style-type: none"> Corporate governance and transparency Customer satisfaction Ethical business practices (corruption and fraud) Financial performance Open and honest communication Product quality and safety Productivity in operations Responsible product labeling Talent attraction and retention Workforce training and development
	Medium to high	<ul style="list-style-type: none"> Biodiversity and land use Community engagement / relations Environmental engagement Freedom of association and collective bargaining Transports (business travel / freight transport) Water consumption 	<ul style="list-style-type: none"> Market presence (local priority on employees, suppliers) Public affairs and lobbying
		Medium to high	High to very high

IMPACT ON SWEDISH MATCH

¹⁾Please note that issues within each square are presented in alphabetical order.



Kungälv factory in Sweden.

The Swedish Match Code of Conduct, established in 2004, is the foundation for the Group's position in areas related to corporate sustainability. The Group's commitment to social responsibility and environmental issues is supported by its core values. These values are the platform for Swedish Match business ethics and, as such, they are demonstrated in all relations with stakeholders and are a natural part of the way we conduct business.

CORPORATE SUSTAINABILITY:

CODE OF CONDUCT

The Code of Conduct consists of a number of policies related to employees and workplace practices, social responsibility, and the environment.

Employees and workplace practices

- Workplace practices (including health and safety, recruitment, remuneration)
- Business ethics (including corruption and fraud, gifts, loans, related party transactions, honest and ethical conduct, conflict of interest, and compliance with laws)
- Communication (including designated spokespersons, public reporting and communication, internal reporting of critical information)

Social responsibility

- Relationships with suppliers, supplier contracts, child labor and human rights, and issues specific to tobacco

Environment

- Guidelines and policy to ensure continual environmental improvement and prevention/reduction of pollution in the Group's activities

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 ILO conventions, 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 higher standard than required by national laws or regulations. Every employee has a personal responsibility to make sure that actions taken comply with both the words and the spirit of the Code of Conduct. Management has an additional 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 will 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, and primarily comprise an examination of the Group's own operating units. The operating units are reviewed every other year according to an established schedule. The reviews include implementation of the Code as such, social responsibility, workplace practices, business ethics, communication as well as environment. Operating units are evaluated in areas such as human rights, child labor, forced labor, supplier contracts, health and safety matters among others. Based on the results, the external partner presents recommendations if needed. Areas for improvement are re-evaluated the following year.

The conclusions of the reviews are reported to the operating unit's management team and to the Corporate Communications and Sustainability function. Operating unit's management has operational responsibility for ensuring compliance with the Code. The SVP Corporate Communications and Sustainability is responsible for further development and revision of the Code.

Whistleblower function

To further secure sound business ethics within the Company, consistent with the Code of Conduct, 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 an appropriate manager, or the Chairman of the Audit Committee. The "whistleblower" function can easily be accessed through the Swedish Match Intranet site.

Swedish Match maintains ongoing efforts to attract, develop, and retain motivated and highly skilled employees for a strong and sustainable development of the Group. These efforts have been reinforced in 2010. The Company works to strengthen its performance culture by continuously developing leadership and employee skills in order to add to the improvement and growth of the Group.

CORPORATE SUSTAINABILITY:

DEVELOPING EMPLOYEES TO EXCELLENCE

The most important stakeholder group for Swedish Match is its employees, people who are dedicated to producing and selling high quality snus and snuff, US mass market cigars, chewing tobacco, matches, and lighters. These people, who uphold the highest standards of ethics, are dedicated to improving their work and are proud of their out-

puts. In October 2010, with the creation of the new Scandinavian Tobacco Group (STG), some 6,500 employees, primarily producing hand rolled and machine made cigars, as well as individuals in local sales companies, primarily in Europe, were transferred to STG. Today's Swedish Match employs an average of 3,908 people, of

whom 62 percent are men, with the largest number of employees in the US and Dominican Republic followed by Sweden and Norway, and Brazil.

The Group is dedicated to maintaining its employee focus and development and will continue to improve and adjust performance, talent, and employee processes to fit the new Swedish Match in the years to come. Employees are well versed in the Company's Code of Conduct, based on strong Company values. The Code of Conduct covers among other areas, workplace practices and business ethics, and Swedish Match employees are expected to work consistently within the framework of the Code of Conduct.

Human resources organization

The human resources organization supports the Group's activities in managing talent, providing clear and consistent documentation of activities, upholding employee practices consistent with the Code of Conduct as well as local laws and regulations, among other tasks. The head of Group Human Resources is a member of the Group Management Team, reporting to the CEO. Local units are represented by dedicated HR professionals, who are members of the HR Council, a council that ensures clear communication and coordination of efforts relating to the Group's employees.



Employees at Swedish Match AB corporate headquarters in Stockholm, Sweden.

Workplace practices

Recruitment and talent attraction

Talent attraction and recruitment, from both within and outside of the Company, must be carefully managed and supported, in order to optimize the capabilities of a changing organization. Swedish Match continually works to be an attractive employer, enabling its employees to grow and develop, and demonstrating to those within and outside of Swedish Match that this is a great organization to work for. Swedish Match continues to focus on Employer Branding from a multifaceted perspective to ensure that it retains and attracts a strong employee base, and helping to ensure that Swedish Match is an attractive employer. The Company's Swedish operation, for example, was in December 2010 awarded Universum's prize "New Thinker of the Year" for its Employer Branding efforts.

Swedish Match continues to provide 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 professional and informal. 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.

Talent management

Swedish Match continues to prioritize the talent management process. This process is closely monitored by the Group Management Team and included approximately 100 people in 2010. 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 objectives.

The talent management process starts locally, with management teams continuously reviewing the existing and required competencies and also identifying key positions, high performers, and future talents. At Group level, the CEO, heads of operating units, and Group Human Resources review the results, and a summary is prepared for the Board. The process enables the organization to gain an overall profile of the requirements and of the potential available in the Group. This process is also used to identify management capabilities, potential future internal careers, and successors.

In November 2010, the Group launched a worldwide cross organizational employee survey as part of a strategy follow-up activity. The purpose was to examine the relative organizational strengths and weaknesses as well as current practices and tools. A few of the areas covered were leadership, innovation, and how Swedish Match fosters a shared understanding of its core values as well as how well the Group inspires and encourages employees to perform and stay with the Company. This effort was a complement to the annual employee surveys that have been conducted regularly within Swedish Match to identify areas of improvement.

Career and competence development

The ability to adapt a performance oriented culture in order to attract, select, motivate and retain high performers is significant to Swedish Match. This is why the Group focuses on strengthening and reinforcing an overall performance culture by continuing to develop leadership and employee skills.

This has been, and will continue to be, a priority in Swedish Match in order to meet current and future competence needs and business objectives.

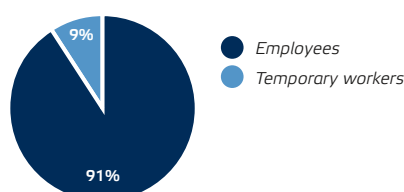
Over the past several years, Swedish Match has worked to ensure that managers and employees have ongoing and open discussions regarding targets and plans. Managers at Swedish Match must demonstrate good leadership by setting clear targets, providing ongoing coaching and counseling, conducting reviews,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

The Group promotes 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. Employee training takes place at local level, and is catered to match the needs of the individual and to organizational needs. Employees are offered opportunities for both on and offsite education and training, dependent upon future needs of the Group, thus helping to ensure sustainability in its workforce.

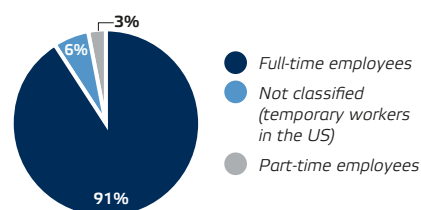
Internal recruitment is a natural part of the company culture. The ambition is to utilize internal competence by providing development opportunities so that employees can take on more responsibilities in the organization during the course of their careers. Seven out of eight members of the Swedish Match 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.

The competence development takes place within the operating units and is

SWEDISH MATCH WORKFORCE



EMPLOYMENT TYPES



designed to meet the different business objectives. Development programs for Swedish Match are based on professional education and training that provides the Group's employees and managers with the competencies necessary to achieve exceptional individual and group performance. This also promotes professional growth and career enhancement.

The comprehensive training initiative that was rolled out in the US in 2009, to enhance skills and abilities of sales employees through the use of a new e-learning tools together with other training and leadership programs, has since the start been completed by all of the field sales employees. The US organization has delivered over 4,000 hours of classroom sales training in 2010 and today offers over 200 online training courses through a learning and development portal that was introduced during the year. This online learning environment is now on par with some of the most advanced systems in the consumer goods industry.

Within the Smokefree Supply Chain, an operator development program has 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 was launched in May 2010.

Occupational health and safety

Swedish Match is dedicated to provide a workplace that is free from health and safety hazards. In addition to mandatory safety training, the Group continuously strives to identify and address 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. Health and safety committees and structure are in place in all manufacturing facilities to ensure a safe working environment. Potential safety issues are identified through regular facility audits conducted by AON.

Meeting forums

In order to create a strong leadership culture in the Swedish Match organization and to implement the Group's strategies, Swedish



Employees at Scandinavia Division in Stockholm, Sweden.

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 operating unit 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. Meeting forums help to ensure good cross communication within the organization and aid in training and development efforts.

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. Two meetings were held in 2010.

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 operating 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.

Corporate social 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 corporate sustainability and long term growth.

CORPORATE SUSTAINABILITY:

SOCIAL RESPONSIBILITY AND COMMUNITY INVOLVEMENT

Swedish Match and social responsibility

For Swedish Match, social responsibility implies working conscientiously and responsibly towards stakeholders within the supply chain – from suppliers to customers and consumers – as well as towards stakeholders surrounding the Company, such as regulators, scientists, and local communities.

During 2010, the Company's stakeholders were asked to provide input into social areas that they believed to be the most important for Swedish Match. With input from this stakeholder dialogue, Swedish Match has prioritized to report and follow up on a number of social indicators, including: customer satisfaction, product quality and safety (harm reduction), responsible marketing communication, responsible product labeling as well as corruption and fraud and human rights issues.

Suppliers

The largest suppliers to Swedish Match are involved in purchase of tobacco. The Company buys tobacco from a small number of suppliers, who are all major international organizations with their own regulatory frameworks and control of social and environmental issues. These groups have strict policies with regard to human rights, child

labor, and farming practices. The purchased tobacco derives from many parts of the world, from countries such as Brazil, the Dominican Republic, India, Indonesia, and the US.

Supplier screening

Swedish Match is a small purchaser of tobacco, buying less than one percent of the world's production. Swedish Match does not perform social audits, but all suppliers are informed about the Group's Code of Conduct and are requested to sign and return the contract – "Social commitment for suppliers to Swedish Match" – as well as fill out an agronomy questionnaire. Although no social audits are performed by the Company, tobacco purchasers visit suppliers each year to show that social commitment is of great importance to the Group and to proactively discuss social issues, such as child labor, human rights, and other important matters.

Supplier ethics

According to Swedish Match Code of Conduct, the Company shall encourage its suppliers to establish and fulfill their own codes of conduct regulating the basic rights of their employees, occupational health and safety, the prevention of child labor, ethical

business conduct and environmental issues. Should a supplier fail to comply with the Company's recommendations, Swedish Match shall strive to resolve the situation through cooperation and information or terminate the relationship.

The Code of Conduct is monitored and reviewed every other year by an external review conducted by a third party. Swedish Match has engaged AON, an international risk management company to conduct external audits of Swedish Match's factories. The Company's business units are evaluated on supplier contracts and other areas such as human rights, child labor, forced labor, health and safety matters.

Child labor

Swedish Match does not tolerate child labor. The Company's view on this issue follows the UN Convention on the Rights of the Child, Article 32.1.

The Company does not have any operations considered to have significant risk for incidents of child labor. However, Swedish Match is a manufacturer of tobacco products and therefore continually work with suppliers to ensure that the issue of child labor is being addressed.

Swedish Match is on the Board of the ECLT Foundation (Eliminating Child



Participants in the "Bom Menino"
(Young Boy) project in Brazil.

Labour in Tobacco-growing). ECLT is a foundation that works actively together with tobacco buying companies and professional representatives with the aim of eliminating child labor on tobacco fields. ECLT believes that eliminating child labor in tobacco is an issue that is better handled in a joint effort between trade unions, the corporate sector (manufacturing industry), and the tobacco growers ITGA (International Tobacco Growers' Association). The tobacco suppliers of Swedish Match are also members of the ECLT Foundation, and have in many cases programs of their own to help enable young people to receive education.

Customers and consumers

Harm reduction

Swedish Match believes that the Company must behave in a responsible manner, providing customers and consumers with products consistent with its philosophy of working with societal trends. Swedish Match believes that smokeless products, like snus, are an important element in reducing tobacco harm – a concept generally known as harm reduction.

Swedish Match tobacco harm reduction philosophy entails that individuals who can-

not or are not willing to give up smoking can reduce their health risks by switching to a smokefree tobacco product, such as snus.

Consumer safety

Swedish Match works to continuously reduce or eliminate the alleged harmful components in Swedish snus and to increase the knowledge about snus products and its impact on consumers. The Swedish Match quality standard, **GothiaTek®**, provides a guarantee assuring consumers that all of Swedish Match products undergo controls while maintaining the highest quality from tobacco plant to the end consumers. This includes requirements on maximum permitted levels of suspected harmful elements that occur naturally in tobacco, on raw material, the manufacturing process as well as on qualified product information to consumers.

Consumer health

The harm reduction approach is based on the recognition that the health hazards of cigarette smoking can largely be avoided by switching to smokefree sources of nicotine. This may be accomplished through the use of smokefree tobacco based products such as snus. There is some evidence that smokers may be more likely to accept alternative

tobacco products, and thus have greater success in quitting smoking, than with nicotine replacement products.

Responsible product labeling

Swedish Match complies with all regulations concerning labeling of tobacco products. Compliance with these requirements is continuously reviewed and there have been no incidents of non compliance reported during 2010.

In addition to following the mandated requirements, the Group is fully transparent with regard to the content of its snus products. All ingredients are listed on the Company's website and fully disclosed to the Swedish Public Health Authority.

Responsible marketing communication

Swedish Match always seeks to market its products responsibly and in accordance with laws and regulations as well as the Company's Code of Conduct. Compliance with these laws and requirements is continuously reviewed. Swedish Match has no cases of non compliance during 2010.

To prevent the underage use of tobacco, Swedish Match will continue to partner with retailers, distributors, and public officials. Swedish Match has an "Under 18 No

THE SOLSTICKAN FOUNDATION

For 75 years, Swedish Match has supported The Solstickan Foundation through its sales of certain lights products in Sweden. For every product sold under the Solstickan brand, a portion of sales goes to the Solstickan Foundation. The Foundation works primarily toward the benefit of children and the elderly who are chronically ill or disabled. The foundation celebrates its 75th anniversary in 2011.

More than 100 MSEK has been distributed via the Foundation since its

inception, providing financial assistance for disabled and chronically ill children and the elderly to improve their quality of life. In 2011, the foundation will support projects with special focus on child abuse.

Furthermore, a number of scholarships are granted each year to PhD students at universities and colleges who do research on children's development and health as well as physical and mental disabilities among the elderly.



The Solstickan Prize, awarded annually, is granted to a person who, in addition to his or her ordinary work, has made an especially valuable contribution in one of the areas covered by the Foundation's charter. In 2010, the prize was awarded to Lars Bratt, founder of "The Granddad Program".

Tobacco" policy and believes that all tobacco products are for adults only and should therefore not be sold to or used by a person under the age of 18. The Company does not direct its marketing, advertising or promotion of tobacco products to people under the age of 18. Swedish Match will continue to educate and inform the tobacco retailers to prevent the underage sale of tobacco and provide support and leadership in any efforts they make to demonstrate their endorsement of the "Under 18 No Tobacco" policy.

Customer satisfaction

Swedish Match works to maintain high levels of customer satisfaction. In Sweden, customer satisfaction is measured every 18 months through a standardized survey process. Recent results are stable, showing a slight increase in customer satisfaction regarding the sales force and promotional material. In the US, this process is not yet standardized as it is in Sweden, but carried out on a case by case basis.

Community involvement

Swedish Match has a long record of social investments and community involvement. The Company's approach is to conduct

community projects that are relevant to local business environments and to make investments in other independent projects. These include providing support for children, the disabled, and people in need. Other important initiatives include safeguarding cultural heritage, enriching public community life (such as supporting the arts and educational institutions) and restoring public spaces.

Sweden

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

Many of the Company's employees in Sweden have chosen to support the Chiredzi Orphanage in Zimbabwe by donating a small amount of their salary each month. The orphanage was built by a business partner in Zimbabwe and takes care of and provides education for children whose parents have died of AIDS.

During the year, Swedish Match has supported the Swedish Narcotics Officers Association in their effort to provide information to schoolchildren in Sweden about drugs and the effects of drug use. A donation to

The National Association of Home and School has also been made to a project on preventive work against bullying in schools.

The United States

In the US, Swedish Match has a long standing history of making charitable donations to various community organizations supporting people in need as well as preventing child abuse. Donations are also made to organizations supporting the arts and continued education. Community involvement is strongly encouraged, and nearly all employees participate whether through donations, volunteer work or other activities.

The Dominican Republic

In the Dominican Republic, the Company has supported nonprofit organizations in charity events to raise funds as well as a special event for children with cancer.

Brazil

Swedish Match continues its community involvement in Brazil by supporting the "Bom Menino" (Young Boy) project. This is a skill building program that enables youths, ages 14 to 18, from low income families to develop educational, employment and social skills.

Employee programs

The Company's employee programs focus mainly on health, education, and other opportunities to help employees and their families develop. Projects include scholarships and various forms of training. They may also comprise financial donations and loans.

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 interest of the socially responsible employer.

The United States

In the US, Swedish Match maintains a "Sons and Daughters" scholarship program

whereby the Company has contracted with Scholarship America, a nonprofit organization, to administer this program. Scholarships are awarded annually to 12 eligible dependents of current Swedish Match employees. The awards can be utilized for undergraduate degree or vocational/technical expenses based on criteria including grade point average, volunteerism, leadership, work experience, school activity participation, and goals for the future.

The Dominican Republic

Swedish Match lends small emergency loans to employees for medical, education and/or relocation purposes. The Company also makes donations to employees and their families for reasons such as natural disaster, terminal illness or other traumatic occasions.

Brazil

Empowerment projects in Brazil include the "Projeto Semear", which consists of providing basic education for employees who previously have not had this opportunity. The project will continue until mid July 2011. Swedish Match is also running a project aimed at familiarizing factory workers with the digital world by introducing open computer areas.



Kungälv factory in Sweden.

Efforts by Swedish Match to limit its environmental impact by reducing the amount of energy, waste, and water per unit of output, can have positive direct benefits on the sustainability and profitability of the Group.

CORPORATE SUSTAINABILITY:

THE ENVIRONMENT

Swedish Match and the environment

During 2010, stakeholders were asked to provide input into environmental areas that they believed to be the most important for Swedish Match. Responses to this stakeholder engagement confirmed an alignment between the environmental focus aspects for Swedish Match and important areas for stakeholders. With input from this stakeholder dialogue, Swedish Match has prioritized to report and follow up on a number of environmental indicators, such as energy consumption, emissions to air and water, waste management, and water consumption.

Although the production processes and raw materials used in the tobacco industry generally have limited environmental impact, improvements and savings from more efficient uses of resources help to reduce costs per unit and improve the Group's environmental footprint. 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 is of the view that energy consumption, business travel and freight transport, waste management, and water consumption have the greatest environmental impacts for the Group. With regard to energy consumption, sources of energy must be taken into account, as well as logistics, in order to reduce the Group's environmental footprint.

Environmental policy

The Group Environmental Policy is designed to make sure that Swedish Match achieves a balance in which the Group consistently reaches its commercial objectives while fulfilling the environmental requirements of shareholders, customers, and other stakeholders. The purpose of the Group Environmental Policy is to ensure that the Group commits itself to continual environmental improvement and prevention/reduction of pollution in its activities.

The Group operates an Environmental Management System (EMS) as broadly as possible throughout the organization in order to measure and monitor its environmental practices under the policy. Through the EMS, the Group has the tools to identify, track, and target its environmental indicators.

The policy provides for monitoring and communicating Key Performance Indicators (KPIs) which are deemed by both Swedish Match and its stakeholders to be most important to its sustainability efforts. Ongoing measurement and reporting of these KPIs will help to allow for continuous improvements. The policy also demonstrates commitment by the Group to comply with all relevant environmental legislation, regulation and other requirements to which it subscribes. Further, the policy demonstrates a commitment to continual correspondence and documentation of any changes of environmental impact due to its activities, products and services. Under the policy, the Group will undertake appropriate remedial

actions and improvements based on financial and environmental criteria.


In 2010, the scope of the Swedish Match Environmental Policy was updated to include not only KPIs and EMS, but also biodiversity as well as eco efficiency, thus helping to broaden the scope from the forest, to the factory, to the office. To review the Swedish Match Environmental Policy, visit the sustainability section of the Swedish Match website, www.swedishmatch.com.

Environmental organization

The SVP of Corporate Communications and Sustainability is responsible for the Corporate Sustainability function and reports to the CEO. The function is responsible for communicating sustainability issues externally.

The Group Environmental Council, with representation from all Swedish Match factories, is responsible for environmental issues and for reporting results internally in this area. The Council's task is to safeguard compliance with the Swedish Match stated policy and the Environmental Management System (EMS) throughout the organization. The Environmental Council is chaired by the SVP of Corporate Communications and Sustainability.

Each Swedish Match operating unit head is responsible for appointing those responsible for implementing the EMS and of following, reporting, and contributing to the evaluation of environmental action programs and activities. The head of the operating unit must assure that the person(s)



selected have appropriate education, training or experience for the tasks. This group of people is composed of members of the Environmental Council, supplemented by other members to ensure full coverage of the Swedish Match organization.

Each of the operating units assures that internal audits of the EMS are conducted and that the results of the audits are reported to the Environmental Council. Consistent with Swedish Match commitment to compliance with applicable legislation or other requirements, the operations establish, implement, and maintain procedures for periodic evaluation of its activities and their environmental impacts.

Swedish Match maintains records as necessary to demonstrate conformity to the requirements of the EMS. The appointed person(s) on operating unit or Group level will be responsible for compiling material for external publication.

Environmental standards and management systems

Swedish Match works systematically on environmental and quality issues in operations that have an environmental impact. 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 external and internal stakeholders on the Group's website and Intranet. Due to the diversity of the Swedish Match activities, subordinated environmental policies are formulated for each operating unit.

The majority of Swedish Match production facilities are certified according to the environmental management standards of ISO 14001 as well as the quality management systems standards of ISO 9001. Of 13 production facilities, 8 have ISO 9001 certification and 7 have ISO 14001 certification. With the Tidaholm factory expected to be certified during 2011, 8 facilities will have ISO 14001 certification.

Environmental reporting

Swedish Match works continually to achieve improvements. Environmental efforts should be carried out locally and targets should be formulated based on identified environmental impacts. These targets

Tobacco plant

should be clear, measurable, and consistent with Swedish Match Environmental Policy. They address areas such as CO₂ emissions, fuel and energy, discharges to water, and factory waste, and are designed to conform to regulations and other commitments. In recent years, the Company has reduced its water and energy consumption as well as its waste production.

Swedish Match welcomes the development of increased environmental awareness and sees it as an incentive for the Group to continuously improve and find new ways to reduce its environmental impact. The Company is also engaged in comparison projects, which allow stakeholders 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' CO₂ emissions.

In 2009, Swedish Match initiated a project to conduct an inventory of the Key Performance Indicators (KPIs) used in the organization today. The aim is to find common KPIs to facilitate continuous improvement and follow up of the environmental work. In addition to CO₂ reporting, with the publication of the 2010 annual report, the Company begins reporting its use of energy consumption, waste, and water consumption at the factory level for its ongoing operations, for the areas of smokefree tobacco (snus, snuff and chewing tobacco), US mass market cigars, and lights (lighters, matches, and fire related products). For internal reporting, the Company measures total outputs, output per unit produced and per amount of sales, measured in Swedish kro-

nor. For external reporting, total output and output in relation to sales are reported.

Prioritized KPIs

The Group has identified four priorities key indicators within the environmental framework. These include greenhouse gas emissions(CO₂), energy consumption, waste management, and water use.

Greenhouse gas emissions and energy consumption

One of the Group's prioritized environmental goals is to limit greenhouse gas emissions. The Company is working purposefully on 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.

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.

Waste management and water reporting

Swedish Match continuously works to reduce its production of waste, in total, per unit of output, and per unit of sales, as applicable. Swedish Match measures its waste produced and disposal method, and reports waste as a function of sales for each major

product area for which Swedish Match has wholly owned production. Similarly water use is measured per unit of sales, in order to aid in efforts to minimize consumption.

Biodiversity and eco efficiency

Swedish Match sources wood and maintains plantations for use in match production. As such, timber sourcing and forestry is an important area for the Group in environmental sustainability. Swedish Match uses aspen, pine, and poplar. Sourcing takes place near production, primarily from sources in Sweden and Brazil. All sourcing must be from timber grown which meets or exceeds the minimum requirements by government regulations.

Swedish Match sources an extremely small percentage of global tobacco production, and, as such, relies on large, reputable international suppliers of tobacco. These tobacco suppliers must be able to provide Swedish Match with documentation of their own regulatory framework and activities related to social and environmental issues, including their policies with regard to farming practices.

In addition to its efforts at the factory and sourcing levels, the Group encourages greater eco efficiency in all facilities under guidelines covering computers and data management, printing of materials, the use of electrical devices in the office or facility, video and telephone conferencing, type of travel, and recycling.

Emissions of carbon dioxide(CO₂) 2005–2009¹⁾	2009	2008	2007	2006	2005
Total tons CO ₂					
(Incl. business travels / purchased transports)	70,858				
(Incl. business travels)	67,493	74,734	74,388	78,161	73,927
Tons CO ₂ per employee					
(Incl. business travels / purchased transports)	6.4				
(Incl. business travels)	6.1	6.3	6.2	6.3	5.2
Tons CO ₂ per MSEK sales					
(Incl. business travels / purchased transports)	5.0				
(Incl. business travels)	4.8	5.7	5.9	6.1	5.2

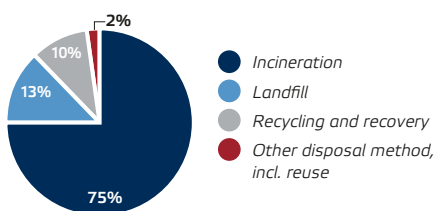
¹⁾ 2007–2009: Swedish Match reporting to Carbon Disclosure Project (CDP), including Scope 1 (Sources owned or controlled by Swedish Match); Scope 2 (Electricity purchased by Swedish Match); and Scope 3 (Other sources). 2005–2006: Swedish Match reporting to Folksam Klimatindex (not directly comparable to the CDP-numbers due to different scope and conversion factors).

Source: Swedish Match, latest available data. Please note that all data include production, transport, and sales, which for previous years may include discontinued operations. Calculations on CO₂ per MSEK sales may use a number different from sales reported under IFRS standard.

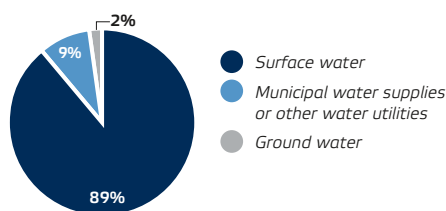


Aspen trees in Småland, Sweden.

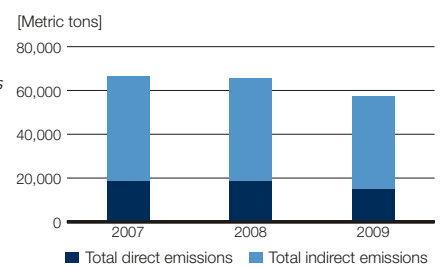
WASTE DISPOSAL 2010



WATER WITHDRAWAL 2010



GREENHOUSE GAS EMISSIONS 2007-2009



GRI INDEX 2010

Swedish Match reports its sustainability performance according to the Global Reporting Initiative guidelines (version G3).

The following index shows where the information can be found in the printed version of the Swedish Match annual report 2010 as well as in the Swedish Match GRI reporting document which can be found under the Sustainability section of the Company's website: www.swedishmatch.com.

Apart from the profile and corporate governance information requested by GRI, the table includes all GRI core indicators as well as those additional indicators that Swedish Match has selected to report. Any additional indicator is marked in *italic*.

The symbols show whether each indicator is being reported, partially reported, or not reported.

Reported: ●
Partially reported: ◐
Not reported: ○

AR refers to the Company's annual report 2010. GRI refers to the Company's GRI-reporting document published on the website: <http://www.swedishmatch.com/en/Sustainability/>.

Indicators	Reference	
1 Strategy and analysis		
1.1 CEO comment	AR 24–25	●
1.2 Description of key impacts, risks, and opportunities		○
2 Organizational profile		
2.1 Name of the organization	AR back cover	●
2.2 Primary brands, products, and/or services	AR 2–3	●
2.3 Operational structure	AR 1, 112	●
2.4 Location of headquarters	AR 1	●
2.5 Countries where the organization operates	AR 74	●
2.6 Nature of ownership and legal form	AR 46	●
2.7 Markets served	AR 2–3	●
2.8 Size of the reporting organization	AR 1, 46–47, 62–63, 74	●
2.9 Significant changes during the reporting period	AR 6–7, 46–47	●
2.10 Awards received in the reporting period	AR 25	●
3 Report parameters		
Report profile		
3.1 Reporting period	AR 26	●
3.2 Date of most recent previous report	AR 26	●
3.3 Reporting cycle	AR 26	●
3.4 Contact persons for questions regarding the report	AR 44, GRI 2	●
Report scope & boundaries		
3.5 Process for defining report content	AR 26–27	●
3.6 Boundary of the report	GRI 1–2	●
3.7 Specific limitations on the scope or boundary of the report	GRI 1–2	●
3.8 Basis for reporting on joint ventures, subsidiaries, etc.	AR 70	●
3.9 Data measurement and calculation principles		○
3.10 Comparability with previous reports	AR 26	●
3.11 Significant changes from previous reporting periods regarding scope, boundaries etc.	AR 26	●
GRI content index		
3.12 Table identifying the location of the Standard Disclosures in the report	GRI 3–4, AR 40–41	●
3.13 Policy and current practice regarding external verification of the report	AR 26	●
4 Governance, commitments, and engagement		
Governance		
4.1 Governance structure for the organization	AR 108–113	●
4.2 The role of the Chairman of the Board	AR 110	●
4.3 Independent and/or non-executive Board members	AR 112, 114–115	●
4.4 Mechanisms for shareholders and employees to propose recommendations, etc. to the Board	AR 108–113	●

Indicators	Reference	
4.5 Linkage between compensation for Board members, senior managers, and executives, and the organization's performance	AR 75–78	●
4.6 Processes in place for the Board to ensure conflicts of interest are avoided	AR 108–115	●
4.7 Process for determining the qualifications and expertise of the Board members	AR 108–117	●
4.8 Mission, values, Code of Conduct, etc.	AR 24–39	●
4.9 The Board's procedures for overseeing the organization's sustainability performance		○
4.10 Processes for evaluating the Board's own performance	AR 108–115	●
Commitments to external initiatives		
4.11 Explanations of if and how the precautionary principle is applied		○
4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives	AR 24–39	●
4.13 Memberships in associations and/or national/international advocacy organization	AR 32–33	●
Stakeholder engagement		
4.14 List of stakeholder groups	AR 26	●
4.15 Basis for identification and selection of stakeholders with whom to engage	AR 26	●
4.16 Approaches to stakeholder engagement	AR 26	●
4.17 Key topics and concerns that have been raised through stakeholder engagement	AR 26–27	●
5 Economic performance indicators		
Disclosure on management approach	AR 4–5, 108–113	●
Economic performance		
EC1 Economic value generated and distributed	GRI 6	●
EC2 Financial implications and other risks and opportunities due to climate change		○
EC3 Coverage of the organization's defined benefit plan obligations	GRI 7, AR 85–86	◐
EC4 Financial assistance received from government		○
Market presence		
EC6 Policy/practice regarding locally-based suppliers		○
EC7 Procedures for local hiring and proportion of senior management hired		○
Indirect economic impacts		
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit		○

Indicators	Reference	
6 Environmental performance indicators		
Disclosure on management approach	AR 36–39	●
Materials		
EN1 Materials used by weight or volume		○
EN2 Recycled input materials		○
Energy		
EN3 Direct energy consumption		○
EN4 Indirect energy consumption		○
Water		
EN8 Total water withdrawal by source	GRI 8, AR 36–39	●
EN9 <i>Water sources significantly affected by withdrawal of water</i>	GRI 9	●
Biodiversity		
EN11 Location/scope of land at organization's disposal in areas of biodiversity value		○
EN12 Impacts on biodiversity		○
Emissions, effluents, and waste		
EN16 Direct/indirect greenhouse gas emission	GRI 9–10, AR 36–39	▲
EN17 Other relevant indirect greenhouse gas emissions		○
EN19 Emissions of ozone-depleting substances	GRI 11	●
EN20 NO _x , SO _x and other significant air emissions		○
EN21 Total water discharge		○
EN22 Total weight of waste	GRI 11–12, AR 36–39	●
EN23 Total number and volume of significant spills	GRI 13	●
EN25 <i>Water bodies and related habitats affected by discharges of water and runoff</i>	GRI 13	●
Products and services		
EN26 Initiatives to mitigate environmental impacts of products and services		○
EN27 Percentage of products sold and their packaging materials that are reclaimed by category		○
Compliance		
EN28 Fines and sanctions for non compliance with environmental laws and legislation		○
7 Social performance indicators		
LABOR PRACTICES AND DECENT WORK		
Disclosure on management approach	AR 32–35	●
Employment		
LA1 Total workforce	GRI 14–16	●
LA2 Number and rate of employee turnover		○
Labor/management relations		
LA4 Percentage of employees covered by collective bargaining agreements	GRI 17	●
LA5 Minimum notice period(s) regarding operational changes		○
Occupational health and safety		
LA6 <i>Percentage of total workforce represented in formal joint management-worker health and safety committees</i>	GRI 17	●
LA7 Rates of injury, occupational diseases, lost days, absenteeism, work related fatalities	GRI 17–20	●
LA8 Programs in place to assist workforce members, their families, or community members regarding serious diseases		○
Training and education		
LA10 Average hours of training per year per employee		○
LA11 <i>Programs for skills management and lifelong learning</i>	GRI 21	●
LA12 <i>Percentage of employees receiving regular performance reviews</i>	GRI 21	●
Diversity and equal opportunity		
LA13 Composition of governance bodies and breakdown of employees per category	GRI 21–22, AR 74, AR 114–117	▲
LA14 Ratio of basic salary of men to women by employee category		○

Indicators	Reference	
HUMAN RIGHTS		
Disclosure on management approach	AR 28, 32–33, Swedish Match Code of Conduct, available on the website	●
Investment and procurement practices		
HR1 Percentage and total number of significant investment agreements that have undergone human rights screening		○
HR2 Percentage of significant suppliers undergone screening on human rights	GRI 22	▲
Non-discrimination		
HR4 Total number of incidents of discrimination and actions taken		○
Freedom of association and collective bargaining		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk		○
Child labor		
HR6 Operations identified as having significant risk for incidents of child labor	GRI 23, AR 32–33	●
Forced and compulsory labor		
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor		○
SOCIETY		
Disclosure on management approach	AR 32–35	●
Community		
SO1 Nature, scope and effectiveness of programs and practices that assess and manage impacts of operations on communities		○
Corruption		
SO2 Percentage and total number of business units analyzed for risks related to corruption		○
SO3 Percentage of employees trained in anti-corruption policies	GRI 23	▲
SO4 Actions taken in response to incidents of corruption		○
Public policy		
SO5 Public policy positions and participation in public policy development and lobbying		○
Compliance		
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		○
PRODUCT RESPONSIBILITY		
Disclosure on management approach	AR 33–34	●
Customer health and safety		
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement		○
Product and service labeling		
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	GRI 24–25	▲
PR4 <i>Total number of incidents of non-compliance with regulations and voluntary codes concerning product or service information and labeling</i>	GRI 25	●
PR5 <i>Practices related to customer satisfaction, including results of surveys</i>	GRI 25	▲
Marketing communications		
PR6 Programs for adherence to laws, standards and voluntary codes related to marketing communications	GRI 25–26	●
PR7 <i>Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications</i>	GRI 26	●
Compliance		
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning products and services		○

Swedish Match is constantly evolving, working to create the best possible conditions for developing its business over time. Swedish Match monitors and tracks regulatory developments in the main markets so as to understand the implications for its business, and to ensure compliance with the current regulatory framework and any new regulations.

REGULATORY AFFAIRS

UPHOLDING AN OPEN DIALOGUE



Swedish Match continually works to maintain an open dialogue with regulatory authorities, policymakers 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 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 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, and in particular 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.

Swedish Match has a long standing commitment to scientifically based product development which includes ongoing 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 **GothiaTek**[®], 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 products, and in particular Swedish snus, 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 range of health

risk associated with different tobacco products. Conventional cigarettes are undoubtedly considered to entail the greatest risks. Swedish snus is generally recognized to be 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. 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 contradict these conclusions. Scientific studies are available on the Company's website.

While in Sweden and Norway it has been widely recognized, 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 effect of snus versus a placebo comparator without tobacco or nicotine.

The results of these trials are expected to become available during 2011. For information on the trials, please go to the National Institutes of Health's official website for controlled clinical trials: www.clinicaltrials.gov. It remains to be seen whether the clinical trials will lend further support to the observations in epidemiological studies in Sweden and Norway.

The United States

The Family Smoking Prevention & Tobacco Control Act, grants the Federal Food and Drug Administration (FDA) the authority to regulate tobacco products sold in the United States (the "Act"). Under the Act, the FDA regulates the sale, marketing, and production of cigarettes, roll your own, and smokefree tobacco.

As of 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. Additionally, on June 22, 2010 new rules went into effect relating to marketing, sales, and the content of product packaging. In short, many traditional marketing practices (sponsorships, branded merchandise, product sampling) are prohibited or, in the case of sampling, limited. Product packaging for smokefree tobacco products now carry, on a rotating basis, one of four required health warnings and such warnings must be dis-

played in at least 30 percent of the two principal display panels of the product package.

The Act also 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 are yet to be established by the FDA. The Center for Tobacco Products at the FDA (FDA-CTP) has recently commissioned a report by the National Institutes of Health's Institute of Medicine (IOM) that will provide detailed guidance about the quality and nature of the evidence that should be required for a product to be granted "modified risk" status. The IOM will present their finding to the FDA-CTP during the fall 2011. Swedish Match closely follows these developments and communicates actively with representatives of both the IOM and the FDA-CTP.

Early in 2010 Lars-Erik Rutqvist, Senior Vice President Scientific Affairs at Swedish Match, was appointed Industry Representative in the US Food and Drug Administration Risk Communication Advisory Committee. The Committee gives advice on how to communicate risks associated with products regulated by the FDA as they relate to helping to ensure safe and effective drugs for human use and any other product for which the Food and Drug Administration has regulatory responsibility. It also reviews and evaluates research relevant to such communication to the US public by the different entities within FDA.

The European Union

Tobacco for oral use, except those intended to be smoked or chewed, is banned within the EU since 1992. As Swedish snus is neither smoked nor chewed it is prohibited. Upon Sweden's entry into the EU 1995, the country was granted a permanent exemption from the ban on snus. Cigarettes and other types of traditional smokeless tobacco products including Asian /African types, chewing tobacco, and nasal snuff are legally sold within the EU. The Swedish Retail Institute, commissioned by the Swedish Trade Federation, recently assessed the economical impact

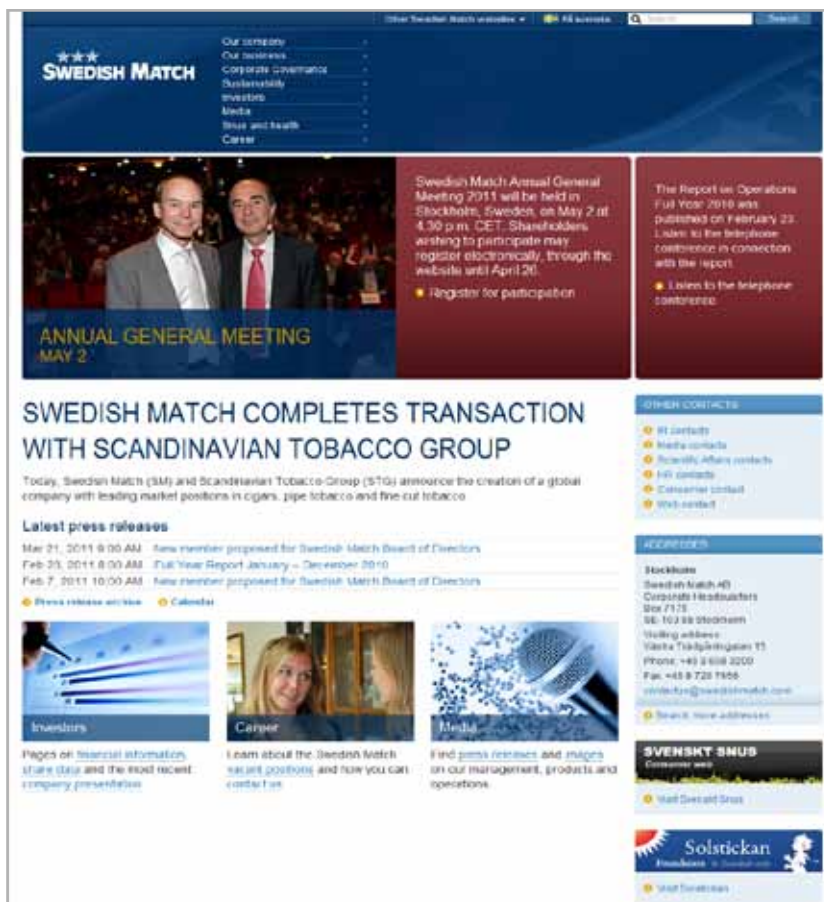
the ban has caused the Swedish economy. They concluded that the annual loss in export revenues amounted to at least 300 MEUR and the total loss of export revenues since 1995 amounted to 3,000 MEUR. The report also concluded that the Swedish food exports would potentially increase with 10 percent should snus be legalized in Europe. The Swedish Government and the Swedish Parliament oppose the ban on grounds that the ban is disproportionate and discriminatory. The ban is unpopular among the public in Sweden and is a recurring issue in Swedish EU elections. Twenty years after the first ban on Swedish snus was introduced in the EU and 15 years after Sweden joined the EU, Swedish snus has still not been assessed on its own merits, despite the abundance of scientific reports citing the favorable risk profile of Swedish snus use compared to other, currently legal, tobacco products. The Commission is currently undertaking a revision of the Tobacco Products Directive 2001/37/EC, with the aim of improving the functioning of the internal market and the health of the EU population. An integral part of the review of the Tobacco Products Directive is the Regulatory Impact Assessment, which is currently being carried out. Swedish Match expects the Commission to present to the European Parliament and to the European Council a new proposed Tobacco Products Directive end of 2011.

Swedish Match is of the opinion that:

- The current EU ban on Swedish snus lacks a justified reasoning and is both discriminatory and disproportionate
- The current EU ban on Swedish snus is a violation of the free trade principle and distorts the function of the internal market
- The ban on snus denies adult European smokers access to a traditional and viable non-combustible tobacco alternative that is scientifically well documented
- All smokeless tobacco products should be subject to a consistent and non competitive product regulation based on product quality and consumer protection

SHAREHOLDER INFORMATION

SHAREHOLDER COMMUNICATIONS



CONTACTS

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

Emmett Harrison is also responsible for corporate sustainability.



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Djuli Holmgren is responsible for the Swedish Match annual report and the Company website.



WWW.SWEDISHMATCH.COM – TIMELY AND RELEVANT

The Swedish Match company website is the primary communications channel with stakeholders. The website is continuously updated and improved to easily make available all current and historical information about the Group's operations and activities.

Public information is available on the Swedish Match company website such as information on corporate governance, sustainability, share data, debt market information, press releases, presentations, webcasts, downloadable annual and interim reports, and information about the Annual General Meeting. ■



ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on Monday, May 2, 2011, at 4.30 p.m. CET at Hotel Rival, Mariatorget 3, in Stockholm, Sweden. Doors to the AGM 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 5.50 SEK per share be paid to the shareholders. The proposed record date for entitlement to receive a cash dividend is May 5, 2011. If the AGM approves the Board's proposal, dividends will be paid through Euroclear Sweden AB on May 10, 2011. ■



FINANCIAL INFORMATION

All new shareholders automatically receive an interim report from Swedish Match by regular mail with an option to request for further mailings. Annual reports are distributed to shareholders who have requested a printed copy.

Swedish Match publications are issued in English and Swedish and are available as downloadable PDF files from the Company's website. These PDF files also 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. In addition, printed versions of all publications are available on request.

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 receive the information.

Modifications to the user account can be made through the subscription service www.swedishmatch.com/subscribe, or by e-mail to: investorrelations@swedishmatch.com. ■

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

Publication calendar

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

Interim report January–March	4 May, 2011
Half year report January–June	20 July, 2011
Interim report January–September	26 October, 2011
Full year report 2011	22 February, 2012
Annual report for 2011	April, 2012

AGM calendar

Record date for AGM	26 April, 2011
Annual General Meeting	2 May, 2011
Ex-dividend date	3 May, 2011
Record date for dividend	5 May, 2011
Dividend payment	10 May, 2011

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 231 million shares with a quotient value of 1.6862 SEK each. Each share carries one vote.

SHAREHOLDER INFORMATION

THE SHARE

Turnover¹⁾

Total turnover in 2010 amounted to 250,088,489 Swedish Match shares on the NASDAQ OMX Stockholm, with a daily average turnover of 1.0 million shares. The turnover velocity of the share on the NASDAQ OMX Stockholm, was 102 percent during the year, compared with the average of 96 percent for the NASDAQ OMX Stockholm. Approximately 72 percent of trading volume of Swedish Match was handled through the NASDAQ OMX Stockholm trading platform, ranging from 80 percent in January 2010 to 67 percent in July 2010. CHI-X was the second most traded platform with approximately 17 percent of total trades, ranging from 13 percent in January 2010 to 19 percent in July 2010. In December 2010, NASDAQ OMX Stockholm handled 73 percent of the trading volume, CHI-X 16 percent, and all other platforms combined traded 11 percent.

¹⁾ Source: NASDAQ OMX Stockholm.

²⁾ Excluding shares held in treasury by Swedish Match AB, which corresponds to 7.0 percent of the total number of shares.

³⁾ Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB.

Share price development¹⁾

The Company's market capitalization at year-end 2010 amounted to 41.8 billion SEK.²⁾ The share price increased by 24 percent during the year, while the OMXS 30 Index increased by 21 percent. The lowest price paid during the year was 148.00 SEK on January 22, and the highest price paid was 198.90 SEK on November 22.

Ownership structure³⁾

At year-end, ownership outside of Sweden corresponded to 72.8 percent of total share capital, an increase of 2.5 percentage points compared with 2009.²⁾ Swedish ownership interests, totaling 27.2 percent, were distributed among institutions, with 7.7 percent of the share capital, mutual funds, with 9.5 percent, and private individuals, with 10.0 percent. The 10 largest shareholders accounted for 26.2 percent of the share capital.²⁾

Largest shareholders

Largest shareholders ^{1) 2)}	Number of shares	Holding in percent	Votes in percent
Parvus Asset Management	14,166,681	6.1	6.6
Morgan Stanley Investment Management	13,144,486	5.7	6.1
Swedbank Robur Funds	6,558,200	2.8	3.1
AMF Insurance & Funds	5,151,518	2.2	2.4
SEB Funds	3,242,775	1.4	1.5
Didner & Gerge Funds	3,137,601	1.4	1.5
SHB Funds	3,002,746	1.3	1.4
Standard Life Investment Funds	2,971,540	1.3	1.4
Second Swedish National Pension Fund	2,753,137	1.2	1.3
Fourth Swedish National Pension Fund	1,982,579	0.9	0.9
Subtotal 10 largest shareholders	56,111,263	24.3	26.2
Other	158,685,843	68.7	73.8
Sub total	214,797,106	93.0	100.0
Shares held by Swedish Match	16,202,894	7.0	0.0
Total	231,000,000	100.0	100.0

¹⁾ Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

²⁾ Registered direct ownership and ownership through trustees.

Source: SIS Ägarservice AB, data derived from Euroclear Sweden AB, as of December 31, 2010.

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 2010 of 5.50 SEK (4.75) per share, for a total of 1,181 MSEK (1,089), based on the 214.8 million of shares outstanding at the end of the year. The dividend corresponds to 55 percent (49) of EPS for the year excluding larger one time items.

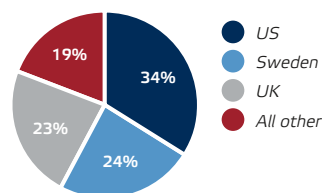
Repurchase of own shares

Repurchase of own 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 buy-backs depend on Swedish Match financial position, net profit, anticipated future profitability, cash flow, investments and expansion plans. Other factors that influence buy-backs 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 *Report of the Board of Directors* on page 54.

www.swedishmatch.com

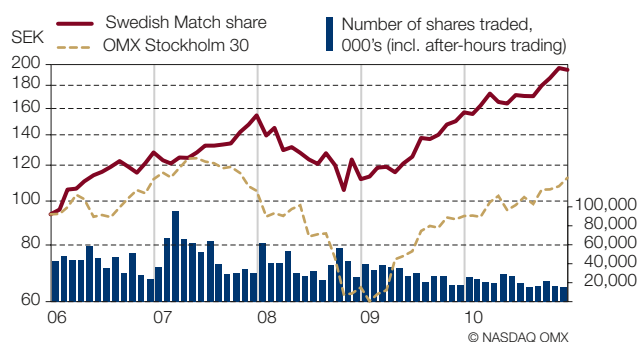
More information is available on the Company website www.swedishmatch.com/investors

SHARE CAPITAL BY COUNTRY

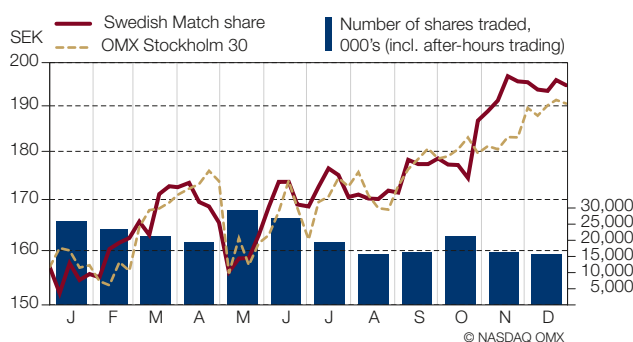


Source: SIS Ägarservice AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2010. "All other" also includes shareholders with less than 500 shares in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

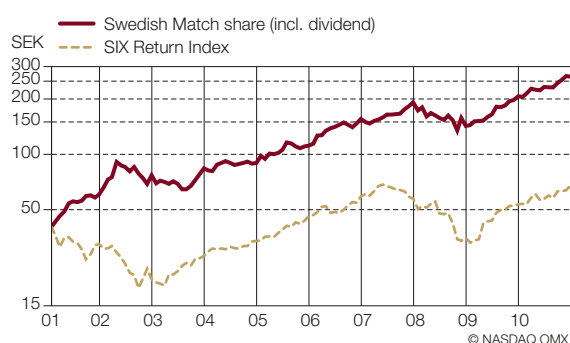
Share price 2006–2010



Share price 2010



Total return 2001–2010

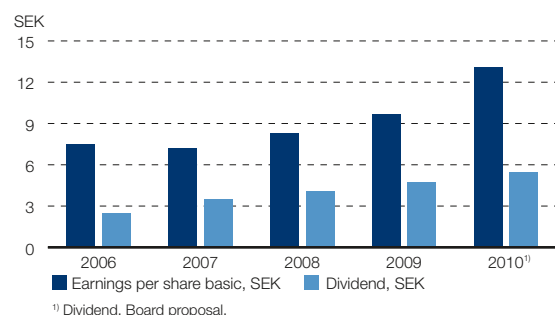


Transfer of capital to Swedish Match shareholders

MSEK	2010	2009	2008	2007	2006	Total
Dividend	1,181 ¹⁾	1,089	1,024	886	664	4,844
Repurchase of own shares, net	2,961	2,547	934	2,453	3,585	12,480
Total	4,142	3,636	1,958	3,339	4,249	17,324

¹⁾ Dividend proposed for fiscal year 2010.

Earnings and dividend per share 2006–2010



¹⁾ Dividend, Board proposal.

 Share distribution¹⁾

Size of holding	No. of owners	%	No. of shares	%
1–1,000	48,232	90.6	10,282,657	4.4
1,001–5,000	4,017	7.6	8,057,573	3.5
5,001–20,000	557	1.0	5,315,542	2.3
20,001–50,000	146	0.3	4,552,735	2.0
50,001–100,000	69	0.1	4,959,542	2.1
100,001–1,000,000	172	0.3	62,744,087	27.1
1,000,001–	46	0.1	135,087,864	58.6
Total at December 31, 2010	53,239	100.0	231,000,000	100.0

¹⁾ Including shares held by Swedish Match.

Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB.

Share data

	2010	2009	2008	2007	2006
Earnings per share, basic, SEK					
From continuing operations	13.12	9.67	8.30	7.22	7.47
Including discontinued operations	–	12.88	8.98	7.82	8.13
Earnings per share, diluted, SEK					
From continuing operations	13.09	9.66	8.29	7.20	7.44
Including discontinued operations	–	12.87	8.96	7.80	8.10
Dividend per share, SEK	5.50 ¹⁾	4.75	4.10	3.50	2.50
Dividend yield at year-end, %	2.82 ¹⁾	3.03	3.67	2.27	1.95
Dividend pay-out ratio, %	42 ¹⁾	49	46	45	31
Market price at year-end, SEK	194.70	156.90	111.75	154.50	128.00
Market capitalization at year-end, SEK billion ²⁾	41.8	36.3	27.8	39.5	35.1
P/E ratio ³⁾	14.9	12.2	12.4	19.8	15.8
EBIT multiple ³⁾	12.6	13.6	11.7	16.2	13.0
Total return, %	27.7	45.1	–25.8	22.7	39.5
Average number of shares, basic	225,331,835	244,259,880	251,867,479	262,604,644	287,062,345
Average number of shares, diluted	225,969,047	244,440,057	252,211,733	263,405,637	288,161,247
Number of shareholders ²⁾	53,238	55,127	53,215	54,594	58,287

¹⁾ Board proposal.

²⁾ Excluding shares held by Swedish Match.

³⁾ Including discontinued operations up to and including 2009.

SHAREHOLDER INFORMATION

FIVE YEAR SUMMARY 2006–2010

Condensed consolidated income statement, MSEK	2010	2009	2008	2007	2006
Sales	13,606	14,204	12,611	11,970	12,273
Gross profit	6,944	7,089	6,174	5,675	5,885
Larger one time items	644	–	73	267	148
Operating profit	4,169	3,417	2,874	2,800	3,046
Net finance cost	–562	–443	–441	–338	–109
Profit before income tax	3,607	2,974	2,433	2,462	2,937
Profit for the year from continuing operations	2,958	2,361	2,091	1,898	2,145
Profit from discontinued operations, net of tax	–	785	170	157	190
Profit for the year	2,958	3,146	2,261	2,056	2,335
EBITDA excluding profit from discontinued operations	3,813	3,885	3,222	2,936	3,310

Condensed consolidated balance sheet, MSEK	2010	2009	2008	2007	2006
Assets					
Intangible assets	1,027	3,792	4,702	4,419	3,469
Property, plant and equipment	2,097	2,525	2,458	2,388	2,221
Other non-current financial receivables ¹⁾	5,453	2,193	2,284	1,011	1,055
Current operating assets	2,886	5,286	5,698	5,204	5,827
Other current investments and current financial assets	1	10	34	5	56
Cash and cash equivalents	3,275	2,530	3,178	3,439	3,042
Total assets	14,739	16,337	18,355	16,467	15,670
Equity and liabilities					
Equity attributable to equity holders of the Parent, including non-controlling interests	–482	903	1,381	724	2,041
of which, non-controlling interests	2	4	4	4	3
Non-current provisions	1,050	1,301	1,281	1,292	1,192
Non-current loans	9,209	8,252	9,975	8,768	7,815
Other non-current financial liabilities ¹⁾	1,478	1,440	1,337	567	657
Current provisions	98	125	29	60	61
Current loans	525	1,002	743	1,271	409
Other current liabilities	2,861	3,313	3,609	3,785	3,495
Total equity and liabilities	14,739	16,337	18,355	16,467	15,670

¹⁾ Includes pension obligations and derivatives financial instruments.

Condensed consolidated cash flow, MSEK	2010	2009	2008	2007	2006
Net cash from operating activities	2,616	2,911	1,838	2,130	1,128
Net cash used in investing activities	959	1,043	–61	–473	–241
Net cash used in financing activities	–2,646	–4,707	–2,267	–1,425	–1,170
Net increase/decrease in cash and cash equivalents	928	–753	–491	232	–282
<i>Cash flow from discontinued operations</i>					
Net cash from operating activities	–	219	142	198	206
Net cash used in investing activities	–	–6	13	–18	–14
Net cash used in financing activities	–	–51	42	–1	6
Net increase in cash and cash equivalents	–	162	196	179	198
Cash and cash equivalents at beginning of the year	2,530	3,178	3,439	3,042	3,325
Effects of exchanges rate fluctuations on cash and cash equivalents	–183	–58	34	–13	–198
Cash and cash equivalents at end of year	3,275	2,530	3,178	3,439	3,042

Key figures ¹⁾	2010	2009	2008	2007	2006
<i>Continuing operations</i>					
Operating capital at year-end, MSEK ²⁾	7,099	8,494	8,841	7,623	7,192
Net debt, MSEK	7,650	7,188	7,640	7,127	5,658
Investments in property, plant and equipment, MSEK	311	471	319	523	290
Operating margin, % ³⁾	25.2	24.1	22.2	21.2	23.6
Return on operating capital, % ³⁾	44.0	39.4	34.0	34.2	41.9
EBITA interest cover ³⁾	7.0	8.4	7.0	8.2	14.5
Net debt/EBITA ³⁾⁴⁾	2.2	2.0	2.6	2.7	2.0
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Dividend per share, SEK	5.50 ⁵⁾	4.75	4.10	3.50	2.50
Earnings per share basic, SEK					
From continuing operations	13.12	9.67	8.30	7.22	7.47
Including discontinued operations	–	12.88	8.98	7.82	8.13
Earnings per share diluted, SEK					
From continuing operations	13.09	9.66	8.29	7.20	7.44
Including discontinued operations	–	12.87	8.96	7.80	8.10

¹⁾ All key data with exception of share data, have been calculated excluding larger one time items and reversing all effects from reporting assets and liabilities as held for sale between January 15, 2010 and October 1, 2010.

²⁾ In 2007 the Company decided to amend the definition of operating capital in regards to the accounting principle governing pensions. Hence, pension receivables and pension liabilities are not included in the new definition. Data as of 2006 and earlier has not been restated to reflect the changed definition of operating capital.

³⁾ Including restructuring charges of 73 MSEK in 2009.

⁴⁾ Data as of 2009 and earlier are calculated pro-forma excluding South African operation.

⁵⁾ Board proposal.

Sales by product area, MSEK	2010	2009	2008	2007	2006
Snus and snuff	4,522	4,250	3,711	3,176	3,248
Other tobacco products	2,440	2,337	1,811	1,873	2,076
Lights	1,429	1,403	1,375	1,323	1,341
Other operations	2,831	2,689	2,663	2,843	2,973
Comparable sales	11,222	10,678	9,559	9,215	9,639
Businesses transferred to STG ¹⁾	2,385	3,526	3,052	2,755	2,635
Total	13,606	14,204	12,611	11,970	12,273

¹⁾ Net of inter-company sales eliminations.

Operating profit/loss by product area, MSEK	2010	2009	2008	2007	2006
Snus and snuff	2,080	1,916	1,667	1,353	1,600
Other tobacco products	942	804	569	555	617
Lights	279	312	294	283	276
Other operations	–142	–132	–155	–122	–62
Comparable operating profit	3,158	2,900	2,375	2,070	2,431
Businesses transferred to STG	334	518	426	463	467
Share of net loss in STG ¹⁾	–60	–	–	–	–
Subtotal	3,433	3,417	2,801	2,533	2,897
Net gain from pension settlements	59	–	–	–	–
Capital gain from transfer of businesses to STG	585	–	–	–	–
Reversal of depreciation and amortization relating to assets held for sale	93	–	–	–	–
Gain on sale of subsidiary and related assets	–	–	73	–	–
Gain on sale of real estate	–	–	–	267	–
Pension curtailment gain	–	–	–	–	148
Total	4,169	3,417	2,874	2,800	3,046

¹⁾ The share of net loss from Scandinavian Tobacco Group includes charges for restructuring, other transaction costs as well as IFRS acquisition adjustments amounting to 175 MSEK before tax.

Operating margin by product area, % ¹⁾	2010	2009	2008	2007	2006
Snus and snuff	46.0	45.1	44.9	42.6	49.2
Other tobacco products ²⁾	38.6	34.4	31.4	29.6	29.7
Lights	19.5	22.2	21.4	21.4	20.5
Comparable operating margin³⁾	28.1	27.2	24.8	22.5	25.2
Group, including businesses transferred to STG and share of net loss in STG⁴⁾	25.2	24.1	22.2	21.2	23.6

¹⁾ Excluding larger one time items.

²⁾ Including a restructuring charge of 45 MSEK for US mass market cigars in 2009.

³⁾ Excluding share of net loss in STG and businesses transferred to STG in 2010.

⁴⁾ Including depreciation and amortization relating to assets reported as held for sale to during the period January 15, 2010 until October 1, 2010, and a restructuring charge of 73 MSEK is included in 2009.

SHAREHOLDER INFORMATION

QUARTERLY DATA 2009–2010

Condensed consolidated income statements MSEK	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	2,801	3,823	3,701	3,282	3,545	3,606	3,666	3,387
Gross profit	1,463	1,927	1,896	1,658	1,710	1,764	1,854	1,762
Net gain from pension settlements	59	–	–	–	–	–	–	–
Capital gain from transfer of businesses to STG	585	–	–	–	–	–	–	–
Operating profit	1,421	1,049	945	755	850	874	899	794
Net finance cost	–199	–128	–129	–106	–111	–117	–108	–108
Profit before income tax	1,221	921	816	649	739	757	791	686
Profit for the period from continuing operations	1,074	729	637	519	595	615	624	527
Profit from discontinued operations, net after tax	–	–	–	–	–	705	41	40
Profit for the period	1,074	729	637	519	595	1,319	664	567
EBITDA excluding profit from discontinued operations	852	1,118	1,015	829	947	1,019	1,011	908

Key figures	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, % ¹⁾	27.7	26.6	24.6	22.2	24.0	24.2	24.5	23.4
Investments in property, plant and equipment, MSEK	62	51	90	107	147	92	123	108
Earnings per share, basic, SEK								
From continuing operations	4.85	3.23	2.78	2.26	2.52	2.53	2.51	2.11
Including discontinued operations	–	–	–	–	2.52	5.38	2.68	2.27

¹⁾ Excluding larger one time items, but including restructuring charges for Other tobacco products of 45 MSEK in Q3 2009 and 29 MSEK in Q4 2009.

Sales by product area, MSEK	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	1,178	1,174	1,116	1,054	1,101	1,093	1,087	969
Other tobacco products	557	631	664	588	456	571	617	694
Lights	379	352	347	351	373	341	337	352
Other operations	687	806	722	615	690	742	711	546
Comparable sales	2,801	2,964	2,849	2,608	2,620	2,747	2,752	2,560
Businesses transferred to STG ¹⁾	–	859	852	674	925	859	914	827
Total	2,801	3,823	3,701	3,282	3,545	3,606	3,666	3,387

¹⁾ Net of inter-company sales eliminations.

Operating profit/loss by product area, MSEK	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	567	592	487	434	523	534	463	397
Other tobacco products	208	259	270	204	136	169	252	246
Lights	87	58	68	66	100	72	69	71
Other operations	–26	–35	–32	–48	–18	–25	–39	–49
Comparable operating profit	836	874	793	655	740	750	745	665
Businesses transferred to STG ¹⁾	–	143	118	73	109	124	155	130
Share of net loss in STG ²⁾	–60	–	–	–	–	–	–	–
Subtotal	777	1,017	911	728	850	874	899	794
Net gain from pension settlement	59	–	–	–	–	–	–	–
Capital gain from transfer of businesses to STG	585	–	–	–	–	–	–	–
Reversal of depreciation and amortizations relating to assets held for sale	–	32	34	27	–	–	–	–
Total larger one time items	644	32	34	27	–	–	–	–
Total	1,421	1,049	945	755	850	874	899	794

¹⁾ Operating profit for businesses transferred to STG for 2009 and for the first nine months of 2010.

²⁾ The share of net loss from Scandinavian Tobacco Group includes charges for restructuring, other transaction costs as well as IFRS acquisition adjustments amounting to 175 MSEK before tax.

Operating margin by product area, % ¹⁾	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	48.1	50.4	43.6	41.2	47.5	48.8	42.6	40.9
Other tobacco products	37.4	41.0	40.7	34.7	29.9	29.6	40.9	35.5
Lights	23.0	16.3	19.6	18.7	26.6	21.3	20.4	20.2
Comparable operating margin²⁾	29.9	29.5	27.8	25.1	28.3	27.3	27.1	26.0
Group, including businesses transferred to STG and share of net loss in STG³⁾	27.7	26.6	24.6	22.2	24.0	24.2	24.5	23.4

¹⁾ Excluding larger one time items.

²⁾ Excluding businesses transferred to STG and share of net loss in STG but including a restructuring charges of 45 MSEK for Other tobacco products in 2009.

³⁾ Including a restructuring charges of 45 MSEK in Q3 2009 and 29 MSEK in Q4 2009.

SHAREHOLDER INFORMATION

DEFINITIONS USED IN FINANCIAL TABLES

AVERAGE OPERATING CAPITAL

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

EBITA

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

OPERATING MARGIN (%)

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

DIVIDEND YIELD (%)

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

EBITA INTEREST COVERAGE RATIO

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

P/E RATIO

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

DIVIDEND PAY-OUT RATIO (%)

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

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

RETURN ON OPERATING CAPITAL (%)

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

EARNINGS PER SHARE

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

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

SHARE TURNOVER VELOCITY (%)

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

EBIT MULTIPLE

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

OPERATING CAPITAL

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

TOTAL RETURN (%)

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

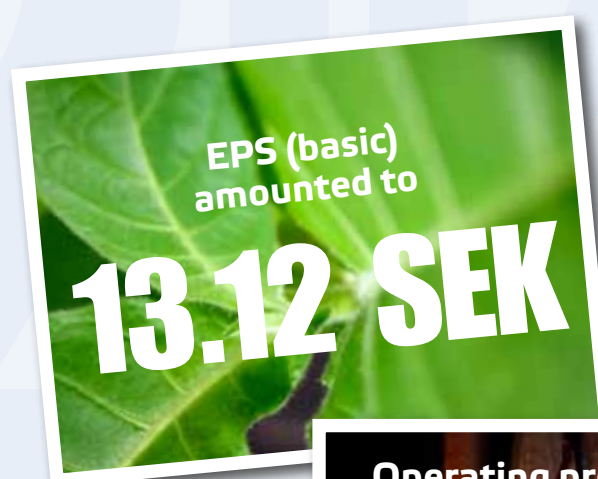
FINANCIAL REPORTS

SOLID SALES GROWTH

For the full year Swedish Match reported solid sales growth across the businesses. Comparable sales (excluding businesses transferred to STG) for the full year increased by 5 percent to 11,222 MSEK (10,678). Comparable operating profit (excluding businesses transferred to STG, share of net loss from STG and larger one time items) increased by 9 percent to 3,158 MSEK (2,900). Comparable operating margin for the year was 28.1 percent (27.2).

Contents

Report of the Board of Directors	54		
Consolidated financial statements			
Consolidated income statement	62	Note 16 Investments in associates and joint ventures	82
Consolidated statement of comprehensive income	62	Note 17 Other non-current receivables and other receivables	83
Consolidated balance sheet	63	Note 18 Inventories	83
Statement of changes in equity	64	Note 19 Trade receivables	83
Consolidated cash flow statement	65	Note 20 Cash and cash equivalents, and other current investments	83
Notes for the Group	66	Note 21 Equity	84
Note 1 Accounting principles	66	Note 22 Interest bearing liabilities	85
Note 2 Critical estimates and judgements	71	Note 23 Employee benefits	85
Note 3 Segment information	71	Note 24 Provisions	87
Note 4 Business combinations	73	Note 25 Other liabilities	87
Note 5 Discontinued operations	73	Note 26 Accrued expenses and deferred income	87
Note 6 Other operating income and expenses	73	Note 27 Financial instruments and financial risks	88
Note 7 Personnel	74	Note 28 Operating lease agreements	91
Note 8 Audit fees	78	Note 29 Pledged assets	91
Note 9 Operating expenses classified by nature	78	Note 30 Commitments and contingent liabilities and assets	91
Note 10 Net finance cost	78	Note 31 Group companies	92
Note 11 Income tax	78	Note 32 Supplementary information to cash flow statement	92
Note 12 Earnings per share	79	Note 33 Related parties	93
Note 13 Intangible assets	80	Note 34 Subsequent events	93
Note 14 Property, plant and equipment	81	Note 35 Information about the Parent Company	93
Note 15 Forest plantations	81		



Parent Company financial statements

Parent Company income statement	94	Note 15 Equity	102
Parent Company statement of comprehensive income	94	Note 16 Untaxed reserves	102
Parent Company balance sheet	95	Note 17 Other provisions	102
Statement of changes in Parent Company equity	96	Note 18 Bond loans	102
Cash flow statement for the Parent Company	97	Note 19 Liabilities to group companies	103
Notes for the Parent Company	98	Note 20 Other liabilities	103
Note 1 Sales	98	Note 21 Accrued expenses and deferred income	103
Note 2 Audit fees	98	Note 22 Pledged assets and contingent liabilities/assets	103
Note 3 Other operating income and expense	98	Note 23 Supplementary information to cash flow statement	103
Note 4 Financial items	98	Note 24 Related parties	103
Note 5 Appropriations	98	Note 25 Carrying value and fair value of financial instruments	104
Note 6 Income tax	99	Note 26 Employee benefits	105
Note 7 Intangible assets	99	Note 27 Sick leave within the Parent Company	105
Note 8 Tangible assets	99	Proposed distribution of earnings	106
Note 9 Group companies	100	Auditor's report	107
Note 10 Joint venture	101		
Note 11 Receivables from group companies	101		
Note 12 Other non-current receivables	101		
Note 13 Other receivables	101		
Note 14 Prepaid expenses and accrued income	101		

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

Significant events during the year

On October 4, 2010, Swedish Match announced that it had completed its transaction with Scandinavian Tobacco Group at the close of business on October 1. With this transaction, Swedish Match and Scandinavian Tobacco Group formed a new company. The new company operates under the name Scandinavian Tobacco Group (STG). Swedish Match contributed all of its cigar business with the exception of US mass market cigars and the minority stake in the German cigar company Arnold André, and also contributed its remaining pipe tobacco and accessories businesses. Scandinavian Tobacco Group transferred all of its tobacco business (cigars, pipe tobacco and fine cut tobacco) into the new company. The new STG also distributes lighters and matches supplied by Swedish Match in relevant markets. Swedish Match holds 49 percent of the shares in the new company, with the remaining 51 percent of the shares held by the previous Scandinavian Tobacco Group shareholders. Swedish Match has been

compensated with 30 MEUR to account for the shareholding and the relative differences in enterprise values on a cash and debt free basis. STG has leading positions for US premium cigars, for European cigars, and strong positions in a number of other tobacco markets. Following this transaction with Scandinavian Tobacco Group, the Group's reportable segments are changed as of October 1, 2010. In the new segment reporting, US mass market cigars and chewing tobacco are combined and presented as one reportable segment "Other tobacco products". The four new reportable segments are thereby *Snus and snuff*, *Other tobacco products*, *Lights* and *Other operations*. Final purchase price adjustments are expected to be determined and settled in the first half of 2011. For further information regarding this transaction, please refer to the press releases of April 26 and October 4, 2010 available on the Swedish Match website, www.swedishmatch.com.

On December 1, 2010, the pension obligations for salaried personnel and workers in Sweden which were funded by insurance policies with two company specific pension funds, PSF and PSA, were transferred to three insurance companies.

As a result from the above transactions the profit of 2010 includes a number of items of a one time nature such as a capital gain from the businesses transferred to STG and a settlement gain from the transfer of the pension plans in Sweden.

Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2010	2009	2010	2009
Snus and snuff	4,522	4,250	2,080	1,916
Other tobacco products	2,440	2,337	942	804
Lights	1,429	1,403	279	312
Other operations	2,831	2,689	-142	-132
Comparable sales and operating profit	11,222	10,678	3,158	2,900
Businesses transferred to STG	2,385	3,526	334	518
Share of net loss in STG			-60	-
Sub total	13,606	14,204	3,433	3,417
<i>Larger one time items:</i>				
Net gain from pension settlements			59	-
Capital gain from transfer of businesses to STG			585	-
Reversals of depreciation and amortization relating to assets held for sale			93	-
Total larger one time items			737	-
Total			4,169	3,417

Summary of consolidated income statement

MSEK	2010	2009
Sales	13,606	14,204
Operating profit	4,169	3,417
Net finance cost	-562	-443
Income tax expense	-649	-613
Profit for the year from continuing operations	2,958	2,361
Profit for the year from discontinued operations, net of tax	-	785
Profit for the year	2,958	3,146
<i>Attributable to:</i>		
Equity holders of the Parent	2,957	3,146
Non-controlling interest	1	1
Profit for the year	2,958	3,146
Earnings per share, basic (SEK)		
From continuing operations	13.12	9.67
Including discontinued operations	-	12.88

Sales

Sales for the year, including businesses transferred to STG with reference to the first nine months of 2010, were 13,606 MSEK (14,204). Comparable sales (excluding businesses transferred to STG) for the year increased to 11,222 MSEK (10,678). In local currencies, comparable sales increased by 7 percent.

For the year, sales for Snus and snuff increased to 4,522 MSEK (4,250). In Scandinavia sales volumes increased by more than 2 percent measured in number of cans compared to 2009 with volume growth in Sweden, Norway and Travel Retail. In the United States sales volume declined by 2 percent compared to prior year. Improved average prices offset the decline in shipment volumes and sales in the US for 2010 grew by 3 percent versus prior year.

For Other tobacco products in total (US mass market cigars and chewing tobacco), sales for the year amounted to 2,440 MSEK (2,337). In local currencies sales increased by 11 percent compared to the previous year. For US mass market cigars sales grew by 22 percent in local currency on 35 percent higher volumes as the product mix moved to one with substantially more smaller cigars than large cigars. Chewing tobacco is mainly sold in the southern states of the country. The market for chewing tobacco shows a declining trend.

Product area Lights includes matches and lighters. For the full year sales in the Lights product area amounted to 1,429 MSEK (1,403), where lighters experienced sales growth, while matches experienced some declines in sales.

Sales in Other operations were 2,831 MSEK (2,689). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

Operating profit

Full year operating profit, including businesses transferred to STG, share of net loss in STG and larger one time items, increased by 22 percent, to 4,169 MSEK (3,417). Comparable Group operating profit (excluding businesses transferred to STG, share of net loss in STG and larger one time items) increased by 9 percent to 3,158 MSEK (2,900). Currency translation has affected the comparable operating profit comparison negatively by 76 MSEK. In local currencies comparable operating profit increased by 12 percent.

Operating profit increased for all product areas except for Lights compared to previous year. Operating profit for 2010 has been negatively affected by a restructuring charge of 10 MSEK relating to the closure of the production of the Piccanell chewing tobacco brand in Sweden, while a restructuring charge of 45 MSEK relating to US mass market cigars was included in the result of 2009.

Operating loss for Other operations was 142 MSEK (loss of 132).

Group operating margin for the year was 25.2 percent (24.1). Comparable Group operating margin for the year was 28.1 percent (27.2).

STG

The Swedish Match 49 percent share of STG's net loss after interests and tax amounted to 60 MSEK for 2010. The share of net loss in STG includes charges for restructuring, other transaction costs as well as IFRS acquisition adjustments amounting to 175 MSEK before tax.

The underlying performances of the businesses of STG were somewhat mixed. The US long-filler cigar business was weak in the traditional brick and mortar channel, to a large extent due to inventory reductions at a major customer, while the Cigars Inter-

Summary of consolidated balance sheet

MSEK	2010	2009
Non-current assets	8,577	8,510
Inventories	1,202	3,025
Other current assets	1,684	2,271
Cash and cash equivalents and other investments	3,276	2,531
Total assets	14,739	16,337
Equity	-482	903
Non-current financial liabilities and provisions	2,527	2,741
Non-current loans	9,209	8,252
Current liabilities and provisions	2,960	3,438
Current loans	525	1,002
Total equity and liabilities	14,739	16,337

Summary of consolidated cash flow statement

MSEK	2010	2009
Net cash from operating activities	2,616	2,911
Net cash used in investing activities	959	1,043
Net cash used in financing activities	-2,646	-4,707
Net increase/decrease in cash and cash equivalents	928	-753
<i>Cash flow from discontinued operations</i>		
Net cash from operating activities	-	219
Net cash used in investing activities	-	-6
Net cash used in financing activities	-	-51
Net increase in cash and cash equivalents	-	162
Cash and cash equivalents at beginning of the year	2,530	3,178
Effects of exchanges rate fluctuations on cash and cash equivalents	-183	-58
Cash and cash equivalents at end of year	3,275	2,530

national business (Internet, e-mail and catalogues) performed strongly which partly offset the decline in brick and mortar. For the European cigar business, STG gained or maintained market share in most key markets, but suffered from a general market volume decline and mix shifts to smaller cigars. For fine cut and pipe tobacco, the performance was stronger than prior year for branded products, but the overall sales and results declined as a consequence of lower subcontracting volumes.

Larger one time items

Following the close of the transaction with Scandinavian Tobacco Group to form a new company (STG), in which Swedish Match holds 49 percent of the shares, a capital gain of 585 MSEK was recognized in the fourth quarter of 2010. The capital gain is a result from the revaluation of the assets Swedish Match contributed to the new STG, including compensation with 30 MEUR to account for the shareholding and the relative differences in enterprise values on a cash and debt free basis. The final purchase price and transaction adjustments are expected to be completed in the first half of 2011 and may result in an additional gain or loss.

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

Net finance cost

Net finance costs for the year amounted to 562 MSEK (443).

Taxes

For the full year, the reported tax expense amounted to 649 MSEK (613), corresponding to a tax rate of 18.0 percent (20.6). The reported tax rate from continuing operations excluding one time items as well as profit and loss impact from associated companies and joint ventures was 22 percent (22).

Earnings per share

For the full year basic earnings per share was 13.12 SEK (9.67), while diluted EPS was 13.09 SEK (9.66). Including discontinued operations, basic EPS for the full year 2009 was 12.88 SEK, while diluted EPS was 12.87 SEK.

Liquid funds

Cash and cash equivalents amounted to 3,275 MSEK at the end of the period, compared with 2,530 MSEK at the beginning of 2010. As of December 31, 2010, Swedish Match had 1,442 MSEK in unutilized committed credit lines.

Financing and cash flow

Cash flow from operations for the year amounted to 2,616 MSEK compared with 2,911 MSEK in 2009. The decline in cash flow from operations is mainly referring to higher taxes and higher net finance costs paid in 2010 compared to 2009, and that the businesses transferred to STG only are included for nine months in 2010.

The net debt as per December 31, 2010 amounted to 7,650 MSEK compared to 7,188 MSEK at December 31, 2009. During the year new bond loans of 4,242 MSEK were issued. Repayment of loans for the same period amounted to 2,961 MSEK including repurchase of 1,970 MSEK of bond loans with shorter maturities. As at December 31, 2010 Swedish Match had 9,885 MSEK of interest bearing debt excluding retirement benefit obligations. During 2011, 542 MSEK of this debt falls due for repayment.

Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 311 MSEK (471). Investments in intangible assets during 2010 amounted to 51 MSEK (16) mainly pertaining to investments in new ERP systems. In the first quarter, 2010, the Group acquired 20 percent of the shares in Caribbean Cigar Holdings Group, S.A. (Caribbean Cigars) for 110 MSEK. The holding in Caribbean Cigars was subsequently transferred to STG on October 1.

Depreciations and amortizations

During the year, total depreciation and amortization amounted to 288 MSEK (468), of which depreciation on property, plant and equipment amounted to 235 MSEK (350) and amortization of intangible assets amounted to 53 MSEK (118). Amortization of intangible assets mainly pertains to trademarks.

The Group's total depreciations and amortizations charges for the year include an adjustment for reversals of depreciation and amortization of 93 MSEK relating to assets reported as held for sale to STG. Including depreciation and amortization related to assets reported as held for sale, total depreciation and amortization for the full year 2010 would have amounted to 381 MSEK, of which depreciation on property, plant and equipment would have amounted to 286 MSEK and amortization of intangible assets would have amounted to 94 MSEK.

Dividend and financial policy

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

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

Proposed dividend per share

The Board proposes an increased dividend to 5.50 SEK (4.75), equivalent to 55 percent (49) of the earnings per share for the year, excluding larger one time items. The proposed dividend amounts to 1,181 MSEK based on the 214.8 million shares outstanding at the end of the year.

Share structure

The Annual General Meeting on April 27, 2010 decided to authorize the Board of Directors to decide on the acquisition, on one or more occasions prior to the next Annual General Meeting, of a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company. In addition, in accordance with the resolution at the Annual General Meeting, 20 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 231,000,000 shares with a quotient value of 1.6862 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

During the year, the Company has issued 713,670 call options to senior management and key employees for the stock option program for 2009. These call options can be exercised from March 2013 to February 2015. The exercise price is 197.45 SEK.

In line with the financial policy 17.0 million shares were repurchased during 2010 for 3,014 MSEK at an average price of 176.93 SEK, following authorization from the Annual General Meetings held in 2009 and 2010. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programs. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 93.46 SEK. During the year the Company sold 0.5 million treasury shares at an average price of 99.75 SEK as a result of option holders exercising options. As per December 31, 2010 Swedish Match held 16.2 million shares in treasury, corresponding to 7.01 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, 2010 amounted to 214.8 million. In addition, the Company has call options outstanding as of December 31, 2010 corresponding to 5.5 million shares exercisable in gradual stages from 2011 to 2015.

In January 2011, a further 1.6 million shares have been repurchased for 313 MSEK at an average price of 195.99 SEK.

The Board will propose to the Annual General Meeting in May 2011 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 2012.

In addition a proposal will be made to cancel 18 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

On October 1, 2010, 6,461 employees were transferred to STG. The average number of employees in the Group during the year, excluding employees transferred to STG, was 3,908 compared with 3,826 for the full year 2009. Including employees transferred to STG, the average number of employees during the year was 8,822 compared with 11,037 during the full year 2009.

Corporate governance report

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corporate Governance Report instead of including the report in the Board of Director's report. The Corporate Governance Report is presented on page 108 and is also available on the Company's website www.swedishmatch.com.

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 113.

Corporate sustainability

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

Environmental impact

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

To support its environmental efforts Swedish Match has a Group Environmental Policy and has also established a Swedish Match Environmental Management System (EMS). The search for items with a possible negative environmental impact originates at the factory level and is coordinated by the operating units. 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.

In 2010, the scope of the Swedish Match Environmental Policy was updated to include not only KPIs and EMS, but also biodiversity as well as eco efficiency, thus helping to broaden the scope from the forest, to the factory, to the office. The production processes and raw materials used in the tobacco industry generally have limited environmental impact. Improvements and savings from more efficient uses of resources help to reduce costs per unit and improve the Group's environmental footprint. 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 strives to have its production plants, which account for the majority of sales, certified according to ISO 14001.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2010. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

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

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

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

Organization and personnel

The Swedish Match head office, where the CEO and Group staff functions are based, is located in Stockholm in Sweden. The business is operated in six operating units: Smokefree Products Division, Scandinavia Division, US Division, Lights Latin America, Lights International and Swedish Match Distribution AB.

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

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

In November 2010, the Group launched a worldwide cross organizational employee survey as part of a strategy follow-up activity. The purpose was to examine the relative organizational strengths and weaknesses as well as current practices and tools. A few of the areas covered were leadership, innovation, and how Swedish Match fosters a shared understanding of its core values as well as how well the Group inspires and encourages employees to perform and stay with the Company. This effort was a complement to the annual employee surveys that have been conducted regularly within Swedish Match to identify areas of improvement.

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

Risk factors

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

Swedish Match has a substantial part of its production and sales in the US as well as in Brazil and EMU member countries. 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.

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.

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

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

Swedish Match aims to limit liquidity and credit risks through transactions only to be made for derivative instruments with high liquidity and with counterparties having high credit ratings. Swedish Match credit risks for accounts receivable is low considering the diverse customer portfolio. 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 the Group's borrowing into SEK and fixed interest rates. For a more detailed description of the Group's financial risk management and holdings of financial instruments, see *Note 27, Financial instruments and financial risks*.

Change of control clauses

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

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

Events following the close of the reporting period

In January 2011, 1.6 million shares have been repurchased for 313 MSEK at an average price of 195.99 SEK.

On January 14, 2011, STG announced its plans to acquire Lane Limited in the US (Lane) from Reynolds American, Inc. Lane produces pipe tobacco, fine cut tobacco, and little cigars. (The transaction was approved by the US Federal Trade Commission (FTC) and concluded on March 1, 2011). Swedish Match holds 49 percent of the shares in STG.

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 2011. 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 2010 (*Note 7 Personnel*) sets out details of the remuneration and benefits of the GMT during 2010.

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 2011 the maximum total accruals for GMT members is estimated to MSEK 0.4.

4. Insurable benefits

Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.

5. Severance pay, etc

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

6. Other benefits

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

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

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

According to the principles adopted by the 2010 Annual General Meeting members of the GMT residing in Sweden shall be covered by the ITP defined benefit 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. The Company's objective is however that new members of the GMT shall be covered only by defined contribution pension plans. For that reason one member of the GMT, whose employment agreement was entered into during 2010, is covered only by a defined contribution pension plan.

8. Committee work and decisions

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

9. Previous undertakings not yet due

The Company has no previous undertakings not yet due besides what is evident from the annual report 2010.

Application of principles on variable salary for 2011

The Board has not proposed any long term share related incentive program for 2011.

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

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

Accruals for short term variable salary objectives for 2011 are estimated¹⁾ to range between zero minimum level and 15 MSEK at maximum level.

2. Long term variable salary

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

During 2011 the accruals for the GMT long term incentive programs are estimated¹⁾ to range between zero below minimum level and 12 MSEK at maximum level depending on performance outcome.

For the principles of remuneration adopted by the Annual General Meeting in April 2010, see *Note 7 Personnel*.

Outlook

In 2011 Swedish Match will continue to invest for growth. During the year Swedish Match will increase its investments in Swedish snus in new markets, in the US as well as in our joint venture with PMI for other geographies. We expect both the snus market in Scandinavia and the snuff market in the US to continue to grow versus prior year in volume terms.

In our US mass market cigar business we expect continued strong momentum, with increased sales and profits in local currency driven by innovative product introductions. The trend for US chewing tobacco of declining volumes is expected to continue.

The tax rate from continuing operations, excluding one time items, for 2010 was 22 percent and is expected to be at a similar level in 2011.

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

Swedish Match AB (publ)

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

Sales in the Parent Company for the full year amounted to zero (2 MSEK). Profit before income tax amounted to 2,614 MSEK (4,742) and profit for the year amounted to 2,402 MSEK (4,578). The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. During the year the Parent Company received dividends amounting to 4,286 MSEK (4,235) and Group contributions amounting to 1,952 MSEK (1,771). An impairment loss on shares in subsidiaries of 2,757 MSEK (-) was recognized as a result of dividends paid from subsidiaries and a gain on sale of shares in subsidiaries amounting to 299 MSEK has been recognized in the income statement of 2010.

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 on tangible fixed assets for the year amounted to 2 MSEK (-) and 42 MSEK (0) have been capitalized in intangible assets as an investment in software development on an ERP system for the Group.

The total cash flow for the year was zero (negative 2,702 MSEK) as the Parent Company no longer holds any cash and bank balances. During the year, new bond loans of 4,242 MSEK were issued. Repayment of loans for the same period amounted to 2,961 MSEK including repurchase of 1,970 MSEK of bond loans with shorter maturities. During the year the Parent Company made share repurchases of 3,014 MSEK (2,598) and sold 0.5 million (0.6) treasury shares for 53 MSEK (51). Dividends of 1,089 MSEK (1,024) have been paid during the period.

The Board's proposed distribution of earnings is presented on page 106.

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

Consolidated income statement

MSEK	Note	2010	2009
<i>Continuing operations</i>			
Sales, including tobacco tax		25,062	25,483
Less tobacco tax		-11,456	-11,279
Sales	3	13,606	14,204
Cost of goods sold		-6,662	-7,114
Gross profit		6,944	7,089
Selling expenses		-2,483	-2,782
Administrative expenses		-866	-898
Other operating income and expenses	6	-7	-2
Share of profit/loss in associated companies and joint ventures	16	-62	10
Capital gain from transfer of businesses to STG		585	
Net gain from pension settlements	24	59	-
Operating profit	3, 7, 8, 9, 23	4,169	3,417
Finance income		27	86
Finance costs		-590	-529
Net finance cost	10	-562	-443
Profit before income tax		3,607	2,974
Income tax expense	11	-649	-613
Profit for the year from continuing operations		2,958	2,361
<i>Discontinued operations</i>			
Profit for the year from discontinued operations, net after tax	5	-	785
Profit for the year		2,958	3,146
<i>Attributable to:</i>			
Equity holders of the Parent		2,957	3,146
Non-controlling interests		1	1
Profit for the year		2,958	3,146
Earnings per share, basic, SEK			
	12		
From continuing operations		13.12	9.67
Including discontinued operations		-	12.88
Earnings per share, diluted, SEK			
	12		
From continuing operations		13.09	9.66
Including discontinued operations		-	12.87

Consolidated statement of comprehensive income

MSEK	Note	2010	2009
Profit for the year		2,958	3,146
<i>Other comprehensive income</i>			
	21		
Translation differences related to foreign operations		-504	-222
Translation differences included in profit and loss		278	163
Effective portion of changes in fair value of cash flow hedges		58	41
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		-24	25
Actuarial gains and losses attributable to pensions, incl. payroll tax		-193	-115
Other comprehensive income in associated companies and joint ventures		55	-
Income tax relating to components of other comprehensive income	11	39	38
Other comprehensive income, net of tax for the year		-291	-70
Total comprehensive income for the year		2,668	3,076
<i>Attributable to:</i>			
Equity holders of the Parent		2,667	3,075
Non-controlling interests		1	1
Total comprehensive income for the year		2,668	3,076

Consolidated balance sheet

MSEK	Note	December 31, 2010	December 31, 2009
Assets	4		
Intangible assets	13	1,027	3,792
Property, plant and equipment	14	1,971	2,409
Forest plantations	15	126	116
Investments in associated companies and joint ventures	16	4,085	132
Other non-current receivables	17	716	1,351
Deferred income tax assets	11	652	710
Total non-current assets		8,577	8,510
Inventories	18	1,202	3,025
Trade receivables	19	1,181	1,746
Prepaid expenses and accrued income		78	186
Income tax receivables		96	84
Other current receivables	17	329	253
Other investments	20	1	1
Cash and cash equivalents ¹⁾	20	3,275	2,530
Total current assets		6,162	7,826
TOTAL ASSETS		14,739	16,337
Equity	21		
Share capital		390	390
Reserves		-7	194
Retained earnings		-867	315
Equity attributable to equity holders of the Parent		-484	899
Non-controlling interests		2	4
TOTAL EQUITY		-482	903
Liabilities	4		
Loans and borrowings	22, 27	9,209	8,252
Other liabilities	25	320	150
Provision for pensions and similar obligations	23	1,158	1,291
Other provisions	24	577	489
Deferred income tax liabilities	11	472	812
Total non-current liabilities		11,737	10,994
Loans and borrowings	22, 27	525	1,002
Trade payables		555	653
Income tax liabilities		104	238
Other liabilities	25	1,449	1,410
Accrued expenses and deferred income	26	754	1,012
Provisions	24	98	125
Total current liabilities		3,485	4,440
TOTAL LIABILITIES		15,221	15,434
TOTAL EQUITY AND LIABILITIES		14,739	16,337

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

		Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
2009	Note	Share capital	Reserves	Retained earnings	Total		
Equity at beginning of year		390	204	782	1,377	4	1,381
Profit for the year		–	–	3,146	3,146	1	3,146
Other comprehensive income, net of tax for the year ¹⁾	21	–	–11	–60	–70	0	–70
Total comprehensive income for the year		–	–11	3,085	3,075	1	3,076
Dividend	21	–	–	–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

		Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
2010	Note	Share capital	Reserves	Retained earnings	Total		
Equity at beginning of year		390	194	315	899	4	903
Profit for the year		–	–	2,957	2,957	1	2,958
Other comprehensive income, net of tax for the year ¹⁾	21	–	–201	–90	–291	0	–291
Total comprehensive income for the year		–	–201	2,868	2,667	1	2,668
Transfer of non-controlling interest to STG of partly owned subsidiary		–	–	–	–	–2	–2
Dividend	21	–	–	–1,089	–1,089	0	–1,089
Repurchase of own shares		–	–	–3,014	–3,014	–	–3,014
Stock options exercised		–	–	53	53	–	53
Cancellation of shares		–31	–	31	0	–	0
Bonus issue		31	–	–31	0	–	0
Equity at end of year		390	–7	–867	–484	2	–482

¹⁾ Other comprehensive income, net of tax for the year included in retained earnings consists of actuarial gains and losses attributable to defined pension plans in an amount of –145 MSEK (–60), net after payroll- and income taxes.

Consolidated cash flow statement

MSEK	Note	2010	2009
	32		
Operating activities			
Profit before income tax		3,607	2,974
Adjustments for non-cash items and other		-297	511
Income tax paid		-733	-507
Cash flow from operating activities before changes in working capital		2,576	2,978
Cash flow from changes in working capital			
Increase (-)/ Decrease (+) in inventories		-30	-77
Increase (-)/ Decrease (+) in operating receivables		122	-31
Increase (+)/ Decrease (-) in operating liabilities		-52	41
Net cash generated from operating activities		2,616	2,911
Investing activities			
Purchase of property, plant and equipment		-311	-471
Proceeds from sale of property, plant and equipment		6	3
Purchase of intangible assets		-51	-16
Net proceeds from businesses transferred to STG		1,439	-
Acquisition of subsidiaries, net of cash acquired		-	-39
Investments in associated companies and joint ventures		-123	-23
Proceeds from sale of subsidiaries, net of cash disposed of		-	1,577
Changes in financial receivables, etc.		-1	12
Net cash from investing activities		959	1,043
Financing activities			
Repurchase of own shares		-3,014	-2,598
Stock options exercised		53	51
Proceeds from non-current borrowing		4,242	998
Repayment of borrowings		-2,961	-2,018
Dividend paid to equity holders of the Parent		-1,089	-1,024
Other		122	-115
Net cash used in financing activities		-2,646	-4,707
Net increase/decrease in cash and cash equivalents		928	-753
Cash flow from discontinued operations			
Net cash from operating activities		-	219
Net cash from investing activities		-	-6
Net cash from financing activities		-	-51
Net increase in cash and cash equivalents		-	162
Total net increase/decrease in cash and cash equivalents		928	-591
Cash and cash equivalents at the beginning of the year		2,530	3,178
Effect of exchange rate fluctuations on cash and cash equivalents		-183	-58
Cash and cash equivalent at end of year		3,275	2,530

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, 2009.

Compliance with standards and legislation

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

The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "Accounting principles for the Parent Company". The annual report and the consolidated financial statements were authorized for issue by the Board of Directors and the Group's CEO on February 22, 2011.

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

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

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

Assets and groups of assets classified as held for sale are reported as held for sale as of the date of classification to asset held for sale at the lower of carrying value and fair value adjusted for selling costs.

Use of the assessments in the financial reports

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

Assessments made by management on the 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*.

Significant accounting principles applied

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

New standards, amendments and interpretations

A number of new standards, amendments to standards and interpretations of accounting standards have been applied in 2010. New standards and amendments to standards that have been applied as of January 1, 2010 are described below. Other changes in IFRS effective as of January 1, 2010 have not had any impact on the Group's financial statements.

As of January 1, 2010 the revised *IFRS 3 Business Combinations and Amendments to IAS 27 Consolidated and Separate Financial Statements* have been applied for the Group.

The revised IFRS 3 entails changes regarding for example, accounting for transaction costs, any contingent consideration and step acquisitions. The Group recognizes transaction costs relating to business combinations as an expense when incurred. Payments to purchase a business are recorded at fair value at the date of the acquisition, with any contingent payments classified as debt subsequently re-measured through the profit and loss. There are two alternatives to account for non-controlling interests and goodwill, either at fair value, which means that goodwill is included in non-controlling interest, or at a the non-controlling interest's proportionate share of the acquirer's net assets. The appropriate alternative to be applied is determined for each acquisition.

Amendments to IAS 27 bring about changes regarding step acquisitions which do not change the control. All transactions with non-controlling interests that do not change the control are classified as shareholder transactions and are recorded in equity. The standard also defines the accounting when the control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit and loss.

The revised IFRS 3 and IAS 27 have not been applied retrospectively which means that no restatement of business combinations in prior periods have been reflected.

New IFRSs and interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2011 or later and have not been applied in these financial reports:

IFRS 9 Financial Instruments which is expected to replace *IAS 39 Financial Instruments: Recognition and Measurement* brings about changes regarding classification and measurement of financial assets. IFRS 9 is likely to be effective in 2013. The new standard defines two categories to be used for the measurement of financial assets, at fair value or at amortized costs. The impact from IFRS 9 on the Group's financial statement has not been assessed.

Amendments to IFRS 7 Financial Instruments: Disclosures bring about new disclosures for financial assets that have wholly or partly been derecognized from the financial statements.

The following amendments and interpretations applicable in 2011 or later are not expected to have a significant impact on the financial result or position of the group: amendments to *IAS 24 Related Party Disclosures*, amendments to *IAS 32 Financial Instruments Presentation concerning Classification of Rights Issues*, amendments to *IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*.

Reporting by segment

The Group's reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. Following the close of the deal with STG the classification of the Group's reportable segments was changed as of October 1, 2010. In the new segment reporting US mass market cigars and chewing tobacco are combined and presented as one reportable segment "Other tobacco products". The Group's reportable segments are thereby *Snus and snuff*, *Other tobacco products* (US mass market cigars and chewing tobacco), *Lights* and *Other operations*. Reportable segments have been aggregated when there are similarities in the segments' economic characteristics, such as gross profit margins, level of capital investments and impact from variations in the business cycle. Also similarities in the type of product, manufacturing process, customers, distribution process and regulatory environment have been considered to determine the appropriate aggregation of reportable segments. During 2009 the South African operations were discontinued which accounted for the major part of the total Swedish Match pipe tobacco and accessories business. Hence, the remaining pipe tobacco and accessories operations are no longer reported in a separate segment but instead included in Other operations. The discontinued operations are separately reported and have therefore been excluded from the segment reporting. Prior periods have been restated to exclude result from discontinued operations and to reflect the new segment reporting after

NOTE 1 CONTINUED

the close of the deal with STG. 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.

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.

Classification etc.

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

Consolidation principles

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

All acquisitions of subsidiaries are reported in accordance with the purchase method. The method means that the acquisition of subsidiaries is considered a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition at fair value. Transactions costs relating to acquisition of subsidiaries are not included in the value of the acquired assets. All acquisition-related costs are expensed in the period they occur, with the exception of costs to issue debt or equity instruments, which is accounted for in accordance with IAS 32 and IAS 39. Contingent considerations are recognized on the balance sheet at fair value at the date of the acquisition.

Divested companies are included in the consolidated accounts up through the time of divestment.

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

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:

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2010	2009	2010	2009
USA	USD	7.20	7.65	6.79	7.18
Euro zone	EUR	9.54	10.62	9.01	10.30
Brazil	BRL	4.09	3.84	4.06	4.13

Revenues

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

Financial income and expenses

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

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

Financial instruments

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

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

A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument.

NOTE 1 CONTINUED

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

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

Financial instruments are initially reported at their acquisition value, corresponding to the instruments' fair value with additions for transaction costs for all financial instruments except for those that 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:

Financial assets and liabilities at fair value through profit and loss

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

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

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.

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.

Derivatives used for hedge accounting

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

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. In those cases derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39.

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

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

Intangible assets

(i) Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. For goodwill in acquisitions made before January 1, 2004, the Group has, with the transition to IFRS, not applied IFRS retroactively, but rather the value

NOTE 1 CONTINUED

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. Expenditure attributable to an acquisition of an intangible asset is recognized as an expense when incurred unless it forms part of the intangible asset which increases the future economic benefits of the asset. In case there are borrowing costs that are directly attributable to the acquisition, construction or production of intangible assets that take substantial time to complete such costs are included in the acquisition value.

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

(iii) Amortization

Amortization is 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 annually or as soon as indications arise of a decline in the value of the asset. Amortizable intangible assets are amortized from the date that they are available for use. The estimated useful life periods are normally:

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

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

Tangible assets

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

Depreciation

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

- buildings, owner-occupied properties 40 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

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

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

Impairments

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

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

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

Provisions

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

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

Share capital

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

Employee benefits

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

Pension fees for defined contribution plans are reported as an expense in the income statement 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 a net asset and there is no minimum funding requirement, the carrying value of the net asset is limited to the

NOTE 1 CONTINUED

lower of the surplus in the plan and the present value of future service cost to be borne by the Company. Calculating the discounted value of defined benefit obligations and the fair value of plan assets can give rise to actuarial gains and losses. These arise when actual outcome deviate from projected outcome or when assumptions earlier made are changed. Actuarial gains and losses that arise during the year are reported in full in other comprehensive income.

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

On December 1, 2010 post-employment benefit obligations for salaried personnel and workers in Sweden were transferred to insurance companies. For salaried personnel the post-employment benefits were transferred to Alecta, which is the largest life insurance company in Sweden and safeguards the entire private sector's defined benefit pension plan, the ITP-plan. For workers, the post-employment benefit obligations were transferred to Folksam and AMF. For historic reasons the insurance companies are not able to provide specific information for each customer's obligations and fair value of related assets which is necessary information for Swedish Match in order to account for the obligations in accordance with the rules for defined benefit plans. Therefore, all obligations relating to the Swedish ITP-plans are, as of the transfer date, accounted for as defined contribution plans.

Share-based payments

Up until 2009 the Company allotted option program to certain executives who were 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.

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

Taxes

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

Current tax is tax that shall be paid or is received for the current year, with application of tax rates, that are enacted or substantively 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 associ-

ated companies that are not expected to be reversed in the foreseeable future. Valuation of deferred tax is based on how the carrying amounts for assets or liabilities are expected to be realized or regulated. Deferred tax is calculated by applying tax rates or tax regulations that are enacted or substantively enacted on the reporting date.

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

Contingent liabilities

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

Earnings per share

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

Parent Company accounting principles

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

As of 2009 The Parent Company has elected to apply the IAS 1 Presentation of Financial statements as allowed by RFR 2. Following this a separate report of other comprehensive income is presented after the income statement.

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

Subsidiaries, joint ventures and associated companies

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

Employee benefits

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

Taxes

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

NOTE 1 CONTINUED

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, net 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, 2010 amounted to 1,027 MSEK and amortization amounted to 53 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 581 MSEK. For further information on impairment test of intangible assets see *Note 13 Intangible assets*.

Legal disputes

As explained in *Note 30 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 23 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, 2010 were estimated to exceed the fair value of plan assets by 1,041 MSEK.

3. Segment information

Swedish Match reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. In the fourth quarter of 2010, the Group's reportable segments were changed as a result of the transaction with STG on October 1, 2010. In the new segment reporting US mass market cigars and chewing tobacco have been combined and are now presented as one reportable segment named *Other tobacco products*. Hence, the Group's reportable segments are *Snus and snuff*, *Other tobacco products*, *Lights*, and *Other operations*. The financials of 2009 has been restated to reflect the new segment reporting. Further, for comparison reasons the financials of prior periods have been restated to separate the operations transferred to STG.

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

Other tobacco products represent chewing tobacco and mass market cigars manufactured and sold on the US market. Chewing tobacco is a smokeless tobacco product. Chewing tobacco shows a declining trend. Well known brands include *Red Man* and *Southern Pride*. Mass market cigars are machine made cigars that during 2010 have had a positive development relative to prior year. Well known brands are *White Owl*, *Garcia y Vega*, and *Game by Garcia y Vega*.

Lights include manufacturing and distribution of matches and lighters. The main markets for lights products for Swedish Match include Russia, Brazil, Sweden, France, the UK, Australia, and Spain, but products are also widely available in other parts of Europe, Asia, and Africa. The consumption of matches shows a declining trend in most developed markets, while for lighters consumption trends vary. Worldwide sales are generally stable, with declines in Europe partially offset by gains in other markets. Important brands for matches include *Solstickan* in Sweden, *Fiat Lux* in Brazil, *Swan* in the UK, *Tres Estrellas* in Spain, *Feudor* in France, and *Redheads* in Australia. For lighters, the most important Swedish Match 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 reportable segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis. Segment reporting for internal purposes is prepared in accordance with IFRS. However, financials separated as business transferred to STG are presented including depreciation and amortization relating to assets held for sale. In order to arrive at the Group's operating profit, depreciation and amortizations related to assets held for sale need to be added back to the operating profit for 2010.

NOTE 3 CONTINUED

	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net loss in STG		Businesses transferred to STG ³⁾		Swedish Match Group	
	2010	2009	2010	2009 ²⁾	2010	2009 ²⁾	2010	2009 ²⁾	2010	2009 ²⁾	2010	2009	2010	2009	2010	2009
Operating segments	2010	2009	2010	2009²⁾	2010	2009²⁾	2010	2009²⁾	2010	2009²⁾	2010	2009	2010	2009	2010	2009
External sales	4,522	4,250	2,440	2,337	1,429	1,403	2,831	2,689	11,222	10,678	-	-	2,385	3,526	13,606	14,204
Depreciations and amortizations	-146	-150	-91	-129	-41	-41	-4	-6	-282	-326	-	-	-98	-142	-381	-468
Reversals of depreciation and amortization relating to assets held for sale ⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93	-
Income from associated companies and joint ventures	-20	-9	11	17	2	1	-	1	-7	10	-60	-	4	-	-62	10
Operating profit	2,080	1,916	942	804	279	312	-142	-132	3,158	2,900	-60	-	334	518	3,526	3,417
Net gain from pension settlements	-	-	-	-	-	-	59	-	59	-	-	-	-	-	59	-
Capital gain from transfer of businesses to STG	-	-	-	-	-	-	585	-	585	-	-	-	-	-	585	-
Operating profit, including larger one time items	2,080	1,916	942	804	279	312	502	-132	3,802	2,900	-60	-	334	518	4,169	3,417
Finance income															27	86
Finance costs															-590	-529
Profit before income tax															3,607	2,974

Significant non-cash items other than depreciations and amortizations

	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net loss in STG		Businesses transferred to STG ³⁾		Swedish Match Group	
	2010	2009	2010	2009 ²⁾	2010	2009 ²⁾	2010	2009 ²⁾	2010	2009 ²⁾	2010	2009	2010	2009	2010	2009
Impairment losses	-	-	-	-30	-	-	-	-	-	-30	-	-	-	-	-	-30
Restructuring charges	-	-	-10	-14	-	-	-	-	-10	-14	-175	-	-	-29	-185	-44
Gains/losses from sale of fixed assets	-2	-2	-1	-	1	-	-	-	-3	-2	-	-	-2	-	-5	-2
Investments																
Property, plant and equipment ¹⁾	192	317	30	39	52	70	1	3	275	428	-	-	36	43	311	471
Intangible assets	-	-	-	-	-	2	47	6	47	8	-	-	4	8	51	16

1) Investments in property, plant and equipment for Lights operations include investments in forest plantations.

2) 2009 has been restated to reflect the new segment reporting which was changed in the fourth quarter 2010 as a result from the transaction with STG.

3) 2010 has reference to the period up until October 1, 2010 when the transaction with STG was closed and businesses were transferred to STG.

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

During 2010 as well as in 2009, 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:

Country	Revenue from external customers				Fixed assets ¹⁾			
	2010		2009		2010		2009	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	5,683	42	5,279	37	5,874	76	2,293	33
USA	4,682	34	5,202	37	900	12	2,569	37
Rest of the world	3,242	24	3,723	26	945	12	2,118	30
Total	13,606	100	14,204	100	7,719	100	6,980	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 diverse customer portfolio and the reliance on individual customer is therefore limited. Revenue from the Group's largest single external customer constituted 6 percent of the Group's total sales, whereof 3 percent in Snus and snuff and 3 percent in Other operations.

4. Business combinations

During 2010 no business acquisitions were made.

During 2010, additional goodwill of 4 MUS\$ or 29 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. During 2009, additional goodwill of 1 MUS\$ or 8 MSEK were recognized to Cigars International. The company was included in the transaction with Scandinavia Tobacco Group, which was finalized on October 1, 2010.

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 was a manufacturer of Swedish snus with a production 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 MUS\$ or 8 MSEK was paid out to the former owners of Havana Honeys, resulting from certain targets stipulated in the purchase agreement being achieved. Havana Honeys, Inc. was a privately held company that was acquired in 2008. The company manufactures flavored cigars under the Havana Honeys brand.

5. Discontinued operations

The discontinued operations in 2009 refer to the sale of Swedish Match South African operations, which was completed September 14, 2009. The sale was completed at a sales price of 1,980 MZAR or 1,881 MSEK less purchase price adjustments amounting to 45 MZAR or 43 MSEK, with a tax exempt capital gain of 628 MSEK. The South African operation primarily manufactured and sold 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
Sales	489
Expenses	-319
Income taxes	-13
Capital gain from sale of discontinued operations	628
Profit from discontinued operations, net after tax	785

Earnings per share from discontinued operations	
Basic (SEK)	3.21
Diluted (SEK)	3.21

6. Other operating income and expenses

Other operating income and expenses are specified below:

	2010	2009
Foreign exchanges gains	6	6
Foreign exchanges losses	-8	-8
Result from sale of fixed assets	-5	-
Other	-1	-
Total	-7	-2

7. Personnel

The average number of employees in the Parent Company during 2010 was 50, and in the Group 8,822. The corresponding numbers in 2009 were 58 and 11,037 respectively. As per October 1, 2010 6,461 employees were transferred to STG. Excluding employees transferred to STG, the average number of employees during the year was 3,908 (3,826).

Group employees by country are summarized in the table below:

	2010		2009	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	50	54	58	55
Subsidiaries				
Australia	44	61	57	58
Belgium	265	36	387	36
Brazil	718	68	703	70
Bulgaria	92	38	93	39
Dominican Republic	2,511	36	3,321	37
France	59	68	84	69
Honduras	858	55	1,472	47
Indonesia	1,524	22	2,001	15
Italy	4	50	5	40
Netherlands	203	78	232	77
New Zealand	5	37	8	50
Norway	47	72	45	67
Philippines	170	54	173	53
Poland	11	54	14	57
Portugal	14	86	19	79
Slovenia	11	91	15	87
Spain	39	82	48	79
Sweden	953	58	938	59
Turkey	16	69	16	69
United States	1,225	67	1,343	65
Other countries	4	51	5	50
Total	8,822	47	11,037	44

Number of Board and Management members by gender¹⁾:

	2010		2009	
	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	83	6	100
Group				
Board members	83	82	119	81
President and other management	61	80	91	82

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:

	2010			2009		
	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	83	41	10	86	53	12
Subsidiaries	1,583	619	173	1,812	548	179
Total	1,666	660	182	1,898	601	191

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 include 6 MSEK (5) attributable to the President and other management consisting of six persons during 2010 and seven persons in 2009. On December 1, 2010 the pension obligations for management in Sweden which were funded by insurance policies with a pension fund, PSF, was transferred to external insurance companies. As a result of this transaction there are no defined benefit obligations relating to management recognized in the balance sheet per December 31, 2010.

The pension costs for the subsidiaries include 13 MSEK (11) attributable to Board members, Presidents and other management consisting of 42 persons (46), whereof 10 persons have been transferred to the new STG company as of October 1, 2010. The defined benefit obligations related to Board members, Presidents and other management as of December 31, 2010 amounted to 55 MSEK (107).

NOTE 7 CONTINUED

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

	2010			2009		
	Board, President and other Management ¹⁾	of which, variable salaries	Other employees	Board, President and other Management ¹⁾	of which, variable salaries and options	Other employees
Parent Company						
Sweden	44	17	39	39	15	47
Subsidiaries						
Total in subsidiaries	103	35	1,480	128	42	1,684
Total	147	52	1,519	167	57	1,730

¹⁾ The Board, President and other management employed by the Parent Company consisted in average of 13 persons (14) and in the subsidiaries of 42 persons (46), whereof in average four 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 2010, 37 MSEK (30) was charged to the income statement relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 27, 2010 decided, for the period up to and including May 2, 2011 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 2010. In 2010 a study fee in the amount of 53,490 SEK was paid to each of the three employee representatives on the Board, and in the amount of 40,036 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 2010 and 2009 are shown in the tables below:

TSEK	2009			Total remuneration for Board work
	Board fee	Compensation Committee	Audit Committee	
Conny Karlsson <i>Board chairman</i>	1,575	230	–	1 805
Charles A. Blixt <i>Board member</i>	630	86	–	716
Andrew Cripps <i>Board member</i>	716	–	115	831
Karen Guerra <i>Board member</i>	630	–	–	630
Arne Jurbrant <i>Board member</i>	630	115	–	745
Kersti Strandqvist <i>Board member</i>	630	–	115	745
Meg Tivéus <i>Board member</i>	630	–	230	860
Total	5,441	431	460	6,333

Fees to Board members

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

Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 27, 2010 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

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

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

- Fixed salary:** The fixed salary for the GMT shall correspond to market rates and shall be based on each member's competence, country of residence, responsibility and performance.
- Variable salary:** The members of the GMT may be entitled to a variable salary in addition to the fixed salary. The variable salary may include both an annual short term program to be paid out in the beginning of the subsequent year depending on the outcome of the program, and a long term program with a performance period which shall not be shorter than three years. The variable salary shall primarily be based on specific, clear, predetermined and measurable financial or operational criteria set by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. A maximum of 25 percent of the short term vari-

NOTE 7 CONTINUED

able salary may be based on individual objectives established by the Board of Directors in relation to the President and by the Compensation Committee in relation to the GMT. The variable salary shall be capped in relation to the fixed salary and reflect the market practice in the country of residence.

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

3. *Profit Sharing System:* All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS").
4. *Insurable benefits:* Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. 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 total remuneration package and shall correspond to the market norm.
7. *The Board's right to deviate from the principles:* The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
8. *Committee work and decisions:* Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for

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

Application of principles on variable salary for 2010

The variable salary includes a short term incentive and a long term incentive program where the short term program includes an incentive for the GMT to purchase and retain shares in the Company while the long term program include an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs is one year and three years respectively.

Short term variable salary: The maximum short term variable salary for the President and other members of the GMT residing in Sweden is 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 is 100 % 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 applies 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.

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

Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Options ¹⁾	Other benefits	Pension costs	Total	Defined benefit obligations	Severance Costs
President	2010	5,399	6,287	-	142	1,977	13,805	-	-
	2009	5,242	2,759	2,385	211	1,942	12,539	3,715	-
Other members of Group Management Team employed by the Parent Company	2010	10,869	10,120	-	643	3,201	24,833	-	4,921
	2009	11,835	4,582	4,994	672	3,508	25,591	48,634	-
Other members of Group Management Team employed by subsidiaries	2010	11,924	13,920	-	2,182	3,988	32,014	26,023	-
	2009	10,711	11,438	6,541	1,920	3,474	34,084	29,147	-
Total	2010	28,192	30,327	-	2,967	9,166	70,652	26,023	4,921
	2009	27,787	18,779	13,920	2,803	8,924	72,213	81,496	-

¹⁾ Options costs are recognized in accordance with IFRS 2, excluding social security charges.

Comments to the table

- At the end of 2010, the Group Management Team consisted of ten persons including the President. During 2010, twelve persons, including the President, have been assigned to the Group Management Team. However, during 2010, 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.

At the end of 2009, the Group Management Team consisted of ten persons including the President. During 2009, twelve persons, including the President, were 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 were employed by the Parent Company and four members were employed by subsidiaries.

- Variable salary pertains to accruals charged to the consolidated income statement during the year for short-term and long-term incentive program based on achieved results.
- Options relate to the costs in accordance with IFRS2. Options accrued in 2009 were allotted in 2010. During 2010 the option program was replaced by a long-term cash based incentive program. Charges for the long-term cash incentive program are included in variable salary.

NOTE 7 CONTINUED

- Other benefits pertain to company cars, medical insurance, dental plan, life insurance, club membership and other benefits.
- Reported pension costs correspond to service costs for defined benefit pension plans and fees relating to defined contribution pension plans (excluding payroll taxes).

Variable salary

In 2010, the Group Management Team participated in short and long term incentive programs (variable salary) described under the presentation of the principles for salary and other remuneration above.

The performance criterion for the CEO and the heads for corporate functions in the short and long term incentive programs 2010 was Group operating profit less a 12 percent charge for the average operating capital. Other members of the Group Management Team had the same performance criterion as the CEO in the long term incentive program. In the short term incentive program, those members of the Group Management Team who were division Presidents had partly the same criterion as the CEO and partly incentive criteria linked to the division.

The result of the performance criterion operating profit less a 12 percent charge for the average operating capital in relation to 2010 was established to 2,557 MSEK by the Compensation Committee after adjustments for the transfer of the cigar business to STG. The threshold in the short term as well as in the long term incentive program for 2010 was 2,225 MSEK. The targets for maximum payout under the 2010 short and long term incentive programs were 2,421 MSEK and 2,340 respectively.

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

In 2010, 713,670 options were allotted. These can be exercised between March 1, 2013 and February 28, 2015. Each option entitles the holder to purchase one share in Swedish Match AB at a price of 197.45 SEK per share. The options are valued by an external institution in accordance with the Black & Scholes model. The value at the time of distribution was 26.04 SEK per option, corresponding to a total of 18 MSEK. The valuation was based on the following conditions: the average share price ten trading days starting with the day the annual results 2009 was published which was 164.55 SEK, expected volatility was 30.7 percent and the risk-free interest rate was 2.55 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.

The options allotted for the 2009 program were based on an outcome of 67 percent fulfillment of the two mutually independent criteria.

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

Number and weighted average of exercise prices for shares under option programs, SEK	2010		2009	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	145.48	5,321,190	139.85	4,152,641
Recalculation of option terms	–	–	–1.01	25,246
Granted during period	197.45	713,670	141.24	1,716,948
Exercised during period	99.75	530,625	88.22	573,645
Expired during period	99.75	1	–	–
Outstanding at period-end	156.63	5,504,234	145.48	5,321,190
Exercisable at period-end	138.34	1,455,519	113.34	1,054,443

The average share price for share options exercised in 2010 was 164.26 SEK (118.72).

The options outstanding at December 31, 2010 and which all are vested are specified in the table below:

Exercise period	Exercise price per share	Number of underlying shares	Net outstanding options
2009-03-02–2011-02-28	127.10	523,817	523,817
2010-03-01–2012-02-29	144.60	941,019	931,702
2011-03-01–2013-02-28	171.60	1,608,780	1,592,851
2012-03-01–2014-02-28	141.24	1,716,948	1,716,948
2013-03-01–2015-02-28	197.45	713,670	713,670
Total		5,504,234	5,478,988

NOTE 7 CONTINUED

Pensions

President

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

Other members of Group Management Team

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

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 member of the Group Management Team severance pay will be reduced by a maximum of 50 percent of any income received from another employer or assignment, but not to less than half of the contracted severance pay amount.

The President is entitled to terminate his employment with the right to receive severance pay in accordance with the above terms if a major organizational change should occur that significantly restricts his position. 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	2010	2009
KPMG		
Audit services	13	14
Audit related services	1	0
Tax services	4	1
Other services	12	5
Total	30	21

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

9. Operating expenses classified by nature

Operating expenses	2010	2009
Personnel expenses	2,326	2,504
Depreciation/amortization	288	439
Impairment losses	-	30
Other operating expenses	7,405	7,822
Total	10,019	10,795

10. Net finance cost

Financial income	2010	2009
Interest income relating to pension receivables	6	6
Interest income relating to financial instruments held for trading	8	58
Interest income relating to financial liabilities pertaining to fair value hedge	8	-24
Interest income relating to cash and bank	14	22
Net gain on financial liabilities revalued to fair value	4	-2
Net gain on other financial liabilities	0	0
Total	40	60

Financial expenses	2010	2009
Interest expense relating to pension liabilities	-69	-77
Interest expense relating to financial liabilities measured at amortized cost	-396	-389
Interest expense relating to cash flow hedges transferred from equity ¹⁾	-77	-15
Net foreign exchange losses	-11	-6
Other financial expenses	-49	-17
Total	-602	-504
Net finance cost	-562	-443

¹⁾ The total realized value of interest as a result from repurchase of 171 MEUR bonds maturing 2013. For 2009 the result pertains to repurchase of 900 MSEK.

11. Income tax

The income tax expense/income for the years ended 31 December 2010 and 2009 are:

Income tax expense reported in consolidated income statement	2010	2009
Current income tax	-609	-578
Adjustments of current income tax of previous year	-19	-25
Deferred income tax	-20	-10
Total	-649	-613

Income tax reported in consolidated statement of other comprehensive income	2010	2009
Actuarial net gains/losses attributable to pensions	49	56
Revaluation of cash flow hedges net gain/loss	-9	-17
Total	39	38

The taxable temporary differences that resulted in deferred tax liabilities for the years ended 31 December 2010 and 2009 are summarized below:

Deferred income tax liabilities	2010	2009
Pension and medical benefits	39	96
Accelerated depreciation	407	657
Inventory reserves	63	58
Withholding tax on unremitted earnings of subsidiaries	12	9
Revaluation of financial items	0	37
Other	8	46
Netting of assets and liabilities	-56	-91
Net total	472	812

NOTE 11 CONTINUED

The deductible temporary differences that resulted in deferred tax assets for the years ended 31 December 2010 and 2009 are summarized below:

Deferred income tax assets	2010	2009
Tax losses carried forward	0	0
Provisions for bad debts	4	5
Revaluation of financial items	14	23
Pension and medical benefits	560	613
Accelerated depreciation	14	8
Inventory reserves	2	11
Other	115	141
Netting of assets and liabilities	-56	-91
Net total	652	710
Total net deferred tax liability(-)/asset(+)	-180	102

The net of deferred tax liabilities and assets at year end 2010 amounts to -180 MSEK (102). The net of deferred tax liabilities and assets has during the year decreased by 282 MSEK. An increase of 20 MSEK is reported in the income statement. A decrease of 39 MSEK is reported in other comprehensive income and a decrease of 263 MSEK originates mainly from units transferred to STG.

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

The tax losses carried forward in the Group at 31 December 2010 expires as follows:

Year	Amount
2011	23
2012	17
2013	8
2014	-
2015	-
Thereafter	-
Total tax losses carried forward	48
Total tax losses carried forward not recognized	48

A reconciliation between tax expense and earnings before tax multiplied by Sweden's statutory tax rate for the years ended 31 December 2010 and 2009 is as follows:

Reconciliation of effective tax rate	2010		2009	
	%	MSEK	%	MSEK
Accounting profit before income tax excluding discontinued operations		3,607		2,974
Swedish statutory tax rate	26.3	949	26.3	782
Effect of tax rates in foreign jurisdictions	-2.7	-99	-5.0	-148
Utilization of previously unrecognized tax losses	-0.6	-21	-	-1
Income not subject to tax	-5.3	-190	-0.8	-24
Adjustments in respect of prior years	-0.5	-19	-0.8	-25
Expenses not deductible for tax purposes	0.3	11	0.2	7
Income / loss from associated companies	0.5	17	-0.1	-4
Other items	0.0	1	0.8	26
Reported effective tax	18.0	649	20.6	613

12. Earnings per share

Basic	2010	2009
Profit from continuing operations attributable to equity holders of the Parent	2,957	2,361
Profit from discontinued operations attributable to equity holders of the Parent	-	785
Profit attributable to equity holders of the Parent	2,957	3,146
Weighted average number of shares outstanding, basic	225,331,835	244,259,880

Diluted	2010	2009
Profit from continuing operations attributable to equity holders of the Parent	2,957	2,361
Profit from discontinued operations attributable to equity holders of the Parent	-	785
Profit attributable to equity holders of the Parent	2,957	3,146
Weighted average number of shares outstanding, basic	225,331,835	244,259,880
Effect of issued options	637,212	180,177
Weighted average number of shares outstanding, diluted	225,969,047	244,440,057

Earnings per share, basic, SEK	2010	2009
From continuing operations	13.12	9.67
From discontinued operations	-	3.21
Including discontinued operations	-	12.88

Earnings per share, diluted, SEK	2010	2009
From continuing operations	13.09	9.66
From discontinued operations	-	3.21
Including discontinued operations	-	12.87

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 2010. As of 31 December, 2010 the Company has call options corresponding to 5.5 million shares outstanding. These call options can be exercised in gradual stages between 2011 and 2015 at exercise prices varying between 127.10 SEK and 197.45 SEK. For a table detailing options outstanding at December 31, 2010, see Note 7 *Personnel*.

13. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets ¹⁾		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Cost at beginning of year	2,658	3,215	1,984	2,538	202	197	4,844	5,950
Purchases/investments	–	–	1	0	50	16	51	16
Companies acquired ²⁾	29	8	–	0	–	–	29	8
Companies divested	–1,871	–442	–958	–455	–150	–	–2,980	–898
Sales/disposals	–	–	–	–	–1	0	–1	0
Translation differences, etc.	–196	–123	–38	15	–15	–11	–250	–118
Cost at end of year	620	2,658	988	2,097	86	202	1,694	4,958
Accumulated amortization and impairment losses at beginning of year	–49	–50	–859	–1,067	–144	–131	–1,052	–1,248
Amortization for the year ^{3/4)}	–	–	–50	–108	–3	–20	–53	–128
Companies divested	9	–	296	215	104	–	410	215
Sales/disposals	–	–	–	–	1	0	1	0
Translation differences, etc.	1	1	14	–12	13	8	28	–4
Accumulated amortization and impairment losses at end of year	–39	–49	–599	–973	–28	–144	–667	–1,166
Net carrying value at end of year	581	2,609	389	1,125	57	58	1,027	3,792

¹⁾ Other intangible assets mainly consist of software and licenses.

²⁾ An earn-out of 29 MSEK (4 MUSD) for 2010 and 8 MSEK (1 MUSD) for 2009 based on pre-determined performance targets pertaining to the acquisition of Cigars International in 2007 has increased Goodwill.

³⁾ Amortization charges for 2010 include an adjustment of 41 MSEK pertaining to reversals of amortization charges on assets reported as held for sale to STG from January 15, 2010 when Swedish Match announced the agreement to form a strategic partnership with STG, until October 1, 2010 when the transaction was finalized.

⁴⁾ Amortization charges for 2009 include discontinued operation up until July 2, 2009 when Swedish Match announced the agreement to sell the South Africa operation. Amortization from discontinued operations amounted to 11 MSEK.

No borrowing costs have been capitalized during 2010 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 have been charged to the income statement as stated below;

	Amortization ¹⁾		Research and development costs ²⁾	
	2010	2009	2010	2009
Cost of goods sold	–1	–3	–6	–10
Selling expenses	–51	–106	–90	–86
Administrative expenses	–1	–19	–	–
Total	–53	–128	–96	–96

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

²⁾ Research and development (R&D) costs for 2009 include discontinued operation up until July 2, 2009 when Swedish Match announced the agreement to sell the South Africa operation. R&D cost from discontinued operations amounted to 3 MSEK charged to selling expenses.

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 Group's of cash generating units based on products groups and geographical markets, at which it is monitored by management. The carrying values of these groups of cash generating units are compared to their values in use. If the carrying value is higher, the difference is charged to the income statement. The value in use is calculated 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. 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 2010 testing is based on the budget for 2011. 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. The discount rates are calculated by weighting cost of debt and cost of equity with Swedish Match's target debt ratio. The calculation of cost of debt is based on local risk free interest rates with a country specific risk premium for applicable markets, local tax rates and a Swedish Match specific interest margin. The calculation of cost of equity is based on average beta for the industry and local risk free interest rates with an equity risk premium. As local interest rates are included in the calculation of the discount rates, the calculations of value in use are sensitive to changes in market conditions.

When Swedish Match finalized the transaction with STG on October 1, 2010, the cash generating units Continental Europe cigar operations, General Cigars, and Cigars International were discontinued.

When goodwill was tested for impairment in 2010, the value in use exceeded the carrying values for all cash generating units. For the cash generating units US mass market cigar operations and match operations, which represent the majority of the Group's goodwill, a terminal growth rate of 1.5 percent and –1.0 percent respectively has been applied to calculate the subsequent cash flows after the explicitly forecasted period. Combined, these two cash generating units correspond to approximately 70 percent of the Group's total reported goodwill. For further information see table below. 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 match operations the value in use was close to the carrying value when the discount rate was increased by 2 percentage points.

Goodwill in cash generating units

Cash generating units	Operating segment	Average pre-tax WACC 2010, %	2010		2009	
			Value	WACC	Value	WACC
US chewing tobacco operations	Other tobacco products	13.1	66	8.9	70	
Continental Europe cigar operations	Other tobacco products	–	–	7.8	518	
US mass market cigar operations	Other tobacco products	8.1	273	7.1	289	
General Cigars	Other tobacco products	–	–	7.0	854	
Cigars International	Other tobacco products	–	–	8.9	584	
Lighter operations	Lights	12.7	36	11.7	49	
Match operations	Lights	22.7	136	22.2	151	
US snuff operations	Snus and snuff	10.0	65	8.9	69	
Other	–	–	5	–	25	
Total			581		2,609	

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	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Cost at beginning of year	1,268	1,296	3,603	3,674	723	678	402	246	5,995	5,894
Purchases/investments ²⁾	13	6	124	138	39	41	111	271	287	456
Companies acquired	-	-	-	20	-	1	-	-	-	21
Companies divested	-339	-26	-865	-83	-57	-7	-25	-2	-1,286	-118
Sales/disposals	-17	-1	-35	-142	-41	-16	-	-	-93	-159
Reclassifications ³⁾	24	17	96	88	3	8	-124	-114	0	0
Translation differences, etc.	-48	-24	-169	-92	-17	17	-1	0	-234	-99
Cost at end of year	901	1,268	2,755	3,603	650	723	362	402	4,668	5,995
Accumulated depreciation and impairment losses at beginning of year	-516	-495	-2,569	-2,598	-500	-428	-1	-1	-3,587	-3,522
Depreciation for the year ⁴⁾	-26	-44	-153	-210	-56	-73	-	-	-235	-326
Impairment losses during year	-	-	-	-	-	-	-	-	-	-
Companies divested	164	5	650	48	46	4	1	-	861	58
Sales/disposals	16	0	27	110	40	15	-	-	83	124
Reclassifications ³⁾	-	-	-	5	-	-5	-	-	-	0
Translation differences, etc.	25	18	145	75	11	-13	0	0	180	80
Accumulated depreciation and impairment losses at end of year	-338	-516	-1,901	-2,569	-458	-500	0	-1	-2,697	-3,587
Net carrying value at end of year	563	752	854	1,034	192	223	362	400	1,971	2,409

¹⁾ Buildings and land include land and land improvements at a book value of 1 117 MSEK (143).

²⁾ Capital expenditures includes 36 MSEK pertaining to businesses transferred to STG up until October 1 2010, when the transaction was completed. 2009 includes capital expenditures of 7 MSEK pertaining to discontinued operation up until July 2 when Swedish Match announced the agreement to sell the South African operations.

³⁾ Reclassifications include property, plant and equipment reclassified from construction in progress.

⁴⁾ Depreciation charges include an adjustment of 52 MSEK pertaining to reversals of depreciation charges on assets reported as held for sale to STG during the period January 15, 2010 when Swedish Match announced the agreement to form a strategic partnership with STG, up until October 1, 2010 when the transaction was finalized.

⁵⁾ Depreciation charges for 2009 include discontinued operation up until July 2, 2009 when Swedish Match announced the agreement to sell the South Africa operation. Depreciation from discontinued operations amounted to 5 MSEK.

Construction in progress primarily relates to investments in production facilities.

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

Depreciation for the year totaling 235 MSEK (326) was charged to cost of goods sold in the income statement in an amount of 174 MSEK (236), to administrative expenses of 8 MSEK (8), and to selling expenses of 52 MSEK (82). In 2009 a loss from scrapping of tangible assets was charged to the cost of goods sold with an amount of 30 MSEK which affected the result of Other tobacco products.

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

Tax assessment values	2010	2009
Buildings	383	383
Land	30	29
Total	413	412

15. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2010	2009
Carrying value at beginning of year	116	86
Purchases/investments/new planting	24	22
Sales/disposals during the year	-1	-
Change in fair value	1	0
Transfer to inventories	-12	-14
Translation differences, etc.	-2	22
Carrying value at end of year	126	116

The Group's forest plantations comprise poplar and pine forests with a total area of 5,700 hectares at December 31, 2010. 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 match operations.

Timber felled during the year had an estimated value of 12 MSEK at the time of felling, and made up 83,800 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 2010 had an insignificant negative effect on fair value, while higher market prices for timber had a positive effect of 1 MSEK on fair value.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 200 hectares annually. During 2010, 86 hectares (255) 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 associated companies and joint ventures

Investments in associated companies and joint ventures are reported in subsidiaries. Associated companies and joint ventures are accounted for in accordance with the equity method.

Investments in associated companies

On October 1, 2010 the transaction between Swedish Match and Scandinavian Tobacco Group to form a new company was closed. Swedish Match contributed its cigar business (with the exception of its US mass market cigar business and its holding in Arnold André) as well as its pipe tobacco and accessories businesses into the new STG company and acquired 49 percent of the shares in this company. Transaction costs of 19 MSEK attributable to the investment in the new STG are included in the acquisition value. As Swedish Match continue to own 49 percent of the net assets transferred via the new company, 49 percent of the total capital gain has been deferred. Hence, in the Group's accounts the carrying value of the STG investment is adjusted by the deferred capital gain in an amount of 562 MSEK.

On March 16, 2010 Swedish Match acquired 20 percent of the shares in Caribbean Cigar Holding Group S.A. (Caribbean Cigar) for 110 MSEK (15.6 MUSD) from San Cristobal Holdings S.A. Caribbean

Cigars is based in Nicaragua and Honduras and is engaged in the growing, processing and distribution of leaf tobacco and in the manufacturing of premium cigars for the US market. The Swedish match portion of the net profit during 2010 was 4 MSEK and a dividend of 1 MSEK was received during the year. The company was transferred to STG when the transaction was finalized on October 1, 2010.

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

Associates	2010	2009
Carrying value at beginning of year	119	117
Investments in associated companies	4,155	–
Share of net profit/loss in associated companies ¹⁾	–42	19
Share of other comprehensive income in associated companies	55	–
Dividends from associated companies	–12	–10
Associated companies transferred to STG	–114	–
Translation differences	–82	–6
Carrying value at end of year	4,079	119

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

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

Country (share of ownership)	Arnold André GmbH & Co. KG		Malaysian Match Co. SDN. BHD.		Scandinavian Tobacco Group A/S		Total	
	Germany (40%)		Malaysia (32%)		Denmark (49%)			
	2010	2009	2010	2009	2010	2009	2010	2009
Sales	233	238	22	20	851	–	1,106	258
Profit/loss	12	17	2	1	–60	–	–46	18
Assets	167	190	12	13	7,446	–	7,625	203
Liabilities	79	84	4	5	2,924	–	3,007	89
Equity interest	88	105	8	8	4,522	–	4,618	113
Goodwill	–	–	4	5	–	–	4	5
Deferred capital gain, net of transaction costs	–	–	–	–	–543	–	–543	–
Carrying value at end of year	88	106	12	13	3,979	–	4,079	119

Investments in joint ventures

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

At the end of 2009, Swedish Match and Lorillard agreed to end their joint venture testing of snus in the US. The Swedish Match proportion of the net loss during 2009 was 2 MSEK. Swedish Match has continued to market snus in the US.

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

Joint ventures	2010	2009
Carrying value at beginning of year	13	0
Investment in joint venture	13	24
Net loss of joint venture	–20	–11
Translation differences	–	0
Carrying value at end of year	6	13

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

	2010	2009
Sales	0	0
Expenses	–20	–11
Loss	–20	–11
Assets	12	17
Liabilities	7	4
Equity interest	6	13

Transactions with associated companies and joint ventures

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 290 MSEK (11). Total sales to associated companies and joint ventures amounted to 108 MSEK (55). Payables to these companies totaled 11 MSEK (2). Total purchases from associated companies and joint ventures amounted to 103 MSEK (7).

17. Other non-current receivables and other receivables

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

Non-current receivables	2010	2009
Non-current financial receivables	384	990
Finance lease ¹⁾	3	4
Net assets in pension plans	117	150
Other non-current receivables	212	207
Total	716	1,351

¹⁾ The finance lease amount pertains to a sale-lease back agreement of a production line. This lease agreement generated an income of 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 Company's bond loans denominated in EUR.

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

Other current receivables at December 31 comprised the following items:

Other current receivables	2010	2009
Current financial receivables	274	10
VAT receivables	11	44
Other current receivables	44	199
Total	329	253

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

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:

Inventories	2010			2009		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	409	–	409	1,121	–	1,121
Work in progress	36	–	36	99	–	99
Leaf tobacco	552	14	567	1,045	454	1,499
Other input materials and consumables	190	0	191	306	–	306
Total	1,187	14	1,202	2,571	454	3,025

Felled trees are 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	2010	2009
Trade receivables	1,202	1,785
Less provision for impairment of trade receivables	–21	–39
Net total	1,181	1,746

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

Trade receivable provision	2010	2009
Carrying value at beginning of year	–39	–38
Provision	–11	–16
Recovery	6	11
Write-off	9	8
Companies divested	12	1
Translation differences, other deductions or additions, etc.	1	–5
Carrying value at end of year	–21	–39

As of December 2010, trade receivables of 27 MSEK (132) were past due but not impaired. The age distribution of these trade receivables is as follows:

Age of trade receivables	2010	2009
Current	1,154	1,614
Overdue <31 days	17	82
Overdue 31–60 days	5	27
Overdue >60 days	5	23
Total	1,181	1,746

Swedish Match does not generally hold collateral against trade receivables. The Group has a diverse customer base and the customer concentration level is insignificant. The ten largest customers represent 29 per cent (27) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The credit risk of the Group's trade receivables are deemed to be low.

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.

	2010	2009
Other investments		
Other financial investments	1	1
Cash and cash equivalents		
Cash and bank	3,275	2,530
Bank certificates	–	–
Total	3,276	2,530

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 5.50 SEK, equivalent to 55 percent of the earnings per share for the year, excluding larger one time items. Based on the number of shares outstanding at the end of the year, the total proposed dividend amounts to 1,181 MSEK. Dividend for 2009, paid in 2010, amounted to 1,089 MSEK corresponding to 4.75 SEK per share, which is equivalent to 49 percent of the earnings per share for the year.

The Annual General Meeting on April 27, 2010 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 20 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 31.0 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 231 million shares with a quotient value of 1.6862 SEK. During the year, the Company issued 713,670 call options to senior management and key employees for the stock option program for 2009. These call options can be exercised from March 2013 to February 2015. The exercise price is 197.45 SEK.

During the year 17.0 million shares were repurchased for 3,014 MSEK at an average price of 176.93 SEK. As at December 31, 2010 Swedish Match held 16.2 million shares in its treasury, corresponding to 7.01 percent of the total number of shares.

During the year the Company has also sold 0.5 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 214.8 million. In addition, the Company has call options outstanding at year end corresponding to 5.5 million shares exercisable in gradual stages from 2011–2015.

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

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2010	2009	2010	2009
Balance at beginning of year	19,700	5,840	-15,437	-12,890
Repurchase of own shares during the year	17,034	18,434	-3,014	-2,598
Stock options exercised during the year	-531	-574	53	51
Allocated to retained earnings by cancellation of shares	-20,000	-4,000	31	6
Bonus issue	-	-	-31	-6
Balance at end of year	16,203	19,700	-18,398	-15,437

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 198.3 million shares and the total number of cancellation of shares amounts to 172.9 million shares. Total number of shares sold as a result of option holders exercising options amounts to 9.1 million shares.

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

	Hedge reserve	Translation reserve	Non-controlling interest
2009			
Balance at beginning of year	-107	311	4
Profit for the year pertaining to non-controlling 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⁾	-17	-	-
Balance at end of year	-59	252	4
2010			
Balance at beginning of year	-59	252	4
Profit for the year pertaining to non-controlling interest	-	-	1
Transfer of non-controlling interest to STG of partly owned subsidiary	-	-	-2
Translation differences related to foreign operations for the year	-	-504	0
Translation differences included in profit and loss	-	278	-
Effective portion of changes in fair value cash flow hedges	58	-	-
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	-24	-	-
Income tax relating to components of other comprehensive income ¹⁾	-9	-	-
Balance at end of year	-34	26	2

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 cash flow 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).

22. Interest bearing liabilities

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

Year	2010	2009
2010	–	10
2011	1	583
2012	1,596	2,130
2013	1,176	3,121
2014	1,294	1,410
2015	1,996	998
2016 and later	3,146	–
Total	9,209	8,252

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

Current interest-bearing liabilities	2010	2009
Current portion of non-current loans	525	1,002
Total	525	1,002

See further information on interest-bearing liabilities in *Note 27 Financial instruments and financial risks*.

23. Employee benefits

Post-employment employee benefits

The Group has defined-benefit pension plans in a number of subsidiaries, through which the employees are entitled to post-employment benefits based on their pensionable income and the number of service years. During 2010 a number of the Group's post-employment benefit plans were transferred to STG in conjunction when the deal was closed on October 1, 2010. Furthermore, on December 1, 2010, the pension obligations for salaried personnel and workers in Sweden which were funded by insurance policies with two company specific pension funds, PSF and PSA, were transferred to three insurance companies (for further information see below section "Settlement of Swedish pension plans"). As per December 31, 2010 the Group's most significant post employment employee benefit plans are in the US and the UK. 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 are reported in the balance sheet under the following balance sheet items:

Post-employment defined benefits	2010	2009
Defined benefit plans, net liabilities	445	575
Post-employment medical benefits, net liabilities	705	706
Other long-term employee benefits, net liabilities	8	10
Provision for pensions and similar obligations	1,158	1,291
Defined benefit plans, net assets	-117	-150
Included in non-current receivables	-117	-150
Net post-employment liability	1,041	1,141

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

	Defined-benefit plans		Post-employment medical benefits	
	2010	2009	2010	2009
Post-employment defined benefits	2010	2009	2010	2009
Present value of funded obligations	2,025	4,405	–	–
Fair value of plan assets	-1,845	-4,197	–	–
Deficit(+)/Surplus(-), net	180	208	–	–
Present value of unfunded obligations	99	100	704	704
Unrecognized past service costs	–	0	1	2
Unrecognized assets due to recoverability limit	49	118	–	–
Net asset(-)/liability(+) in the balance sheet	328	425	705	706
Amounts in the balance sheet				
Liabilities	445	575	705	706
Assets	-117	-150	–	–
Net asset(-)/liability(+) in the balance sheet	328	425	705	706

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

	Defined-benefit plans		Post-employment medical benefits	
	2010	2009	2010	2009
Post-employment defined benefits income and expenses	2010	2009	2010	2009
Current service costs	83	90	31	32
Interest on obligation	201	217	39	39
Expected return on plan assets	-209	-218	–	–
Recognized past service costs	77	0	-1	-1
Gain from transfer of defined benefit obligations ¹⁾	-150	–	-33	–
Gains on curtailments	–	-1	–	–
Settlement gain from disposal of entity	–	–	–	-2
Net income(-)/expense(+) reported in the income statement	2	88	36	68

¹⁾ Effect from net book values of defined benefits obligations transferred to STG and net book values of the Swedish pension plans transferred to external insurance companies.

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	
	2010	2009	2010	2009
Post-employment defined benefits income and expenses	2010	2009	2010	2009
Cost of goods sold	22	22	13	15
Administrative expenses	8	14	3	1
Selling expenses	21	21	13	12
Larger one time items	-73	–	-33	–
Interest income	-6	-6	–	–
Interest expense	30	37	40	40
Net income(-)/expense(+) reported in the income statement	2	88	36	68

Amounts 2010 include charges for pension costs pertaining to defined benefit plans transferred to STG up until October 1, 2010 when the transaction with STG was closed and pension costs pertaining to the two Swedish defined benefit plans transferred to insurance companies up until December 1, 2010 when the obligations were settled. The effect from defined benefit obligations transferred to STG and external insurance companies, including past service cost in the Swedish pension plans, have been recognized in the income statement as larger one time items.

NOTE 23 CONTINUED

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

Defined benefit obligations	Defined-benefit pension plans		Post-employment medical benefits	
	2010	2009	2010	2009
Balance at beginning of year	4,505	4,276	704	634
Reclassification	-	-	-	-
Current service cost	83	90	31	32
Interest cost	201	217	39	39
Contributions by plan participants	0	3	2	2
Past service cost	77	-	-1	-
Actuarial losses (+)/gains (-)	328	320	11	83
Benefits paid	-269	-275	-26	-26
Curtailments	-	-1	-	-
Settlements (liability)	-2,618	-	-33	-2
Translation differences	-183	-125	-22	-58
Balance at end of year	2,124	4,505	705	704

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

Plan assets	Defined-benefit pension plans		Post-employment medical benefits	
	2010	2009	2010	2009
Fair value at beginning of year	4,197	3,908	0	0
Reclassification	-	-	-	-
Expected return on plan assets	209	218	-	-
Actuarial losses (-)/gains (+)	139	252	-	-
Employer contributions	178	174	24	24
Employee contributions	1	3	2	2
Benefits paid	-269	-275	-26	-26
Assets distributed on settlements	-2,468	-	-	-
Translation differences	-143	-82	-	-
Fair value at end of year	1,845	4,197	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 ¹⁾	2010	2009
Cumulative actuarial losses (+)/gains (-), beginning of year	1,415	1,232
Actuarial losses (+)/gains (-) during year	200	151
Cumulative actuarial gains and losses transferred on settlements	-987	-
Translation differences	-39	32
Cumulative losses (+)/gains (-), end of year	588	1,415

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

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 (12) and the defined benefit obligation by 73 MSEK (92). A 1 percent decrease in the medical cost trend rate would decrease the aggregate service and interest costs by 10 MSEK (10) and the defined benefit obligation by 93 MSEK (75).

Historical information	2010	2009	2008	2007	2006
Present value of funded defined benefit obligations	2,025	4,405	4,180	3,329	3,423
Fair value of plan assets	-1,845	-4,197	-3,908	-3,506	-3,461
Deficit (+)/surplus(-)	180	208	272	-176	-38
Present value of unfunded obligations	803	804	730	518	518
Total net post-employment asset (-)/liability(+)	983	1,012	1,002	342	480
Experience adjustments on plan liabilities losses (-)/gains (+)	-185	-54	-35	3	26
Experience adjustments on plan assets losses (-)/gains (+)	77	252	-768	-35	85

Plan assets at December 31 are comprised as follows:

Plan assets	2010	2009
Equity securities	755	1,569
Debt instruments	818	2,101
Real estate	61	48
Other	211	480
Total	1,845	4,197

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

Actuarial assumptions	Defined-benefit pension plans		Post-employment medical benefits	
	2010	2009	2010	2009
Discount rate, %	5.1	4.8	5.2	5.6
Expected return on plan assets, %	5.3	5.3	-	-
Future salary increases, %	3.5	3.7	3.5	5.0
Future pension increases, %	3.0	2.0	-	-
Medical cost trend rate, %	-	-	8.5	8.5

The discount rate is set per country with reference to high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. The assumptions for expected return on plan assets are based on the asset groups as defined in each investment policy. The assumptions for expected rate of return are estimated in each country respectively based on the portfolio as a whole considering both historical performance and future outlook given the long term perspective. For the post-employment defined benefit plans all actuarial gains and losses are recognized in other comprehensive income as they occur in accordance with the year end valuation. The actual return on plan assets in 2010 was 349 MSEK (470). Expected contributions to post-employment benefit plans for the year ending December 31, 2011 are 126 MSEK (176).

Settlement of Swedish pension plans

On December 1, 2010, the pension obligations for salaried personnel and workers in Sweden which were funded by insurance policies with two company specific pension funds, PSF and PSA, were transferred to three insurance companies. As a result of this transaction, a settlement gain of 59 MSEK has been recognized in 2010. The settlement gain is the result of the difference in the obligations settled with the insurance companies and the present value of the pension obligations based on the actuarial assumptions as per the settlement date net of the fair value of the plan assets as per the settlement date, including considerations to payroll taxes. In conjunction with the update of the pension obligations to current actuarial assumptions as per settlement date, an actuarial loss of 166 MSEK, including payroll taxes, has been recognized in other comprehensive income of 2010. In accordance with IAS 19, the transferred pension obligations are treated as defined contribution plans after the transaction date of December 1, 2010.

Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 69 MSEK (67).

24. Provisions

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

Non-current provisions	2010	2009
Income tax	104	131
Restructurings	1	19
Other operating provisions	178	198
Deferred compensation	230	141
Other provisions	65	-
Total non-current provisions	577	489

Current provisions	2010	2009
Restructurings	2	34
Other operating provisions	97	91
Total current provisions	98	125
Total provisions	676	614

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other provisions	Total
Carrying value at beginning of year	131	53	289	141	-	614
Provisions made during the year	73	2	58	86	-	218
Provisions used during the year	0	-24	-32	-12	-	-68
Provisions reversed during the year and changes in estimates	-65	2	-10	-12	-	-85
Companies divested	-	-26	-11	-	-	-36
Reclassifications	-34	-	-12	36	65	55
Translation differences, etc.	0	-4	-8	-10	-	-23
Carrying value at end of year	104	3	275	230	65	676

Income tax provisions

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

Restructuring provisions

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

Other operating provisions

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

Deferred compensation

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

Other provisions

Other provision represents long-term legal obligations. The timing of settlement is expected to be beyond one year but within five years.

25. Other liabilities

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

Other non-current liabilities	2010	2009
Non-interest bearing non-current liabilities	26	41
Non-current financial liabilities, derivatives	294	109
Total	320	150

Other current liabilities at December 31 comprised the following:

Other current liabilities	2010	2009
Tobacco taxes	896	1,020
VAT liabilities	288	327
Current financial liabilities, derivatives	18	-
Other	248	63
Total	1,449	1,410

26. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2010	2009
Accrued wage/salary-related expenses	138	241
Accrued vacation pay	54	77
Accrued social security charges	56	66
Accrued interest	192	203
Other	312	425
Total	754	1,012

27. 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

	2010			2009		
	Nominal	Asset	Liability	Nominal	Asset	Liability
Currency derivatives	13	0	0	26	0	0
Interest-rate derivatives *	9,297	78	242	9,553	598	11
Total	9,310	78	242	9,579	598	11
*Of which hedge accounting						
<i>Interest rate risk in financing</i>						
Fair value hedges	-	-	-	400	9	-
Hedged item	-	-	-	400	-	9
*Of which hedge accounting						
<i>Cash flow risk in financing</i>						
Cash flow hedges	7,081	-	205	6,936	384	11

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 7 MSEK (6 loss) in operating income and losses of 11 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. This exposure has been reduced following the STG transaction.

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 750 MSEK on an annual basis. It is divided as following; 400 MSEK in NOK (53 percent), 95 MSEK in EUR (13 percent), 70 MSEK in GBP (9 percent), 40 MSEK in USD (5 percent), 40 MSEK in PHP (5 percent), 35 MSEK in TRY (5 percent), and in other currencies 70 MSEK (9 percent). Swedish Match's policy for managing the Group's transaction exposure is to hedge within certain limits. The hedging transactions are, if any, based on risk exposures, current market conditions and other strategic considerations. Transactions are mainly initiated via currency forward contracts with durations of up to 12 months, and relate to forecasted currency flows. At December 31, 2010, the exposure was limited and therefore no transaction exposure for 2011 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 7 MSEK (4) for the year ending December 31, 2010.

Translation exposure

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

When the net assets of foreign subsidiaries are translated to SEK, translation differences arise that are recognized directly in equity. The exposures of net investment are 1,955 MSEK in USD (46 percent), 1,720 MSEK in EUR (40 percent) and in other currencies 590 MSEK (14 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 45 MSEK, based on the exposure at December 31, 2010.

Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate binding is to achieve an even and low cost of interest. Interest rate swaps and currency swaps are used mainly to convert our borrowing into SEK and fixed interest rates. At December 31, 2010, the average interest maturity period for Group loans was 4.0 years (2.8 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2010 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2011	-	526	180	346
2012	450	1,146	1,191	405
2013	1,176	-	1,176	-
2014	618	676	1,068	226
2015	1,996	-	1,996	-
2016-	3,146	-	3,146	-
Total	7,386	2,348	8,757	977

At December 31, 2010, a general rise of 1 percent (100bp) in interest rates was estimated to increase consolidated earnings before tax by approximately 25 MSEK (6) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 7,650 MSEK (7,188). The assumption is based on the present level of net debt and average interest maturity period.

NOTE 27 CONTINUED

If interest rates were to rise by 1 percent (100bp), the total effect on equity due to cash flow hedges would increase the amount by 254 MSEK (43).

Refinancing risk and liquidity

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

Swedish Match has a syndicated bank credit facility of 160 MEUR, which matures in January 2013. This was unutilized at year-end and contained no financial covenants. At year-end 2010, available cash funds and committed credit facilities amounted to 4,717 MSEK. Of this amount, confirmed credit lines amounted to 1,442 MSEK and cash and cash equivalents making up the remaining 3,275 MSEK.

Most of Swedish Match's financing consists of a Swedish medium-term note program (MTN) with a limit of 4,000 MSEK, and a global medium-term note program with a limit amount of 1,250 MEUR. The programs are uncommitted borrowing programs and their availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2010, a total of 670 MSEK of the Swedish program and 9,064 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, 2010, there was no outstanding debt under this program. The average maturity of the Group's bond borrowing at December 31, 2010 was 4.1 years.

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

Year	MTN Loans incl. interest	Negative derivatives	Trade payables	Total cash flows	Total booked value
2011	893	145	554	1,592	1,185
2012	1,953	140	-	2,093	1,658
2013	1,493	92	-	1,585	1,216
2014	1,496	82	-	1,578	1,320
2015	2,224	44	-	2,268	2,014
2016-	3,370	255	-	3,625	3,179
Total	11,429	758	554	12,741	10,572

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, 2010 were as follows:

	2010	2009
Swedish MTN, %	4.2	3.0
Global MTN, %	4.8	4.2

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

Cash flow and fair value hedges*Cash flow hedges*

The table below shows the yearly change of market value, from opening balance, recognized in other comprehensive income and the amounts that are reclassified in profit and loss during the year, previously recognized in other comprehensive income. There was no ineffectiveness in cash flow hedge accounting during 2010.

Changes in hedge reserve	2010				2009			
	Jan. 1	Change of market value	Alloc- of earn- ings	Dec. 31	Jan. 1	Change of market value	Alloc- of earn- ings	Dec. 31
Hedging instruments, derivatives	-80	10	24	-46	-146	41	25	-80
Total	-80	10	24	-46	-146	41	25	-80

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.

	2011	2012	2013	2014	2015	2016-
Interest payment for loans	299	290	249	191	165	331
Market-value derivatives	-16	-6	-5	-9	-3	-6

Fair value hedges

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

	2010			2009		
	Jan. 1	Earnings	Dec. 31	Jan. 1	Earnings	Dec. 31
Hedged item	-9	9	-	-156	147	-9
Hedging instruments, derivatives	9	-9	-	146	-137	9
Total	0	0	-	-10	10	0

Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in government bonds, treasury bills and bank and mortgage certificates, as well as in certain approved securities with approved counterparties. At December 31, 2010, the average interest maturity for the Group's current investments was approximately 0.3 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least A from Standard & Poor's or equivalent from Moody's. To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. At December 31, 2010, credit exposure in derivative instruments amounted to 14 MSEK, and credit exposure in cash and deposits at banks amounted to 3,275 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 1,181 MSEK.

NOTE 27 CONTINUED

Credit ratings

At December 31, 2010, Swedish Match had the following credit ratings from Standard & Poor's and Moody's Investor Service:

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

Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2010. 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.

2010	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	–	1,181	–	–	–	–	1,181	1,181
Non-current receivables	83	–	–	34 ²⁾	–	599	716	716
Other receivables	0	–	–	–	–	329	329	329
Prepaid expenses and accrued income	11	–	–	–	–	67	78	78
Other investments	1	–	–	–	–	–	1	1
Cash and cash equivalents	619	2,656	–	–	–	–	3,275	3,275
Total assets	714	3,837	–	34	–	995	5,580	5,580
Loans and borrowings	–	–	9,734	–	–	–	9,734 ³⁾	9,902 ³⁾
Other liabilities	38	–	–	276	–	1,455	1,769	1,769
Accrued expenses and deferred income	–	–	162	30	–	562	754	754
Trade payables	–	–	555	–	–	–	555	555
Total liabilities	38	–	10,451	306	–	2,017	12,812	12,980

¹⁾ All items relates to instruments held for trading.

²⁾ 24 MSEK are allocated to earnings and 10 MSEK are changes of market value. The instruments are interest swaps at nominal amount of 5,529 MSEK. There are no condition in these transactions that can cause any difference in amounts and maturities between these derivatives and their underlying liabilities.

³⁾ The increase of the estimated fair value of 168 MSEK is the difference between the booked value and revaluation to the market rates for December 31, 2010.

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	–	2,263	12,479	12,766

¹⁾ All items relates to instruments held for trading.

28. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2010 amounted to 79 MSEK (82), whereof leasing expenses pertaining to business transferred to STG as of October 1 amounts to 32 MSEK.

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

Minimum lease payments	2010	2009
Within one year	44	82
Between 1–5 years	113	168
More than 5 years	36	58
Total	193	308

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

29. Pledged assets

As per December 31, 2010 the Group had 29 MSEK (20) in assets pledged, pertaining to endowment insurance policies pledged as security for pension obligations. The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

30. Commitments and contingent liabilities and assets

Contingent liabilities

Guarantees on behalf of subsidiaries pertain to undertakings on behalf of the companies over and above the amounts utilized and recognized as liabilities by the companies. Guarantees to associated companies pertain to undertakings on behalf of subsidiaries transferred to STG. Other guarantees and contingent liabilities pertain to contractual commitments with tobacco growers for future purchases of leaf tobacco, guarantees made to government authorities for Group companies fulfillment of undertakings in connection with imports and payment of tobacco taxes, and in 2009 to additional conditioned payments for the acquisition of Cigars International.

Contingent liabilities	2010	2009
Guarantees on behalf of subsidiaries	61	418
Guarantees to associated companies	171	–
Guarantees to external companies	–	5
Other guarantees and contingent liabilities	17	214
Total	250	636

Legal disputes

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

Swedish Match subsidiaries in the US are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (a subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been brought before state courts in West Virginia. The cases against Pinkerton, however, have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these cases intend to pursue their claims separately against Pinkerton. Swedish Match North America, Inc. and Pinkerton Tobacco Company are named as defendants in a lawsuit filed in Florida in November 2002 against several companies active in the US 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, 2010, the Group had no contingent assets.

31. Group companies

Subsidiary holdings ¹⁾	Subsidiary's domicile, country	Ownership share, %	
		2010	2009
SM Australia Pty Ltd. ³⁾	Australia	–	100
Bogaert Cigars NV ³⁾	Belgium	–	100
SM Belgium NV ³⁾	Belgium	–	100
SM Cigars NV ³⁾	Belgium	–	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 ³⁾	Croatia	–	100
General Cigar Dominicana S.A. ³⁾	Dominican Republic	–	100
SM Dominicana, S.A.	Dominican Republic	100	–
SM France SARL ³⁾	France	–	100
SM Deutschland GmbH	Germany	100	100
Honduras American Tabaco, S.A. de C.V. ³⁾	Honduras	–	100
PT SM Cigars Indonesia ³⁾	Indonesia	–	100
Maga T.E.A.M. S.r.L. ³⁾	Italy	–	100
P.G.C. Hajenius BV ³⁾	Netherlands	–	100
SM Benelux Sales BV ³⁾	Netherlands	–	100
SM Cigars BV ³⁾	Netherlands	–	100
SM Dominicana BV	Netherlands	100	100
SM Group 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 ³⁾	Netherlands	–	100
SM New Zealand Pty Ltd. ³⁾	New Zealand	–	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100

Subsidiary holdings ¹⁾	Subsidiary's domicile, country	Ownership share, %	
		2010	2009
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
SM Polska Sp z o.o. ³⁾	Poland	–	100
SM Fosforos Portugal S.A. ³⁾	Portugal	–	97
CYAN import-export d.o.o. ³⁾	Slovenia	–	100
SM Tabaco Espana S.L. ³⁾	Spain	–	100
SM Fireproducts Espana S.L. ³⁾	Spain	–	100
Intermatch Sweden Aktiebolag ³⁾	Sweden	–	100
SM Distribution AB	Sweden	100	100
SM Industries Aktiebolag	Sweden	100	100
SM North Europe AB	Sweden	100	100
SM United Brands AB ³⁾	Sweden	–	100
Svenska Tändsticks Aktiebolaget	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Cigars Holding AB ²⁾	Sweden	100	100
Svenska Tobaks Aktiebolag	Sweden	100	100
SM Suisse SA	Switzerland	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
General Cigar Holdings Inc. ³⁾	USA	–	100
SM Cigars Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100
DM Holding USA Inc. ³⁾	USA	–	100
Cigars International Holding ³⁾	USA	–	100
Cigars International ³⁾	USA	–	100

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

²⁾ Change of company name from Tobak Fastighetsaktiebolaget.

³⁾ Companies transferred to STG as per October 1, 2010.

32. 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	2010	2009
Interest received	32	94
Interest paid	–477	–424
Total	–445	–330

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

Adjustments for non cash items and other	2010	2009
Depreciation and amortization	288	439
Impairment losses	–	30
Share of profit/loss in associated companies and joint ventures	62	–10
Dividend received from associated companies and joint ventures	3	10
Capital gain/loss from sale of non-current assets	5	–
Capital gain on businesses transferred to STG	–585	–
Net gain from pension settlement	–59	–
Expense for share-based payments	–	35
Change in fair value of forest plantations	–1	0
Change in provisions	–75	–61
Change in accrued interest	–2	19
Change in market value revaluations and unrealized exchange rate differences	158	–66
Realized exchange rate differences moved to financing	–80	115
Other	–12	0
Total	–297	511

NOTE 32 CONTINUED

Acquisitions of subsidiaries and investments in associated companies and joint ventures	2010	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	12	23
Investments in associated companies	110	–
Effect on cash and cash equivalents	123	63

Investments in joint ventures during 2010 pertain to investment of 12 MSEK (23) in Swedish Match's and Philip Morris International's joint venture company. Investments in associated companies pertain to purchase of 20 percent of the shares in Caribbean Cigar Holdings Group, S.A in an amount of 110 MSEK. For further information see Note 16 *Investments in associated companies and joint ventures*.

No acquisitions of subsidiaries have been made during 2010. During 2009, Rocker Production AB was acquired from Philip Morris International in amount of 31 MSEK, and a final payment of 8 MSEK for the acquisition of Havana Honeys assets was received. For further information see Note 4 *Business combinations*.

Divestment of subsidiaries and other business units	2009
Divested assets and liabilities	
Intangible fixed assets	683
Tangible fixed assets	60
Inventories	130
Trade receivables	72
Deferred income tax receivables	0
Other receivables	2
Cash and cash equivalents	244
Total assets	1,191
Accounts payable	–33
Non-current provisions	–1
Non-current financial liabilities	–2
Other liabilities	–136
Total liabilities	–173
Divested assets, net	1,018
Net purchase price consideration received	1,839
Less cash and cash equivalents in divested operations	–29
Less transaction costs relating to divested operations	–241
Additional payment Swedish Match UK Ltd.	8
Effect on cash and cash equivalents	1,577

The cash flows from sale of subsidiaries during 2009 pertain to the disposal of Swedish Match's 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*.

STG transaction

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

Analysis of cash flow effect from transaction with STG	2010
Repayment of loans, received from STG ¹⁾	1,560
Less cash and cash equivalents in transferred operations	–103
Effect on cash and cash equivalents from net assets transferred	1,457
Transaction costs relating to 49% investment in STG	–19
Effect on cash and cash equivalents from net investment²⁾	–19
Net cash effect from transaction with STG	1,439

¹⁾ As per October 28, 2010 STG made a repayment of loans of 170 MEUR (1 560 MSEK) to Swedish Match. Additional loans amounting to 28 MEUR (257 MSEK) is still outstanding and will be repayed during the first quarter of 2011. The loans were provided from Swedish Match to STG in connection with the formation of the new company and include the 30 MEUR cash consideration as compensation for the relative differences in enterprise values of the businesses contributed from the former Scandinavian Tobacco Group and Swedish Match. Final purchase price adjustments are expected to be determined and settled in the first half of 2011.

²⁾ For further information about the 49 percent investment in STG, see Note 16 *Investments in associated companies and joint ventures*.

33. Related parties

The Group's related parties include joint venture, associated companies and key management personnel with significant influence over the Company. Key management personnel with significant influence over the company are Swedish Match Board of Directors and members of the Group Management Team. Related parties transactions are conducted at an arms-length basis. For further information about the Group's transactions with joint ventures and associated companies, see Note 16 *Investments in associates and joint ventures*. Information about remuneration to the Board of Directors and Group Management Team, see Note 7 *Personnel*. Besides this, disregarded intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other related parties transactions have been conducted during the year.

34. Subsequent events

On January 11, 2011 1.6 million shares have been repurchased for 313 MSEK at an average price of 195.99 SEK.

On January 14, 2011, it was announced that Scandinavian Tobacco Group A/S (STG) has signed an agreement with Reynolds American, Inc. for the acquisition of Lane Limited (Lane). STG is 49 percent owned by Swedish Match AB.

STG expects that Lane will annually contribute an EBITDA of 45 MUSD, and sales volumes of 525 tons of pipe tobacco, 980 tons of fine-cut tobacco, and 450 million little cigars. STG will pay 205 MUSD in cash for Lane. STG further expects that with the acquisition of Lane, STG reaches an annual turnover of approximately 800 MEUR, and sales volumes of more than 2.5 billion cigars, 2,175 tons of pipe tobacco, 3,170 tons of fine-cut tobacco, and 450 million little cigars. Including Lane, STG will have approximately 10,000 employees globally. (The transaction was approved by the US Federal Trade Commission (FTC) and was completed on March 1, 2011.)

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 visiting address of the head office is Västra Trädgårdsgatan 15, and the postal address is: Box 7179, SE-103 88 Stockholm, Sweden.

The consolidated financial statements for 2010 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	2010	2009
Sales	1	-	2
Gross profit		-	2
Selling expenses	7	-	-2
Administrative expenses	2, 7, 8, 26	-335	-282
Other operating income and expenses	3	34	33
Operating loss		-301	-249
Result from participation in group companies	4	3,780	6,006
Result from participation in joint venture	4	-20	-9
Interest income from receivables carried as non-current assets	4	213	213
Interest income and similar items	4	18	70
Interest expenses and similar items	4	-1,076	-1,291
Profit after financial items		2,614	4,740
Appropriations	5	0	2
Profit before income tax		2,614	4,742
Income tax expense	6	-212	-164
Profit for the year		2,402	4,578

Parent Company statement of comprehensive income

MSEK	Note	2010	2009
Profit for the year		2,402	4,578
<i>Other comprehensive income</i>			
Effective portion of changes in fair value of cash flow hedges		58	41
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss		-24	25
Income tax relating to components of other comprehensive income	6	-9	-17
Other comprehensive income, net of tax for the year		25	48
Total comprehensive income for the year		2,427	4,626

Parent Company balance sheet

MSEK	Note	December 31, 2010	December 31, 2009
Assets			
Intangible assets	7	43	1
Tangible assets	8	2	1
Non-current financial assets			
Participations in group companies	9	41,626	44,008
Participation in joint venture	10	6	14
Receivables on group companies	11	8,850	6,424
Other non-current receivables	12	146	715
Deferred income tax assets	6	39	29
Total non-current financial assets		50,667	51,190
Total non-current assets		50,711	51,192
Current assets			
Receivables on group companies		2,058	1,842
Receivables on associated companies		258	–
Receivables on joint venture		1	–
Other receivables	13	4	37
Prepaid expenses and accrued income	14	32	41
Total current assets		2,353	1,920
TOTAL ASSETS		53,064	53,112
Equity			
Restricted equity	15		
Share capital, 231 000 000 shares at 1.6862 and 251 000 000 at 1.5519 respectively		390	390
Unrestricted equity			
Hedge reserve		–34	–59
Retained earnings		18,820	18,321
Profit for the year		2,402	4,578
TOTAL EQUITY		21,578	23,229
Untaxed reserves			
	16	1	0
Provision for pensions and similar obligations	26	37	–
Other provisions	17	77	25
Total provisions		114	25
Non-current liabilities			
Bond loans	18	9,209	8,252
Liabilities to group companies	19	18,100	18,100
Other liabilities	20	297	111
Total non-current liabilities		27,606	26,462
Current liabilities			
Bond loans		525	1,002
Trade payables		25	15
Liabilities to group companies		2,918	1,993
Current income tax liabilities	6	41	126
Other liabilities		26	5
Accrued expenses and deferred income	21	231	254
Total current liabilities		3,765	3,395
TOTAL EQUITY AND LIABILITIES		53,064	53,112
Pledged assets	22	29	20
Contingent liabilities	22	232	422

Statement of changes in Parent Company equity

2009	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Hedge reserve	Retained earnings	Profit for the year	
	15					
Equity at beginning of year		390	-107	19,952	1,914	22,148
Profit for the year		-	-	-	4,578	4,578
Other comprehensive income, net of tax for the year		-	48	-	-	48
Total comprehensive income for the year		-	48	-	4,578	4,626
Allocation of profit		-	-	1,914	-1,914	-
Dividend		-	-	-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

2010

Equity at beginning of year		390	-59	18,321	4,578	23,229
Profit for the year		-	-	-	2,402	2,402
Other comprehensive income, net of tax for the year		-	25	-	-	25
Total comprehensive income for the year		-	25	-	2,402	2,427
Allocation of profit		-	-	4,578	-4,578	-
Group contributions		-	-	-58	-	-58
Tax effect on group contributions		-	-	15	-	15
Dividend		-	-	-1,089	-	-1,089
Repurchase of own shares		-	-	-3,014	-	-3,014
Stock options exercised		-	-	53	-	53
Cancellation of shares		-31	-	31	-	-
Bonus issue		31	-	-31	-	-
Share-based payments, contributions from subsidiaries		-	-	14	-	14
Equity at end of year		390	-34	18,820	2,402	21,578

Cash flow statement for the Parent Company

MSEK	Note	2010	2009
	23		
Operating activities			
Profit after financial items		2,614	4,740
Adjustments for non-cash items and other		-1,455	-1,774
Income tax paid		-301	-28
Cash flow from operating activities before changes in working capital		858	2,938
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		-23	-19
Increase (+)/Decrease (-) in operating liabilities		34	-20
Net cash generated from operating activities		869	2,899
Investing activities			
Purchase of property, plant and equipment		-2	-
Proceeds from sale of property, plant and equipment		-	1
Purchase of intangible assets		-42	-
Acquisition of subsidiaries, net of cash acquired		0	-9
Proceeds from sale of subsidiaries, net of cash disposed of		18	-
Capital redemption subsidiaries		2,500	6,350
Liquidation of subsidiaries		-	2
Shareholders contribution paid		-558	-
Acquisition of joint venture, net of cash acquired		-	-23
Shareholders contribution paid to joint venture		-12	-
Change in other current investments		-	2
Net cash from investing activities		1,904	6,323
Financing activities			
Repurchase of own shares		-3,014	-2,598
Stock options exercised		53	51
Proceeds from non-current borrowings		4,242	998
Repayment of borrowings		-2,961	-1,485
Dividend		-1,089	-1,024
Share-based payments, contributions from subsidiaries		14	21
Changes in financial receivables/liabilities group companies		-51	-7,943
Other		33	56
Net cash used in financing activities		-2,773	-11,924
Net decrease in cash and cash equivalents		-	-2,702
Cash and cash equivalents at the beginning of the year		-	2,702
Cash and cash equivalents at end of year		-	-

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, 2009.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 7 Personnel* for the Group on page 74.

1. Sales

The sales in previous year related to a royalty, based on sales of nasal snuff in Europe. During December 2009 these trademarks were transferred to Intermatch Sweden AB.

2. Audit fees

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

Audit fees	2010	2009
KPMG		
Audit services	4	4
Audit related services	0	0
Tax services	3	–
Other services	12	5
Total	19	9

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

3. Other operating income and expense

Other income mainly pertains to the portion of administration costs charged to group companies of 34 MSEK (34) and foreign exchange gains and losses.

4. Financial items

	Result from participation in group companies		Result from participation in joint venture	
	2010	2009	2010	2009
Dividends received	4,286	4,235	–	–
Group contribution	1,952	1,771	–	–
Impairment losses	–2,757	–	–20	–9
Gain on sale group companies	299	–	–	–
Total	3,780	6,006	–20	–9

The impairment loss of 2,757 MSEK was recognized following the dividends paid from subsidiaries. Gain on sale of shares in group companies amounting to 299 MSEK relates to subsidiaries sold to STG.

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

The result of –20 MSEK (–9) relates to SMPM International AB, a joint venture together with Philip Morris International.

	Interest income from receivables carried as non-current assets		Interest income and similar items	
	2010	2009	2010	2009
Interest income relating to group companies	213	218	16	14
Interest income relating to financial instruments held for trading	–	–	0	18
Interest income relating to other financial instruments held for trading	–	–	1	33
Net foreign exchange gains/losses	0	–5	1	5
Total	213	213	18	70

Interest expenses and similar items	2010	2009
Interest expense relating to group companies	–572	–872
Interest expense relating to financial liabilities measured at amortized cost	–393	–369
Interest expense relating to cash flow hedges transferred from equity ¹⁾	–77	–15
Interest expense relating to financial liabilities pertaining to fair value hedge	9	–24
Net gains/losses on financial liabilities held for trading	4	–2
Other financial expenses	–44	–9
Net foreign exchange losses	–3	–
Total	–1,076	–1,291

¹⁾ The total realized value of interest as a result from repurchase of 171 MEUR bonds maturing 2013. For 2009 the result pertains to repurchase of 900 MSEK.

5. Appropriations

Difference between reported amortization/depreciation and according to plan	2010	2009
Trademarks	–	2
Equipment, tools and fixtures	0	0
Total	0	2

6. Income tax

Income tax reported in income statement	2010	2009
Tax expense for the period	-231	-159
Deferred tax due to temporary differences	19	-5
Total	-212	-164

Income tax reported in equity amounts to 6 MSEK (-17) where of -9 MSEK (-17) relates to items reported in other comprehensive income and 15 MSEK (-) relates to group contributions reported directly in equity.

Reconciliation of effective tax rate	2010		2009	
	2010 (%)		2009 (%)	
Income before tax	2,614		4,742	
Swedish statutory tax rate	26.3	-687	26.3	-1,247
Non-taxable dividends	-43.1	1,127	-23.5	1,114
Tax exempt items	-3.0	79	-	-
Non-deductible impairment losses	27.9	-730	0.1	-2
Taxes related to prior years	-0.1	1	0.6	-27
Other non taxable/non-deductible items	0.1	-2	0.1	-2
Reported effective tax rate	8.1	-212	3.5	-164

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

	Current income tax assets		Current income tax liabilities	
	2010	2009	2010	2009
Opening balance at beginning of year	-	13	126	8
Current tax expense	-	-	231	159
Paid tax	-	-	-301	-41
Tax refund	-	-13	-	-
Tax reported in equity	-	-	-15	-
Closing balance at end of year	-	-	41	126

Tax liability amounts to 41 MSEK and consists of taxes to be paid on income for the year. In 2009 the tax liability amounted to 126 MSEK, where of 94 MSEK to be paid on income for 2009 and 32 MSEK related to taxes attributable to prior years.

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

	Deferred income tax assets		Deferred income tax liabilities	
	2010	2009	2010	2009
Hedge reserve	12	21	-	-
Provision	13	7	-	-
Provision for pension and similar obligations	12	-	-	-
Other	2	1	-	-
Total	39	29	-	-

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.

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

2009	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
	Hedge reserve	38	-	-17
Tax loss carry forwards	6	-6	-	-
Provision	4	3	-	7
Other	3	-2	-	1
Total	51	-5	-17	29

7. Intangible assets

	Trademarks		Other intangible assets		Total	
	2010	2009	2010	2009	2010	2009
Cost at beginning of year	-	114	3	4	3	118
Purchase	-	-	42	0	42	0
Sales/disposals	-	-114	-	-1	-	-115
Cost at end of year	-	-	45	3	45	3
Accumulated amortization at beginning of year	-	-111	-2	-3	-2	-114
Amortization for the year	-	-2	-1	-1	-1	-3
Sales/disposals	-	114	-	1	-	115
Accumulated amortization at end of year	-	-	-3	-2	-3	-2
Net carrying value at end of year	-	-	43	1	43	1

Amortization is included in the following lines of the income statement:

Amortization	2010	2009
Administrative expenses	-1	-1
Selling expenses	-	-2
Total	-1	-3

All intangible assets are acquired.

Trademarks are amortized over the useful life ten years. Other intangible assets are amortized over three to five years. Other intangible assets consist of licenses and software. During the year an investment in software development on an ERP system for the Group have been capitalized.

No borrowing costs have been capitalized during 2010 nor during 2009.

8. Tangible assets

Equipment, tools and fixtures	2010	2009
Cost at beginning of year	2	6
Purchase	2	-
Sales/disposals	-1	-4
Cost at end of year	3	2
Accumulated depreciation at beginning of year	-2	-4
Depreciation for the year	0	-1
Sales/disposals	1	3
Accumulated depreciation at end of year	-1	-2
Net carrying value at end of year	2	1

Depreciation of tangible assets is included in administrative expenses in the income statement in the amount of 0 MSEK (1).

No borrowing costs have been capitalized during 2010 nor during 2009.

9. Group companies

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

2009	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Capital redemption	Liquidation	Impairments	Divestments	Balance 31 Dec.
Cost	59,761	9	-	-6,350	-2	-	-	53,418
Impairments	-9,410	-	-	-	-	-	-	-9,410
Carrying value	50,351	9	-	-6,350	-2	-	-	44,008

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, %	2010	Ownership, %	2009
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	100	15,750
Swedish Match Distribution AB	556571-7039	Stockholm	1,000	100	2,350	100	2,350
Svenska Tändsticks AB	556105-2506	Stockholm	1,000	100	1,100	100	1,100
Swedish Match Cigars Holding AB ⁶⁾	556367-1253	Stockholm	2,000	100	500	100	0
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm	34,403,000	100	286	100	286
Intermatch Sweden AB ⁵⁾	556018-0423	Stockholm	-	-	-	100	167
Swedish Match Industries AB	556005-0253	Tidaholm	30,853	100	95	100	95
Swedish Match United Brands AB ⁵⁾	556345-7737	Stockholm	-	-	-	100	32
Swedish Match US AB	556013-4412	Stockholm	96,000	100	9	100	9
Svenskt Snus AB	556367-1261	Stockholm	1,000	100	1	100	1
Svenska Tobaks AB	556337-4833	Stockholm	8,000	100	1	100	1
GC Sweden AB	556680-3028	Stockholm	100,000	100	0	-	-
Swedish Match Treasury SEK SA ¹⁾	0890.171.968	Belgium	9,999,999	99.99	13,838	99.99	11,751
Swedish Match Treasury USD SA ¹⁾	0894.153.126	Belgium	999,999	99.99	5,065	99.99	5,065
Swedish Match Treasury EUR SA ¹⁾	0440.934.581	Belgium	20,169	99.99	429	99.99	429
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	1,174	100	3,931
General Cigar Holdings, Inc. ⁵⁾	13-3922128	USA	-	-	-	63.52	1,573
Swedish Match North America Inc	62-1257378	USA	100	100	849	100	849
General Cigar Dominicana, S.A. ⁵⁾		Dominican Republic	-	-	-	99.99	387
DM Holding USA Inc. ⁵⁾	45-0571257	USA	-	-	-	100	207
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	-	-
Honduras American Tabaco, S.A. de C.V. ⁵⁾		Honduras	-	-	-	99.77	18
Swedish Match Sales.com B.V. liquidation in progress	17154863	Netherlands	100	100	7	100	7
Nitedals Taendstiker A/S	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille ²⁾		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd ³⁾		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd ⁴⁾		Burma	4,000	100	0	100	0
Carrying value at end of year					41,626		44,008

¹⁾ Remaining shares owned by subsidiary.

²⁾ Nationalized in 1963.

³⁾ Nationalized in 1968.

⁴⁾ Nationalized in 1969.

⁵⁾ Companies transferred to STG as per October 1, 2010.

⁶⁾ Change of company name from Tobak fastighetsaktiebolaget.

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

10. Joint venture

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

2009	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	No. of votes & Ownership, %	2010	2009
SMPM International AB, 556771-7128, Stockholm	500	50	6	14
Carrying value at end of year			6	14

11. Receivables from group companies

Receivables on group companies	2010	2009
Carrying value at the beginning of the year	6,424	83
Increase of lending	2,500	6,350
Repayments	-74	-2
Foreign exchange gains/losses	0	-6
Carrying value at end of the year	8,850	6,424

12. Other non-current receivables

Other non-current receivables	2010	2009
Pledged assets	29	20
Derivatives	117	695
Carrying value at end of year	146	715

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.

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

13. Other receivables

Other receivables	2010	2009
Payroll tax relating to pension costs	-	23
Derivatives related to current loans	-	9
VAT receivables	0	2
Other current receivables	4	3
Carrying value at end of year	4	37

14. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2010	2009
Accrued interest income	11	22
Prepaid bank charge	6	-
Accrued compensation for pension costs	4	4
Prepaid rent	1	3
Prepaid insurance premiums	1	2
Other prepaid expenses	9	10
Carrying value at end of year	32	41

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	2010	2009
Issued at beginning of year	251,000,000	255,000,000
Cancellation	-20,000,000	-4,000,000
Total shares outstanding at end of year	231,000,000	251,000,000
Of which held by Swedish Match AB	-16,202,894	-19,700,000
Total shares outstanding, net of shares held by Swedish Match AB	214,797,106	231,300,000

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2010, the Parent Company's holding of treasury shares amounted to 16,202,894 shares (19,700,000).

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

Effect on equity	2010	2009
Cumulative effect on equity at beginning of year	-15,437	-12,890
Repurchase of own shares during the year	-3,014	-2,598
Stock options exercised during the year	53	51
Cancellation of shares	31	6
Bonus issue	-31	-6
Cumulative effect on equity at end of year	-18,398	-15,437

The Annual General Meeting on April 27, 2010 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 20 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 31.0 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 231 million shares with a quotient value of 1.6862 SEK. During the year, the Company issued 713,670 call options to senior management and key employees for the stock option program for 2009. These call options can be exercised from March 2013 to February 2015. The exercise price is 197.45 SEK.

During the year 17.0 million shares were repurchased for 3,014 MSEK at an average price of 176.93 SEK. As at December 31, 2010 Swedish Match held 16.2 million shares in its treasury, corresponding to 7.0 percent of the total number of shares. During the year the Company has also sold 0.5 million treasury shares as a result of option holders exercising their options. The number of shares outstanding, net after repurchase and after the sale of the treasury shares as per year end amounted to 214.8 million. In addition, the Company has call options outstanding at year end corresponding to 5.5 million shares exercisable in gradual stages from 2011-2015.

Dividend

After the balance sheet date, the Board proposed a dividend for 2010 of 5.50 SEK (4.75) per share. The dividend then amounts to 1,181 MSEK based on the number of shares outstanding at the end of 2010. Prior year total dividend amounted to 1,089 MSEK and corresponded to 229,285,000 number of shares.

Hedge reserve

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

	Hedge reserve	
	2010	2009
Carrying value at beginning of year	-59	-107
Effective portion of changes in fair value of cash flow hedges	58	41
Reclassification adjustments for gains/losses on cash flow hedges included in profit and loss	-24	25
Income tax	-9	-17
Carrying value at end of year	-34	-59

16. Untaxed reserves

Excess amortization/depreciation	2010	2009
Intangible assets		
Carrying value at beginning of year	0	2
Excess amortization for the year	-	-2
Total	0	0
Tangible assets		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
Total	0	0
Carrying value at end of year	1	0

17. Other provisions

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

Other provisions	2010	2009
Endowment insurances	36	25
Long term incentives	15	-
Other provisions	26	-
Carrying value at end of year	77	25
Where of total non-current	59	25
Where of total current	18	-

Movements in provisions during the year were as follows:

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

Endowment insurance

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

Long term incentives

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

Other provisions

Provisions of operating characters and not related to personnel compensation. A part of the provision consists of payroll tax based on provision for pension and similar obligations.

18. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 3,186 MSEK (998).

19. Liabilities to group companies

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

20. Other liabilities

Other non-current liabilities consists mainly of derivatives. Derivatives due for payment later than five years after the balance sheet date amount to 161 MSEK (-).

21. Accrued expenses and deferred income

Accrued expenses and deferred income	2010	2009
Accrued interest expenses	191	201
Personnel expenses	7	20
Accrued incentives incl. social security charges	18	15
Accrued vacation pay	2	2
Accrued costs studies	-	6
Other accrued expenses	13	10
Carrying value at end of year	231	254

22. Pledged assets and contingent liabilities/assets

Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 29 MSEK (20). The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

Contingent liabilities	2010	2009
Guarantees on behalf of subsidiaries	61	417
Guarantees on behalf of associated companies	171	-
Guarantees to external companies	-	5
Total	232	422

Contingent assets

As per December 31, 2010, the Parent Company had no contingent assets.

23. Supplementary information to cash flow statement

Interest paid and received and dividend received	2010	2009
Dividend received ¹⁾	2,250	4,235
Interest received, non-group companies	11	65
Interest paid, non-group companies	-473	-400
Interest received, group companies	240	178
Interest paid, group companies	-572	-873
Total	1,456	3,205

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

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

Adjustments for non cash items and other	2010	2009
Depreciation and amortization	1	4
Impairment losses	2,777	9
Share based payments, IFRS 2	-	14
Change in accrued interest	9	-35
Change in market value revaluations	-4	1
Unrealized exchange rate differences	-43	57
Realized exchange rate differences	45	-56
Dividends in kind	-2,036	-
Group contributions	-1,952	-1,771
Gain on sale of subsidiaries	-299	-
Other	47	3
Total	-1,455	-1,774

Non-cash transaction

Received purchase sum for subsidiaries sold to STG amounted to 4,587 MSEK. The same amount have been invested in Swedish Match Treasury SEK SA in the form of shareholder contribution.

24. Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies		Joint venture	
	2010	2009	2010	2009	2010	2009
Revenues						
Dividend	4,286	4,235	-	-	-	-
Group contribution	1,952	1,771	-	-	-	-
Interest income	229	232	1	-	-	-
Sale of goods/services	37	41	-	-	5	2
Expenses						
Group contribution	-58	-	-	-	-	-
Interest expenses	-572	-872	-	-	-	-
Purchase of goods/services	-20	-17	-	-	-	-
Receivables	10,908	8,266	258	-	1	0
Liabilities	21,018	20,093	-	-	-	-
Guarantees	61	417	171	-	-	-

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 7 Personnel* for the Group. In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 9 Group companies*.

25. Carrying value and fair value of financial instruments

Carrying value and fair value

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2010. 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 IFRS 7. The values presented are indicative and may not necessarily be realized.

2010	Items carried at fair value via the income statement ¹⁾	Other financial liabilities	Cash flow hedges	Fair value hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	83	–	34 ²⁾	–	29	146	146
Other receivables	–	–	–	–	4	4	4
Prepaid expenses and accrued income	11	–	–	–	21	32	32
Total assets	94	–	34	–	54	182	182
Loans and borrowings	–	9,734	–	–	–	9,734 ³⁾	9,902 ³⁾
Other liabilities	38	–	276	–	9	323	323
Accrued expenses and deferred income	–	162	29	–	40	231	231
Trade payables	–	25	–	–	–	25	25
Total liabilities	38	9,921	305	–	49	10,313	10,481

¹⁾ All items relates to instruments held for trading.

²⁾ 24 MSEK are allocated to earnings and 10 MSEK are changes of market value. The instruments are interest rate swaps at a nominal amount of 5,529 MSEK. There are no conditions in these transactions that can cause any difference in amounts and maturities between these derivatives and their underlying liabilities.

³⁾ The increase of the estimated fair value of 168 MSEK is the difference between the booked value and revaluation to the market rates for December 31, 2010.

2009	Items carried at fair value via the income statement ¹⁾	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
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.

26. Employee benefits

Post-employment employee benefits

Some post-employment benefit obligations are insured by Swedish pension trust arrangements. During 2010 some parts of the PSF pension obligations were not included in the transfer to insurance companies which instead were assumed directly by Swedish Match AB.

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

As per December 31, 2010 the Swedish pension trust arrangement and the pension plan for former employees in the UK show a net surplus.

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

Defined benefit plans	2010	2009
Present value of funded obligations	-660	-720
Fair value of separately held assets	736	803
Surplus, net	75	83
Net surplus in pension trust not recognized in balance sheet	-75	-83
Present value of unfunded obligations	-37	-
Net pension liability recognized in the balance sheet	-37	0

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

Net pension liability	2010	2009
Balance at beginning of year	0	0
Costs recognized in income statement attributable to pension	-37	4
Benefits paid	-4	-7
Contribution received from pension trust	4	4
Balance at end of year	-37	0

-11 MSEK (40 MSEK) of the total net pension liabilities (assets) is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Income and expenses attributable to pension	2010	2009
Current service costs	-1	0
Difference between contribution received from pension trust and benefits paid	0	0
Interest cost on obligation	-35	-37
Actual return on separately held assets	46	81
Net income for pension	11	44
Pensions covered by insurance premiums:		
Costs for assumed pension obligations	-37	-
Costs for pension insurance premiums recognized in income statement	-13	-18
Increase in surplus in pension trust	-11	-44
Net pension costs recognized in income statement attributable to pension	-50	-18

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 6 percent (10).

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

Separately held assets	2010	2009
Equity securities	179	195
Debt instruments	553	599
Other	4	9
Total	736	803

Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 4.9 percent (5.3).

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

27. Sick leave within the Parent Company

Percent	2010	2009
Total sick leave	0.41	0.96
of which long-term sick leave	-	-
Sick leave for men	0.14	0.47
Sick leave for women	0.72	1.59
Sick leave for employees under 29 ¹⁾	-	-
Sick leave for employees age 30-49	0.28	1.03
Sick leave for employees age 50+	0.83	1.20

¹⁾ No data provided if the Group comprises less than 10 persons.

Long-term sick leave relate to absence due to illness of 60 continuous days and is calculated in relation to the total sick leave in hours. 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 21,188 MSEK, of which –34 MSEK is hedge reserve and 2,402 MSEK is net profit for the year.

The Board of Directors proposes that the 21,188 MSEK which is at the disposal

of the Annual General Meeting be distributed so that shareholders receive a dividend of 5.50 SEK per share, amounting to a total of 1,181 MSEK, based on the number of shares at end of the year, and that –34 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 May 2, 2011 for adoption. The Board of Directors also proposes May 5, 2011 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 22, 2011

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 9, 2011

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 2010. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 54–106. 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, March 9, 2011
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.

CORPORATE GOVERNANCE

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 at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se. The Company is not reporting any deviations from the Code for 2010, 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 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' right to participate in resolutions regarding the Company's

affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website at www.swedishmatch.com/agm. The Company's Articles of Association do not include any limitations on how many votes each shareholder may cast at a General Meeting. Each share entitles the holder to one vote at a General Meeting. The Company does not apply any special arrangement on how the General Meeting works, neither due to provisions in the Articles of Association nor, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be 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 2010 was held on April 27, 2010. The minutes of the meeting are available on the Company's website: www.swedishmatch.com.

Authorisation granted by the General Meeting

The General Meeting did not grant the Board of Directors to resolve that the Company shall issue new shares. For information as to the authorisation granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 54.

Direct or indirect shareholding

No shareholder has a shareholding in the Company representing one tenth or more of the votes of all shares of the Company.

Articles of Association

The Company's Articles of Association do not include any provisions concerning the appointment and dismissal of directors and amendment of the Articles of Association.

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 2010, 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 pro-

posals 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.

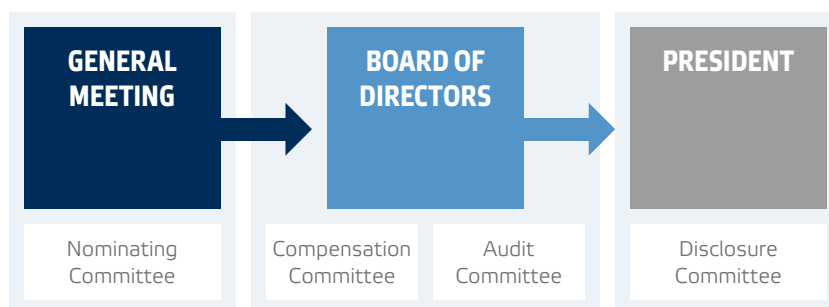
In the autumn of each year the Board of Directors commissions an external consultant to conduct an evaluation of the Board as regards the conduct and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives 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, General Counsel Fredrik Peyron. The 2010 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 be borne by the Company.

Nominating Committee for the Annual General Meeting 2010

The Nominating Committee for the Annual General Meeting in 2010 comprised the following five persons: Andy Brown (Cedar Rock Capital), Mads Eg Gensmann (Parvus Asset Management), KG Lindvall (Swedbank Robur Funds), William Lock (Morgan Stanley Investment Management), and the Chairman of the Board Conny Karlsson. Mads Eg Gensmann served as Chairman of the Nominating Committee.

The Committee held two meetings during the period between the 2009 and 2010 Annual General Meetings combined with informal contacts and discussions between the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2010.

GOVERNANCE OF THE SWEDISH MATCH GROUP



Nominating Committee for the Annual General Meeting 2011

The Nominating Committee for the Annual General Meeting in 2011 was announced on the Company's website on October 27, 2010, in connection with publishing the interim report for the third quarter. The Nominating Committee consists of the following members, in addition to the Chairman of the Board Conny Karlsson: Andy Brown (Cedar Rock Capital), Mads Eg Gensmann (Parvus Asset Management), William Lock (Morgan Stanley Investment Management), and Anders Oscarsson (AMF & AMF Funds). 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 Annual General Meeting, 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 Fredrik Peyron
 Box 7179
 SE-103 88 Stockholm, Sweden
 E-mail: nominating.committee@swedishmatch.com

Board of Directors Composition

According to the Articles of Association, the Company's Board of Directors must consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other

arrangements. At the end of 2010, 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 (until April 26, 2010), Eva Norlén-Moritz (from April 27, 2010), and Gert-Inge Rang as deputies. Detailed information about individual Board members and deputies is provided on pages 114–115.

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 meet with the Board without the presence of the President or any other member of the Group Management Team.

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 operations 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 *Risk management and internal control over financial reporting*, page 113.

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 2010

The number of Board meetings during 2010 was eight, of which six were scheduled meetings, and one was a statutory meeting. The Board of Directors elected at the 2010 Annual General Meeting held its 2010 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 the transaction with the Scandinavian Tobacco Group. 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 Owensboro plant in the US, and in December the Board visited the factory in Kungälv, Sweden.

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 2010, Conny Karlsson served as Chairman of the Board.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors. In 2010, 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 keeps itself informed regarding 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 effectiveness of the Company's internal audit function, the 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

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES AND NUMBER OF MEETINGS AND ATTENDANCE DURING 2010

	Board of Directors	Audit Committee	Compensation Committee
Total number of meetings	8	5	3
Conny Karlsson (Chairman)	8		3
Charles A. Blixt	8		3
Andrew Cripps (Deputy Chairman)	8	5	
Karen Guerra	8		2
Arne Jurbrant	8		1
Kersti Strandqvist	8	4	
Meg Tivéus	8	5	
Kenneth Ek	8		
Eva Larsson	7		
Joakim Lindström	8		
Håkan Johansson	7		
Eva Norlén-Moritz (from April 2010)	6		
Gert-Inge Rång	8		
Eeva Kazemi Vala (until April 2010)	2		

also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

Decision making authority has 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.

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 2010 was five. The Company's auditors participated in all of the meetings of the Audit Committee in 2010 and, at two of these meetings, also met with the Committee without the presence of Company representatives. The head of Internal Audit met separately with the Committee without the presence of management at two of the Committee meetings.

Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors. Members in 2010 were Conny Karlsson, (Chairman), Charles A. Blixt, Karen Guerra (from April 27, 2010), and Arne Jurbrant (until April 26, 2010). 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;
- (v) rules stipulated for the Swedish profit-sharing-system in Sweden, and
- (vi) 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) 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;
- (iii) 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, including performance criteria, and targets in any long term incentive plan;

- (iv) approval of significant engagements outside the Company with respect to other members of the Group Management Team than the President, and
- (v) study fees paid to the employee representatives on the Board.

In addition, the Committee shall monitor and evaluate

- (i) programs for variable remuneration, both ongoing and those that have ended during the year, for the Group Management Team, and
- (ii) the application of the guidelines for remuneration that the Annual General Meeting is legally obliged to establish, as well as the current remuneration structures and levels in the Company.

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. There were three meetings held during 2010.

During 2010, the Committee devoted special attention to determination of variable compensation for 2009 to be paid in 2010, proposals to the Board concerning adjustments to the President's salary and variable compensation for 2011 and determination of salaries and variable compensation for other members of the Group Management Team for 2011. In addition, the Committee submitted a proposal to the Board, prior to the 2010 Annual General Meeting, to have the Company issue call options in respect of the 2009 options program and a proposal for guidelines for the determination of salary and other remuneration paid to the President and other members of Group Management Team.

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 2010, 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.

MEMBERS OF THE COMMITTEES OF THE BOARD OF DIRECTORS 2010

COMPENSATION COMMITTEE

Conny Karlsson
(Chairman)
Charles A. Blixt
Karen Guerra

AUDIT COMMITTEE

Meg Tivéus
(Chairman)
Andrew Cripps
Kersti Strandqvist

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 2010 pursuant to the resolution of the Annual General Meeting in 2010. No compensation for directorship work was paid to Directors employed by the Swedish Match Group.

Pursuant to a resolution adopted by the 2010 Annual General Meeting, compensation to the Board for the period from the 2010 Annual General Meeting up to and including the 2011 Annual General Meeting should amount 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 2010, see *Note 7 Personnel*, page 74.

¹⁾ For changes in the Group Management Team after December 31, 2010, see page 117.

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 2010, Lars Dahlgren served as President and CEO.

Group Management Team¹⁾

In 2010, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and CEO; Mats Adamson, Senior Vice President Group Human Resources (until April 30, 2010); Henrik Brehmer, Senior Vice President Corporate Communications (until October 6, 2010); Rich Flaherty, President of US Sales Division; Lennart Freeman, Executive Vice President and President of Swedish Match International until October 3, 2010 and thereafter President of Lights; Emmett Harrison, Senior Vice President Corporate Communications and Sustainability (from October 7, 2010), Elisabeth Hellberg, Senior Vice President

Group Human Resources (from October 4, 2010); Martin Källström, President of Smokefree Division; Lars Olof Löfman, President of Other Operations until October 3, 2010 and thereafter President of Swedish Match Distribution AB; Jonas Nordquist, President of Scandinavia Sales Division; Fredrik Peyron, Senior Vice President Legal Affairs, and Joakim Tilly, CFO and Senior Vice President Group Finance and IT.

Compensation to Group Management

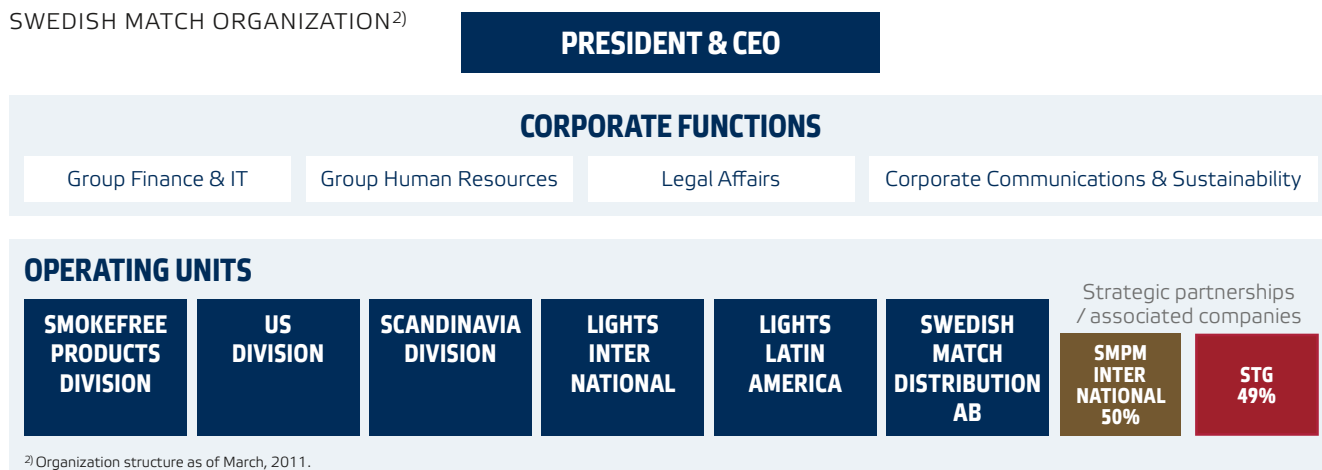
The 2010 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 7 Personnel*, page 74. For information concerning compensation and other benefits to the Group Management Team and the Company's option programs, see *Note 7 Personnel*, page 74.

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.

SWEDISH MATCH ORGANIZATION²⁾



²⁾ Organization structure as of March, 2011.

The duties of the external auditors include auditing the management of the Board and President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board. During 2010, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax and transactional services in relation to the STG transaction, including due diligence reports. In addition, consulting services regarding general tax services, and testing of IT controls were provided.

For information concerning compensation to the Swedish Match auditors during 2010, see *Note 8 Audit fees*, page 78.

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 with content that 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 2010 were the heads of Business Control, Corporate Communications and Sustainability, Group Reporting and Tax, and Legal Affairs. The head of Legal Affairs served as the Chairman of the Committee.

Risk management and internal control over financial reporting

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act. The Audit Committee has a specific responsibility for monitoring the effectiveness of risk management and internal control regarding the financial reporting.

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 the Group, operating units, and local management where the Group values are reinforced.

Risk assessment

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company specific risks and identify additional key internal controls not covered by the standardized system of controls.

Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match operating units are 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 is established with the primary task to indepen-

dently evaluate the effectiveness of internal control. Internal Audit's work is based on risk driven plans as well as triggered by specific changes and events. The head of Internal Audit reports directly to the CFO and to the Chairman of the Audit Committee.

Financial reports are provided on a monthly, quarterly, and annual basis to Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. The Disclosure Committee monitors the sufficiency of financial reports with regard to disclosure requirements.

Stockholm, February 22, 2011

The Board of Directors of
Swedish Match AB

Auditors' report of the Corporate Governance Report

To the annual meeting of the shareholders
in Swedish Match AB (publ.)
Corporate identity number 556015-0756

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2010, pages 108–113, and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the company. In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, 9 March 2011
KPMG AB

Thomas Thiel
Authorized Public Accountant

BOARD OF DIRECTORS



Conny Karlsson

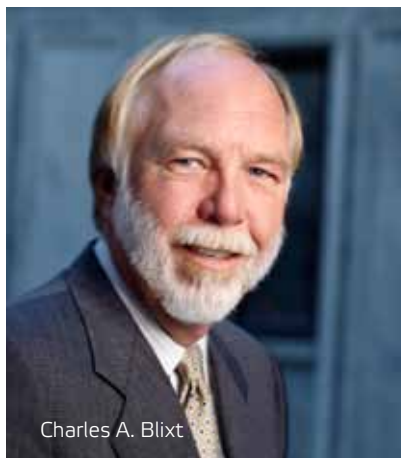
CONNY KARLSSON

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

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

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

Own and related parties' shares: 26,000



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 of Targacept and Krispy Kreme Doughnuts as well as board member of the Salem Academy and the 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.

Own and related parties' shares: 7,090

ANDREW CRIPPS

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

Other board assignments: Non Executive Director of the Booker Group and the Helphire Group.

Previous positions: 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. Chartered Accountant.

Own and related parties' shares: 15,200



Andrew Cripps



Karen Guerra

KAREN GUERRA

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

Other board assignments: Non Executive Director Amcor Ltd, Davide Campari-Milano S.p.A., Samlerhuset BV.

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

Own and related parties' shares: 6,559



Arne Jurbrant

ARNE JURBRANT

Born 1942. M.Sc. in Economics and Business. Board member since 2002.

Other board assignments: Member of the IFL/ MTC Foundation.

Previous positions: President, Kraft Foods Nordic Region; Chief Executive Officer, Kraft Freia Marabou Nordic Region; Chief Executive Officer, General Foods Sweden/Denmark; Chief Executive Officer, General Foods Denmark; Sales Manager, General Foods; Marketing Manager, General Foods Sweden; Product Manager, Pripps Bryggerier; Chief Executive Officer's assistant, Pripps Bryggerier.

Own and related parties' shares: 18,233 (including endowment insurance)



Kersti Strandqvist

KERSTI STRANDQVIST

Born 1963. M.Sc., Techn. Lic., Master of Strategic Marketing. Board member since 2005. Member of the Audit Committee. Senior Vice President Corporate Sustainability, SCA.

Previous positions: Vice President Feminine Care, SCA Personal Care; Category Director Baby Care, SCA Personal Care; R&D Director Light Incontinence Care, SCA Hygiene Products; Technical Manager, SCA Hygiene Products; Market Coordinator, Elf Atochem; various positions within R&D and sales, Neste Chemicals in Sweden, Finland, and Belgium.

Own and related parties' shares: 9,840



Meg Tivéus

MEG TIVÉUS

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

Other board assignments: Chairman of Folkandvården Stockholm, Arkitektkopia and Marknadsförbundet. Board member of Cloetta, Billerud, Apoteket Farmacci and Nordea Fonder. *Previous positions:* President and Chief Executive Officer, Svenska Spel; Vice President, Posten; Division Manager, Holmen; Division Manager, Åhléns; Director, Nordiska Kompaniet; Product Manager, Modo; Project Manager, McCann Gunther & Bäck.

Own and related parties' shares: 16,000

**AUDITORS KPMG AB Senior Auditor:**

Thomas Thiel. Born 1947. Authorized Public Accountant. Swedish Match auditor since 2004. Thomas Thiel's other auditing assignments include Axfood, Folksam, PEAB, Ratos, Skandia, SKF, and Stena.

Independence in relation to the 2010 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

Secretary of the Board is Fredrik Peyron, Senior Vice President Legal Affairs and General Counsel 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 plants in Gothenburg and Kungälv. Works with strategic/technical projects at the Swedish Match plants in Gothenburg and Kungälv.

Previous positions: Technical Manager, Electrical Manager and Electrician, Swedish Match.

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. Insurance Manager for the insurance policies of employees under collective agreements at the match plant in Tidaholm.

Previous positions: Line Operator, Swedish Match.

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' (Livsklubben) Trade Union Association in Solna. Module technician at Swedish Match Distribution.

Previous positions: Module Technician, Swedish Match Distribution.

Own and related parties' shares: 0

EMPLOYEE REPRESENTATIVES (DEPUTIES)

Håkan Johansson

Eva Norlén-Moritz

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 in Gothenburg.

Previous positions: Module Technician, Swedish Match Distribution facility in Malmö; Line Operator, Svenska Tobaks.

Own and related parties' shares: 0

EVA NORLÉN-MORITZ

Born 1960. Deputy member since 2010. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chemist and works with chemical analysis of tobacco and products as well as quality assurance concerning analytical methods at the R&D department within Swedish Match.

Previous positions: The Customs (and Excise) Department Stockholm; Astra Pharmaceutical Production Södertälje.

Own and related parties' shares: 0

GERT-INGE RANG

Born 1954. Deputy member since 2007. Appointed by the Council for Negotiation and Co-operation (PTK) within Swedish Match. Chairman of the Swedish Association of Management and Professional Staff (Ledarna) at the factory in Vetlanda. Supervisor at the Splint department at Swedish Match Industries in Vetlanda.

Previous positions: Supervisor, Swedish Match Industries.

Own and related parties' shares: 1,000

www.swedishmatch.com

For updated information on Board members and their shareholdings and options, please refer to the Company's website.

Changes in the Board of Directors during 2010

Eva Norlén-Moritz replaced Eeva Kazemi Vala as a Deputy member from April 2010. Other than this there were no changes in the Board of Directors during 2010.

GROUP MANAGEMENT



Lars Dahlgren

LARS DAHLGREN

President and CEO of Swedish Match AB since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics.
Previous positions: Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director Swedish Match Philippines; Financial analyst, SBC Warburg.
Own and related parties' shares: 7,900
Call options: 175,862



Emmett Harrison

EMMETT HARRISON

Senior Vice President, Corporate Communications and Sustainability since 2010. Joined Swedish Match in 1990. Member of the Group Management Team since 2010. Born 1960. B.A. Economics, and MBA.
Previous positions: Senior Vice President Investor Relations and Sustainability, Swedish Match AB; Vice President Investor Relations, Swedish Match AB; Global Marketing Director, Swedish Match Lighter Division; Marketing Manager, Swedish Match North America Division.
Own and related parties' shares: 0
Call options: 45,752



Elisabeth Hellberg

ELISABETH HELLBERG

Senior Vice President, Group Human Resources since 2010. Joined Swedish Match and a member of the Group Management Team since 2010. Born 1957. Studies in international business administration at Uppsala University.
Previous positions: Head of Human Resource operations MTG; Cabin HR Manager, Skyways; Business Controller, Bandit 105,5 and Lugna favoriter 104,7.
Own and related parties' shares: 0
Call options: 0



Richard Flaherty

RICHARD FLAHERTY

President, US Division since 2011. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law, and LLM Taxation.
Previous positions: President, US Sales Division; 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: 162,405



Lars Olof Löfman

LARS OLOF LÖFMAN

President, Smokefree Products Division since 2011. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM. *Previous positions:* President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division. *Own and related parties' shares:* 1,400 *Call options:* 124,840



Jonas Nordquist

JONAS NORDQUIST

President, Scandinavia Division since 2011. Joined Swedish Match in 2006. Member of the Group Management Team since 2009. Born 1971. M.Sc. in Electrical Engineering from the Royal Institute of Technology and M.Sc. in Business and Economics from the Stockholm School of Economics. *Previous positions:* President, Scandinavia Sales Division; Chief Financial Officer, Swedish Match North Europe Division; Head of Siemens Mobile Phones Division India; various management positions within Siemens in Germany and India. *Own and related parties' shares:* 0 *Call options:* 34,123



Fredrik Peyron

FREDRIK PEYRON

Senior Vice President, Legal Affairs and General Counsel since 2007. Joined Swedish Match in 2000. Member of the 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 law firm. *Own and related parties' shares:* 1,500 *Call options:* 83,509



Joakim Tilly

JOAKIM TILLY

Senior Vice President, Group Finance and IT, and Chief Financial Officer since 2008. Joined Swedish Match in 1994. Member of the Group Management Team since 2008. Born 1970. M. Sc. in Business and Economics from the Stockholm School of Economics. *Previous positions:* Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division. *Own and related parties' shares:* 0 *Call options:* 68,369

Holdings of own and related parties shares and call options as of December 31, 2010. For a detailed report of remuneration and benefits for senior executives, refer to *Note 7 Personnel*, page 74 in the annual report.

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.

Changes in the Group Management Team during 2010 and through March 2011

Elisabeth Hellberg was appointed Senior Vice President, Group Human Resources, in September 2010, replacing Mats Adamson. Emmett Harrison was appointed Senior Vice President, Corporate Communications and Sustainability in October 2010, when Henrik Brehmer, Senior Vice President Corporate Communications, left the Company. Lennart Freeman, Executive Vice President of Swedish Match AB and President of Lights, retired in March, 2011. Following the new organizational structure, adopted in March, 2011, Lars Olof Löfman assumed the role of President of the new Smokefree Products Division. The geographic divisions, US Division and Scandinavia Division, are headed by Richard Flaherty, and Jonas Nordquist respectively. Martin Källström, President of former Smokefree Division, left the Company in March, 2011.

☆☆☆
SWEDISH MATCH

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