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SWEDISH MATCH®

# 2014 Annual Report



Our vision:  
**A world without  
cigarettes**

## 2014 IN BRIEF

- The new vision "A world without cigarettes" was introduced.
- Gained market share in the Swedish snus value segment.
- General snus further strengthened its number two position in the US.
- Submission of application to the US Food and Drug Administration (FDA) for a Modified Risk Tobacco Product classification (MRTP) for General snus.
- All-time high for cigar shipments.
- Sales increased by 6 percent to 13,305 MSEK (12,610), and by 4 percent in local currencies.
- Operating profit<sup>1)</sup> amounted to 3,780 MSEK (3,855 including a capital gain of 161 MSEK).
- EPS (basic), excluding larger one-time items, amounted to 13.23 SEK (12.82). EPS (basic) amounted to 13.23 SEK (13.63).

<sup>1)</sup> Operating profit for the Group includes share of net profit in STG and larger one-time items.

## Our vision – A world without cigarettes

Nearly two decades ago, Swedish Match chose a different path and made the conscious decision to divest its cigarette business. This was the start of a successful and ongoing journey that has helped to define our values, our company culture and our daily decisions. //

Lars Dahlgren, President and CEO

### Annual General Meeting 2015

Information regarding the Annual General Meeting, the dividend and the Group's financial calendar for 2015 is presented on pages 36–37.

### Annual Report distribution policy

The printed version of Swedish Match Annual Report is only distributed to shareholders who request a copy. The Annual Report is also available in its entirety at the Company's website [www.swedishmatch.com/annual-reports](http://www.swedishmatch.com/annual-reports).

## FOR MORE INFORMATION



Swedish Match Annual Report 2014 is also available as downloadable PDF file at [www.swedishmatch.com/annual-reports](http://www.swedishmatch.com/annual-reports)



Swedish Match Sustainability Report 2014, will be available on the website at [www.swedishmatch.com/sustainability](http://www.swedishmatch.com/sustainability)



The Swedish Match Company website is the principal source on current and historical information about the Group's operations and activities. [www.swedishmatch.com](http://www.swedishmatch.com)

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# THIS IS SWEDISH MATCH

Swedish Match develops, manufactures, and sells quality products with market-leading brands in the product areas Snus and moist snuff, Other tobacco products (cigars and chewing tobacco), and Lights (matches, lighters, and complementary products).

Swedish Match's vision is a world without cigarettes. Some of its well-known brands include: *General*, *Longhorn*, *White Owl*, *Red Man*, *Fiat Lux*, and *Cricket*.

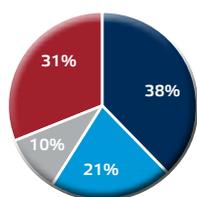
Production is located in six countries, with sales concentrated in Scandinavia and the US. In Sweden, the Group has an independent distribution company.

Swedish Match also owns 50 percent of SMPM International (a joint venture with Philip Morris International for snus outside of Scandinavia and the US). In addition, Swedish Match holds a 49 percent ownership interest in Scandinavian Tobacco Group (STG).

Sales for 2014 amounted to 13,305 MSEK and the average number of employees was 4,395.

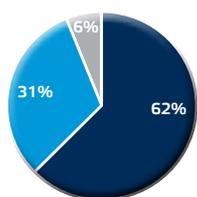
Swedish Match's head office is located in Stockholm, Sweden. The Swedish Match share is listed on NASDAQ OMX Stockholm (SWMA).

SALES BY PRODUCT AREA



- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

OPERATING PROFIT BY PRODUCT AREA<sup>1)</sup>



- Snus and moist snuff
- Other tobacco products
- Lights

<sup>1)</sup> Excluding Other operations, share of net profit in STG, and larger one-time items. Totals may be affected by rounding.

Key data, MSEK	2014	2013	2012
Sales	13,305	12,610	12,486
Operating profit from product areas <sup>1)</sup>	3,446	3,375	3,666
Operating profit <sup>2)</sup>	3,780	3,855	4,062
Operating margin from product areas, % <sup>1)</sup>	25.9	26.8	29.4
Operating margin, % <sup>2)</sup>	28.4	29.3	32.3
EBITDA from product areas <sup>1)</sup>	3,749	3,650	3,962
EBITDA <sup>2)</sup>	4,083	3,968	4,328
Profit for the year	2,626	2,711	2,907
Earnings per share, basic, excluding larger one-time items, SEK	13.23	12.82	14.18
Earnings per share, basic, SEK	13.23	13.63	14.33
Dividend per share, SEK	7.50 <sup>3)</sup>	7.30	7.30

<sup>1)</sup> Excluding share of net profit in STG and larger one-time items.  
<sup>2)</sup> Including share of net profit in STG and larger one-time items.  
<sup>3)</sup> Board proposal.

## OPERATING LOCATIONS

### USA

Production units  
Sales offices  
1,147 employees

### The Dominican Republic

Production unit  
1,101 employees

### Brazil

Production units  
Sales offices  
672 employees

### Belgium

Treasury and Public Affairs offices  
3 employees

### The Netherlands

Production unit  
101 employees

### Norway

Sales offices  
48 employees

### Sweden

Head office  
Production units  
Sales offices  
1,038 employees

### Turkey

Sales offices  
15 employees

### The Philippines

Production unit  
Sales offices  
268 employees



**4,395** employees

**12** factories worldwide

**VISION**

# A WORLD WITHOUT CIGARETTES

*We create shareholder value  
by offering tobacco consumers enjoyable products  
of superior quality in a responsible way.  
By providing products that are recognized as safer  
alternatives to cigarettes, we can contribute  
significantly to improved public health.*

**STRATEGY**

## SNUS AND MOIST SNUFF

The work towards our vision starts in our core markets (Scandinavia and the US) where we will leverage our unique platform.

- In Scandinavia, we will defend and develop our strong market positions and lead the development of the snus category.
- In the US, we will further develop the snus category and grow our share, and for moist snuff we will continue to target faster growing segments.
- Outside of our core markets, we will continue our work to establish Swedish snus in selected markets.

## OTHER PRODUCT AREAS

To support our vision, we will leverage our strong market positions and brands in order to realize synergies and to maximize long term value.

- In Other tobacco products, we will leverage our strong platforms to maximize long term profitability.
- In Lights, we will continue to focus on operational excellence and profitability.
- For STG, we will realize the potential of our holding through active ownership.

**CORE VALUES**



PASSION



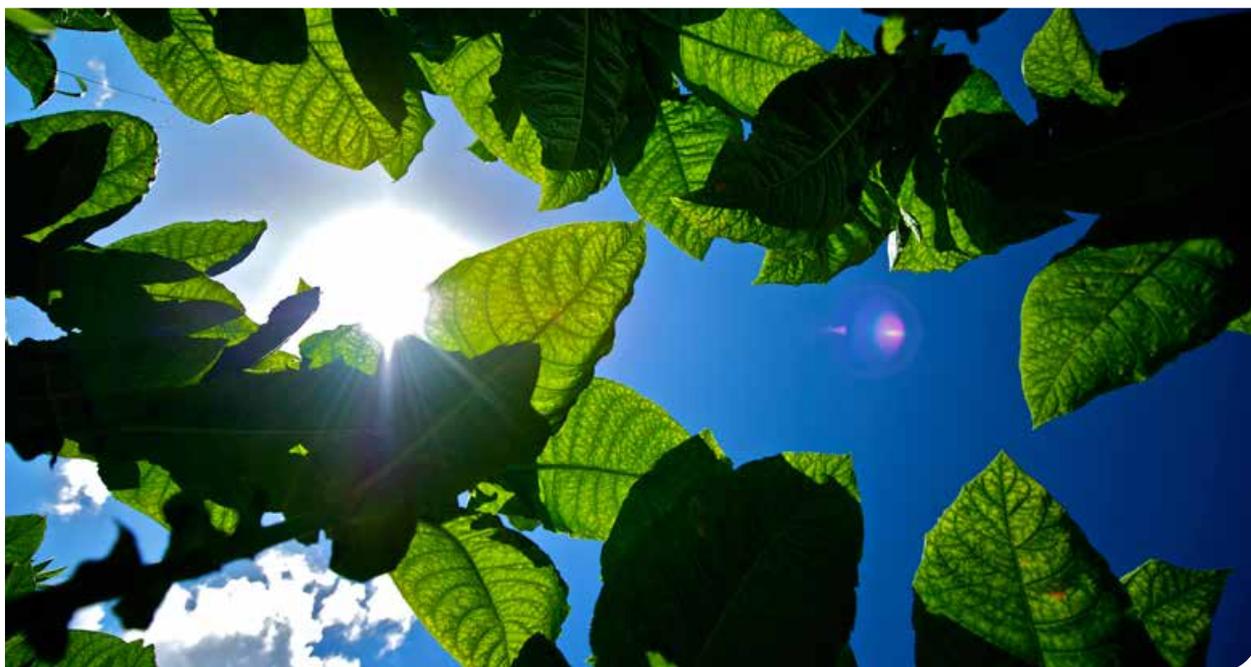
OWNERSHIP



INNOVATION



QUALITY



## PRODUCTS AND BRANDS

Swedish Match's products and brands are reported within the following product areas: Snus and moist snuff, Other tobacco products (cigars and chewing tobacco), and Lights (matches, lighters, and complementary products). More than a third of total sales and more than half of the operating profit come from Snus and moist snuff.

### SNUS AND MOIST SNUFF

Swedish Match has a market leading position in the Scandinavian snus market. In the US, Swedish Match is well positioned as the third largest snus and moist snuff company. Through its 50/50 joint venture, SMPM International, Swedish Match is well positioned to explore and establish new markets for snus outside of Scandinavia and the US. Production units are located in Sweden (snus) and the US (moist snuff).

>> Read more on page 10.

**Main markets and brands**

**Sweden:**  
General, Göteborgs Rapé, Ettan, Grov, Catch, Kaliber, Kronan

**Norway:**  
General, Nick & Johnny, The Lab

**The US:**  
Longhorn, Timber Wolf, General



### OTHER TOBACCO PRODUCTS

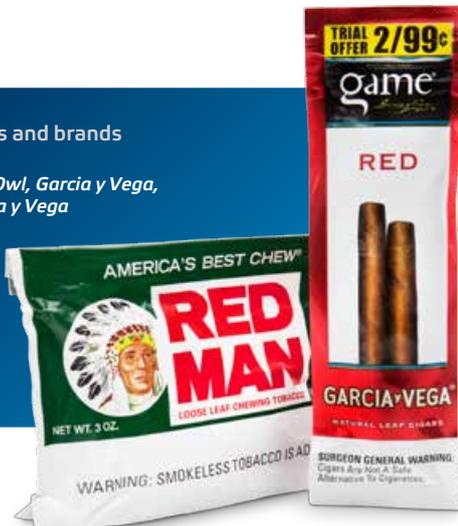
Swedish Match is a major player in the US market for mass market cigars and the largest manufacturer of chewing tobacco. Nearly all the products are sold on the US market. Production takes place in the US (cigars and chewing tobacco) and in the Dominican Republic (cigars).

>> Read more on page 17.

**Main markets and brands**

**The US:**  
Cigars: White Owl, Garcia y Vega, Game by Garcia y Vega

**Chewing tobacco:**  
Red Man



### LIGHTS

Swedish Match is the market leader for matches in many markets throughout the world, with well known local brands. For lighters, the Cricket brand has strong market positions in many countries. Production of matches takes place in Sweden and Brazil. Lighters are produced in the Philippines, the Netherlands, and Brazil. The Company also offers a portfolio of complementary products, including disposable razors, batteries, high efficiency light bulbs, and tooth picks under the Fiat Lux brand.

>> Read more on page 20.

**Main markets and brands**

**Matches:**  
Solstickan (Sweden), Swan (UK), Tres Estrellas (Spain), Feudor (France), Redheads (Australia), Fiat Lux (Brazil)

**Lighters:**  
Cricket (globally)



# A world without cigarettes – spells out our long term ambitions

**Swedish Match develops, manufactures, markets and sells high quality products under leading brands, with an aim to deliver sustainable and growing profits to the Company's shareholders. Our vision of a world without cigarettes spells out our long term ambition of how we will achieve this. By emphasizing products recognized as safer alternatives to cigarettes, we can contribute significantly to improved public health. Our core values of passion, ownership, innovation, and quality help in guiding our behavior and decision making as we work toward our vision, benefitting both shareholders and society.**

Nearly two decades ago, Swedish Match chose a different path and made the conscious decision to divest its cigarette business. This was the start of a successful and ongoing journey that has helped to define our values, our company culture and our daily decisions.

## Our vision is achievable in the long term

While our vision is long term, it can be achieved. The availability of our high quality snus explains the uniquely low cigarette consumption in Sweden. In Norway, we see a similar migration from cigarettes to snus. Swedish Match can and does contribute to improved public health by offering tobacco consumers quality products which are recognized to be safer than the dominant tobacco product, cigarettes.

Our vision should be seen as a further clarification of what we stand for. With our new vision, we see the market and its potential as something more, and larger, than simply gaining share in an existing market.

For a very long time, tobacco has been one of the most regulated product categories. Still, cigarette consumption remains high in most countries. In the European Union, where snus is prohibited outside of Sweden, more than a quarter of the adult population still smoke. Consumers are competent to make their own informed choices, but this requires regulation that reflects the different risk profiles among tobacco products. Our application to the US Food and Drug Administration (FDA) for a Modified Risk Tobacco Product classi-

fication for snus is a clear example of current work towards our vision. Another example is our long term investment in our quality standard, GOTHIA TEK®.

To realize our potential, we take an approach based on the values of passion, ownership, innovation, and quality. Our various businesses are strong platforms for reaching our vision, which requires capital, proximity to markets, distribution, strong brands and dedicated employees. We look forward to a world without cigarettes where snus will be widely recognized as a more responsible way for adults to enjoy nicotine.

## A look back at 2014

**In Scandinavia**, both the Swedish and Norwegian markets continued to show good volume growth. While Swedish Match faced intense competition in both Sweden and Norway, company volumes grew in both countries. In Sweden, we succeeded in taking market share from competitors in the fast growing value segment, while maintaining our leading position in the premium segment.<sup>1)</sup> In Norway, the strong market growth has been driven by the pouch segment, while the traditional loose segment continued to decline in volume terms. Swedish Match lost market share in the Norwegian market, but we have taken a number of important steps to address this issue.

**In the US**, the *General* snus brand had good growth in both consumption volumes and market share. Distribution during the course of the year grew somewhat and there was increased emphasis on activities and programs tied to consumer engagement. With less than one half of the distribution level of the largest competitor, we estimate that *General* snus has captured approximately 10 percent of the total US snus market. Investments behind awareness building activities will continue, providing Swedish Match with a strong and loyal consumer base. In the US moist snuff market competition has remained intense, but we exhibited solid growth in key segments. In the fast growing pouch and large pack (tub) segments, we made good strides with rapid volume growth. We will continue to invest

behind those areas where we see growth potential for snus and moist snuff.

We also continued our efforts to establish snus internationally outside of the US, through our joint venture company, SMPM International.

**Our US cigar and chewing tobacco businesses**, making up Other tobacco products, had a strong year. With such well-known cigar brands as *White Owl* and *Game by Garcia y Vega*, Swedish Match has a solid platform for growth. During 2014 our cigar volumes grew by 12 percent, to 1.1 billion sticks – a new record. We were successful in building our volumes and increasing share in the growing natural leaf segment. Our *Jackpot* brand which competes in the deep discount segment, has established itself as a strong player in that segment. For chewing tobacco, operating profit held up very well, despite ongoing category volume declines. Swedish Match has the market leading premium brand, *Red Man*, as well as a growing presence in the value for money segment through its offerings in larger size bags.

**Our Lights product area** performed well despite pressure on volumes for both matches and lighters. During the year we had to cope with both increased geopolitical uncertainty and sharp currency movements. While lighters volumes declined in the important Russian market, other markets, especially in Asia, performed well and continued to grow. In Brazil, we also saw further sales growth from our complementary products, including disposable razors, batteries, high efficiency light bulbs, and tooth picks.

**On the regulatory front**, there were a number of notable events. This past summer, Swedish Match was informed by the FDA in the US that the application for Modified Risk Tobacco Product status was complete – a first for a tobacco company. The FDA takes into account relative risk of different tobacco products. While we do not know the final outcome of the application, we are hopeful that the application will be approved which would enable proper communication of information to consumers

<sup>1)</sup> Swedish Match segments the Swedish snus market into two price segments: the premium priced segment and the value priced segment.

about the significantly lower health risks of snus compared to cigarettes. In Europe, with the new European Tobacco Products Directive, the ban on the sale of snus products within the EU will remain in place. We maintain that this was a wrong decision on the part of the EU from a public health standpoint and continue to believe that snus has an important role to play as a reduced harm alternative to cigarettes.

**Scandinavian Tobacco Group (STG)**, in which Swedish Match has a 49 percent ownership, is the world's largest pipe tobacco company, has a substantial fine cut business, and is the world's largest cigar manufacturer. STG reported sales growth in local currencies for machine made cigars, premium cigars, and fine cut tobacco. The Swedish Match share of net profit grew by 5 percent. STG has appointed a new CEO, and has identified opportunities for further operational improvements and increased capital efficiency. While we keep our options open, we along with the other owners of STG will now focus on evaluating an initial public offering of the Company.

**Swedish Match is committed** to improving its social, environmental, and economic endeavors. As an example, during 2014 we broadened our scope with regard to our suppliers, implementing new standards and control procedures to help evaluate and ensure continued progress by our suppliers in maintaining high standards of conduct. We have signed onto the ECLT Pledge of Commitment, demonstrating our resolve in doing our part toward eliminating child labor in tobacco growing. To monitor our tobacco suppliers and supplies, we have engaged ABSustain an outside company which is a leader in monitoring and supplier audits in the tobacco sector.

**Our financial performance during 2014** recorded growth in sales, but a modest decline in operating profit and earnings per share. Excluding larger one-time items, both operating profit and earnings per share increased. Basic EPS for the year amounted to 13.23 SEK, versus 12.82 SEK, excluding larger one-time items, in the previous year. For 2014 the proposed dividend is 7.50 SEK per share.

I would like to express my appreciation to our customers, our consumers, and our employees, for helping us to deliver a strong and solid business to you, our shareholders.

Stockholm, March, 2015

Lars Dahlgren, President and CEO



## **/// We take pride in what we do.**

Our vision should be seen as a further clarification of what we stand for. With our new vision, we see the market and its potential as something more, and larger, than simply gaining share in an existing market. //

# Organization and value chain

## ORGANIZATION

Swedish Match continuously works to have the right people, competencies, strategy, and structure in place in order to rapidly meet changing market conditions, with flexibility and innovation.

Swedish Match organization consists of five operating units as well as the Corporate functions. Alongside the internal organization, Swedish Match has two strategic partnerships; Scandinavian Tobacco Group (STG) and SMPM International.

**Scandinavia Division** is responsible for the snus business in Sweden and Norway, including development, manufacturing, marketing and sales. The Scandinavia Division operating unit is also

responsible for the supply of the Group's smoke-free products, including moist snuff, chewing tobacco and snus sold in the US and globally through SMPM International. In addition, Scandinavia Division is responsible for developing new products and improving the current product portfolio. Focus is on strengthening the position in the smokefree category as well as growing the category in Scandinavia through efficient sales processes, marketing activities and product development.

**US Division** is responsible for sales and marketing of snus, moist snuff, and chewing tobacco in the US. The US Division also has the full respon-

sibility for US mass market cigars, including sales and marketing, as well as the supply chain. US Division's focus is on the sales process, brand marketing, trade category management and go-to-market strategies in order to secure quality distribution and expand the share of market for its products. The US Division also focuses on building the category for Swedish snus in the US. For the US mass market cigars and chewing tobacco categories, the continued focus is on profitability and value creation.

**Lights Latin America** manufactures matches and lighters in Latin America and markets the products through its own sales force. The unit

## VALUE CHAIN

### 1. Consumer Insight

Swedish Match works to address consumer needs on an ongoing basis. Consumers want quality products with brands they trust and a price that aligns to the attributes of the product. The Company uses a structured consumer insight approach bringing increased understanding of brands, consumers, customers/retailers, trends, and competitors. Through consumer engagement, Swedish Match can work to deliver products that meet consumer desires. Consumer insights are most often generated in the various operating units by marketing departments, business development departments, and from customer/retailer and consumer engagement.

### 2. Innovation and product development

During the product development and innovation processes, factors considered include cost, ingredients, packaging, regulatory issues,

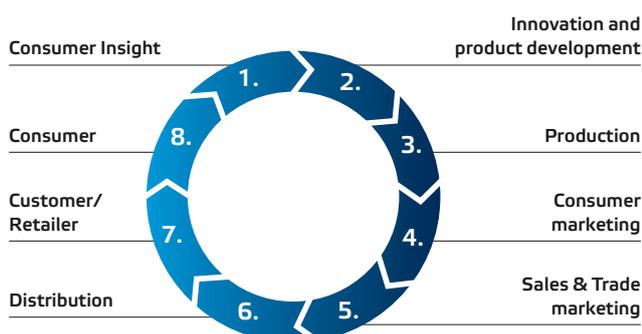
time to market, product life cycles, market and volume potential, technological feasibility, and environmental impact. Suppliers and materials to produce the finished product must be readily available, quality levels must be assured and quality standards must be met, throughout the value chain. Swedish Match has extensive R&D facilities for snus that work to develop new products and to monitor and improve existing products in line with the Company's GOTHIA TEK® standard<sup>1)</sup>. R&D for all smokeless tobacco products is handled by the Scandinavia Division, in facilities in both Sweden and the US. For lights products and cigars, R&D is generally conducted at the factory level.

### 3. Production

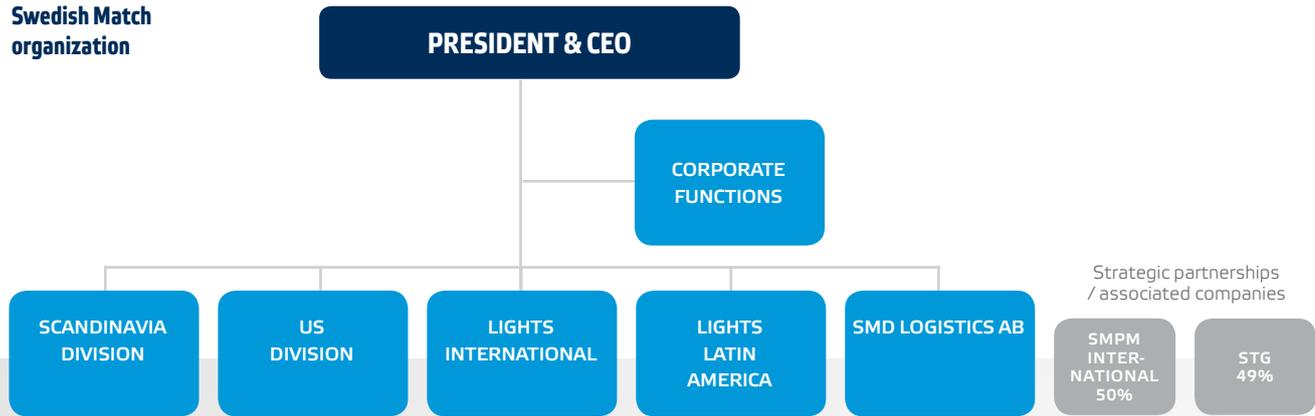
Production of snus takes place in Gothenburg and Kungälv, Sweden. Production of moist snuff and chewing tobacco takes place in Owensboro, Kentucky, the US. In addition to producing its own products, Swedish Match produces chewing tobacco for a third party. Cigars are produced in Santiago, the Dominican Republic, and in Dothan, Alabama, the US. Production of matches takes place in Tidaholm and Vetlanda, Sweden, and in Curitiba and Piraí do Sul, Brazil. Lighter facilities are located in Manila, the Philippines, in Assen, the Netherlands, and in Manaus, Brazil.

### 4. Consumer marketing

Swedish Match is committed to maintaining high standards when marketing to its adult consumers and has procedures to ensure that the Company meets requirements of all local laws, rules, and regulations with regard to marketing practices. The marketing depart-



**Swedish Match organization**



also sells complementary products including razors, batteries, high efficiency light bulbs, and tooth picks.

**Lights International** manufactures and markets matches and lighters outside Latin America with production in the Netherlands, the Philippines and Sweden. The unit has its own sales company in Turkey and a wide network of distribution business partners worldwide, with STG as an important business partner.

**SMD Logistics AB** distributes mainly tobacco products in the Swedish market. Distribution takes place from two distribution centers

(Stockholm and Gothenburg) to around 10,000 stores, in principle enabling complete coverage of the Swedish retail sector. All major tobacco companies in the market are customers, which gives the distribution company a strong position in the tobacco segment. SMD Logistics AB also distributes prescription free pharmaceuticals to the Swedish trade.

**Corporate functions** include finance, business control, legal, IR and corporate sustainability, scientific, communications and public affairs, procurement, group IT, as well as central HR. In many areas the activities are performed in close cooperation with the operating units.

Two strategic partnerships reinforce the Group strategy and business operations: the joint venture company (SMPM International) equally owned by Swedish Match and Philip Morris International and the 49 percent ownership in Scandinavian Tobacco Group (STG). SMPM International was established to develop new snus markets outside Scandinavia and the US. STG has market leading positions in cigars, pipe tobacco and fine cut tobacco, and Swedish Match aims to realize the full potential of STG through an active ownership.

ments are responsible for consumer marketing, such as determining what the product and packaging should be, how it should be priced, where it should be sold, and how to communicate with consumers. Marketing is generally handled at the local or national level, except for international brands, such as for *General* snus or *Cricket* lighters, where some marketing is carried out on a pan-geographic basis.

**5. Sales & Trade marketing**

Sales & Trade marketing help customers/retailers to better understand the products offered by Swedish Match, which in turn allows them to better merchandise the products to consumers. The Company's category management tools help retailers to optimize their merchandising. Sales & Trade marketing is usually carried out at the local or national level.

**6. Distribution**

For the Swedish and Norwegian markets, Swedish Match's products are shipped through SMD Logistics AB, whose distribution facilities are located in Stockholm and Gothenburg, Sweden. SMD Logistics AB also distributes other companies' products, such as most tobacco products in Sweden. In the US, Swedish Match ships products to both wholesaler and selected retailer locations throughout the country directly from its production facilities and through company owned and third party warehouses. Swedish Match ships its lights products to distributors in many countries and also uses its own sales and distribution networks. The distribution of lights products in a number of countries in Europe as well as in Australia and New Zealand is handled by Scandinavian Tobacco Group.

**7. Customer/Retailer**

The primary sales channels for Swedish Match products are supermarkets, convenience stores, tobacconists, and gasoline stations. Other channels include bars and restaurants, as well as Travel Retail outlets, such as airports and ferries. Consumer prices are set by retailers. Swedish Match's sales representatives work closely with customers/retailers to optimize their business in selling Swedish Match's products to consumers. Snus is typically merchandised from coolers to help ensure longer lasting freshness and quality. Moist snuff, cigars, and chewing tobacco, are not refrigerated, having attributes and packaging that provide long lasting freshness. Customers/retailers are responsible for ensuring that all tobacco products are only sold to those who can legally purchase them. Swedish Match believes that no consumer under the age of 18 should be allowed to purchase tobacco, and supports retailers' efforts to demonstrate their endorsement of the Swedish Match *Under 18, No Tobacco principle*<sup>2)</sup>.

**8. Consumer**

When all parts of the value chain work together, consumers can be confident that they are buying high quality Swedish Match products that fit their demands and desires. Their purchases and their views on the products will further influence the value chain and the product development cycle.

<sup>1)</sup> For more information about GOTHIA TEK®, see [www.swedishmatch.com/GOTHIA TEK](http://www.swedishmatch.com/GOTHIA TEK).  
<sup>2)</sup> For more information about the *Under 18, No Tobacco principle*, see page 31.

# Snus and moist snuff – growing in importance

**The largest single segment of the global tobacco market is cigarettes, a category in which Swedish Match does not compete. Instead, the Company actively develops and sells smokeless tobacco products such as snus, a growing category, with the aim to reduce global cigarette consumption and replace the use of cigarettes with smokeless products.**

Cigarettes account for roughly 90 percent of all tobacco consumed globally.<sup>1)</sup> Large global tobacco companies rely on cigarettes for the bulk of their revenues and profits. Generally, cigarette consumption has been declining over the past decade in most developed countries, while in many emerging markets, cigarette consumption has continued to increase.<sup>1)</sup> Other smoking products sold globally include fine-cut and roll-your-own tobaccos, cigars, and pipe tobacco. Recently,

there has been an emergence of the e-cigarette category in certain markets which generally contain nicotine but no tobacco. There is also a small but emerging category of “heat-not-burn” tobacco products.

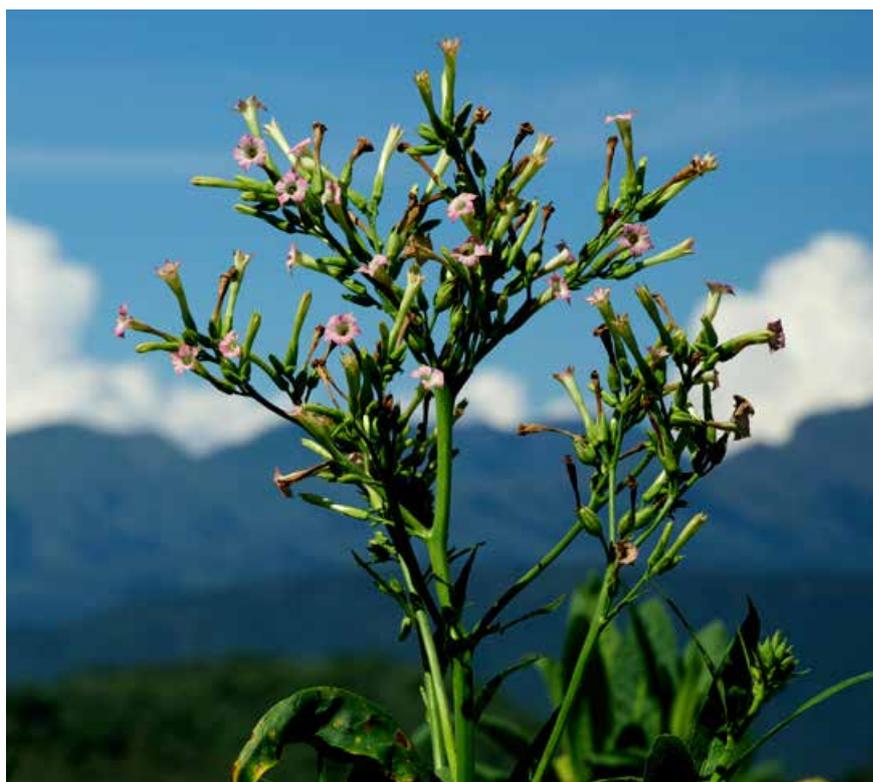
Smokeless tobacco products primarily include snus, moist snuff, various forms of chewing tobacco, as well as niche products, such as dissolvables and nasal tobacco. Smokeless tobacco is a small but growing tobacco category compared to cigarettes, and is consumed in many parts of the world in different types and formats. In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, the number of snus users has been growing and has surpassed the number of cigarette users.<sup>2)</sup> In the US, snus is a small but growing segment, while the dominant forms of smokeless tobacco are moist snuff and chewing tobacco. In other parts of the world, such as

India and certain countries in Africa and Asia, local variants of oral and nasal smokeless tobacco products are consumed in relatively large volume. In the European Union and certain other countries, snus and other oral tobacco products not intended to be chewed or smoked are prohibited, while chewing tobacco products are allowed to be sold.

The global tobacco market is exposed to ever-increasing levels of restrictions and regulations, as governments and other regulatory and non-governmental organizations seek to reduce tobacco consumption, and, most notably, cigarette consumption. These regulations, along with taxation measures, have had impacts on tobacco growing, tobacco production, product availability, packaging and labeling, consumer pricing, and location of use.

### SHORT FACTS

- The global tobacco market is composed of smoking and smokeless tobacco products, such as cigarettes, cigars, pipe tobacco, snus, moist snuff, and chewing tobacco.
- The largest segment is cigarettes, accounting for roughly 90 percent of all tobacco consumed globally.
- Smokeless tobacco is a small but growing category compared to cigarettes.
- In Scandinavia, the dominant form of smokeless tobacco is snus. In Sweden, for example, the number of snus users has been growing and has surpassed the number of cigarette users.



<sup>1)</sup> Source: Euromonitor.

<sup>2)</sup> Source: Ipsos Sweden, Market Report, 2014.

# Swedish Match

## – niche player, strong in snus

Swedish Match sells snus in Scandinavia and snus, moist snuff, and chewing tobacco in the US. Through the joint venture company SMPM International, Swedish Match is working to establish snus outside these markets. The Company participates in the US market for cigars and in the global match and lighter market. Swedish Match also owns 49 percent of Scandinavian Tobacco Group, which participates in the global pipe tobacco, fine cut tobacco, and cigar markets.

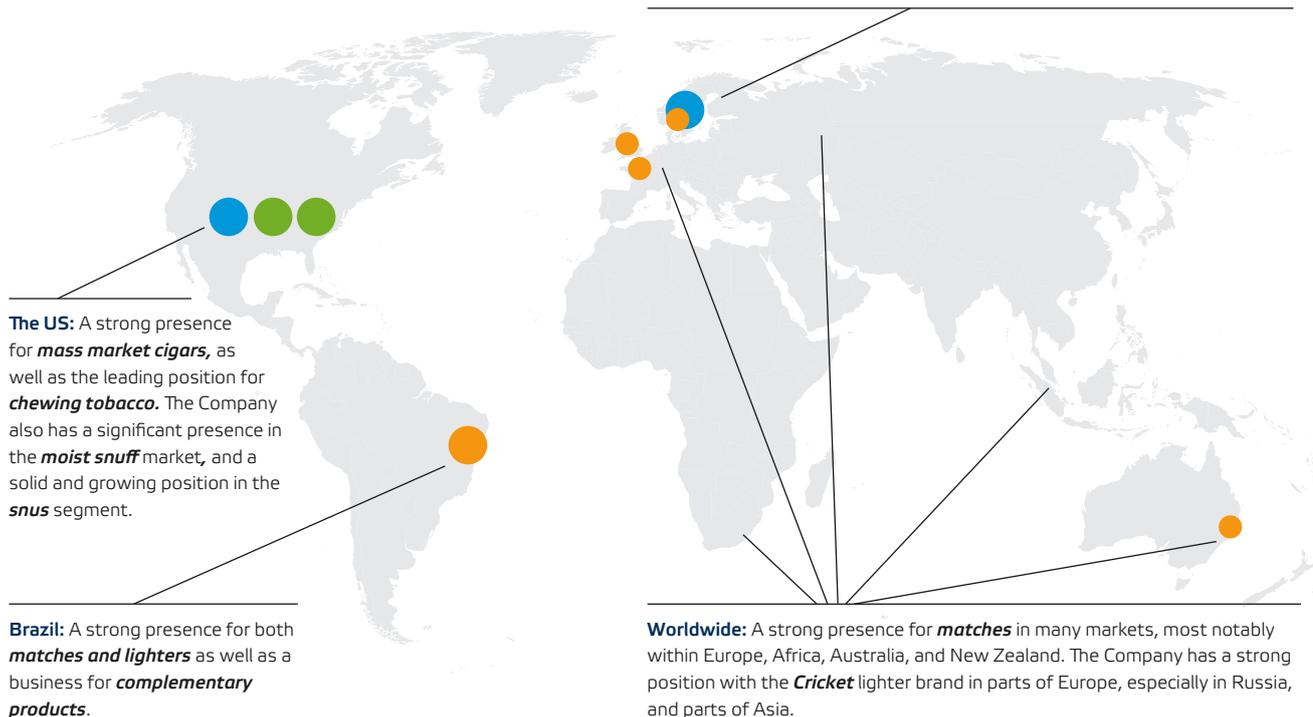
## SWEDISH MATCH'S MARKETS

Swedish Match is a global company, with strong local brands. Swedish Match also has international brands, such as *General* snus and *Cricket* lighters. The Company's largest markets are in Scandinavia and the US.

### Swedish Match market positions

<b>Snus and moist snuff</b>	<b>No 1</b> in Scandinavia <b>No 3</b> in the US
<b>Other tobacco products</b>	<b>No 1</b> in US chewing tobacco <b>No 3</b> in US mass market cigars
<b>Lights</b>	<b>Strong presence</b> in Africa, Australia, Brazil, Europe, New Zealand, and parts of Asia

**Sweden and Norway:** The market leader for *snus*. The Company also has a strong presence with both *matches and lighters*.



# Risk management – always in focus

**Risk management is an important part of conducting business. Swedish Match focuses on understanding the risks to which the business is exposed. To create the highest shareholder value and be a sustainable and social responsible company, Swedish Match needs to manage risks efficiently.**

Risk taking is an integrated part of the business and all risks cannot or should not be avoided. Nevertheless, it is important to determine the business' acceptable risk level. Risks are therefore assessed based on the impact if materialized, the likelihood of occurrence and the cost to avoid or reduce the risk. The negative consequence of risk is also weighed against potential positive outcomes of business ventures.

### **Risk management within Swedish Match**

Risk management is the process of identifying and assessing risks and developing and implementing strategies to manage undesired risks. Swedish Match applies a systematic risk management model, which includes risk reviews as well as loss prevention, continuity planning, crisis management and insurance program.

The Swedish Match Board of Directors determines the Company's strategic plans and associated risks based on recommendations from the Group Management Team. When implemented, each unit is responsible for managing the risks associated with their plans, and if required, coordinated risk management activities with other units. Appropriate competences in the organization and governance structure with clear responsibilities set the prerequisites for risk management at local level. The Code of Conduct further ensures an organizational culture that prevent unacceptable risk taking.

To efficiently manage risks, existing and potential risks needs to be known. Swedish

Match strives to establish a broad understanding among its employees of the concepts and importance of risk management. Employees in all parts of the organization are encouraged to identify and report events and circumstances which are indications of risks. Existing and potential risks are regularly discussed within different operating unit management teams and the Group Management Team. The Board of Directors, which oversees the Company's risk management processes, is on a recurring basis informed about the existing and emerging risks as well as related mitigation activities.

Annually, in conjunction with the strategic planning, the major risks which the Company is exposed to are reviewed. The review aims at ensuring that appropriate actions are taken to reduce and prevent undesired risks and that remaining risks are closely monitored. Strategies are developed to manage new or changed risks. Risk responses are either risk avoidance, risk reduction, risk sharing or risk acceptance.

## **RISK AREAS**

**Swedish Match is exposed to risks in various areas. Due to Swedish Match being a fast moving consumer goods company within tobacco, important risks to address arise in the areas; production, competition and regulation. Information on risks is also found in the Report of the Board of Directors and financial risks are presented in Note 25 Financial Instruments and financial risks to the Group Consolidated Financial Statements.**

### **Production**

The production facilities are exposed to risk of various harmful incidents such as fires and machinery breakdown and for some locations natural disasters. In order to avoid delivery problems or other production problems, Swedish Match has implemented a loss prevention and continuity planning program. Yearly inspections are conducted, by an independent third party, at all major production facilities that are identified as critical. These inspections assess to what level the production facilities meet the Swedish Match safety standards and whether there are investments or actions required to reduce risk. The purpose of the continuity plan-

ning is to minimizing any negative impact of an incident.

A loss of a key supplier or a supplier's non-compliance with regulations or unethical behavior could be harmful to the Company. Major suppliers are reviewed annually by the procurement department. The suppliers' financial stability and risk management is important for Swedish Match. As a complement to the internal reviews, an independent third party conducts risk inspections at critical suppliers. To ensure that suppliers have high ethical standards, a specific Supplier Code of Conduct has been developed which Swedish Match strives to include in contractual agreements with significant suppliers.



*Production of Ettan snus at the Gothenburg factory in Sweden.*

### **Competition**

All markets in which Swedish Match operates are highly competitive. This requires an agile organization that continuously makes fast decisions in an ever changing environment. In order to remain informed about its competitors' activities, Swedish Match continuously monitors its environment. To meet consumer needs, Swedish Match conducts extensive consumer and market research. This research forms the basis for product development and ensures consumers are offered high quality products that meet their needs.

### **Regulation**

Being a tobacco company, Swedish Match, is exposed to regulations from different authorities. The regulations concern among other issues, tobacco excise taxes, marketing, warning label requirements, ingredients, reporting to authorities, and introduction of new products. Many authorities have and continue to implement various forms of restrictions on sales and usage of tobacco products. Swedish Match closely monitors the development of tobacco regulation and regularly shares with Government and

other regulatory agencies information and opinions on issues that affect the Company's operations.

The most important activity is to educate and inform decision makers about Swedish Match's tobacco products, especially snus and its less harmful health characteristics compared to cigarettes.

# Growing presence in Swedish value segment



**In Sweden, the snus market grew by close to 5 percent in volume terms led by continued growth of the value priced segment. The premium segment of the Swedish market experienced a slight volume decline. In Norway, snus consumption increased by close to 8 percent. In the US, Swedish Match primarily sells moist snuff but has expanded rapidly in the snus category.<sup>1)</sup>**

## Strategy

Swedish Match's vision is a world without cigarettes, and snus can play a major part in helping to achieve this vision. The availability and accessibility of high quality snus on the Swedish market explains the uniquely low cigarette consumption in Sweden. In Norway, there is a similar trend of migration from cigarettes to snus. Swedish Match

is distinctly positioned to compete in and further develop the growing snus category while contributing significantly to improved public health.

One of the Company's major strengths is its ability to consistently offer the market innovative high quality products and established brands based on deep consumer insight, to meet ever changing consumer needs.

Swedish Match will leverage its unique Snus and moist snuff platform, and continue to innovate and develop new and improved products with outstanding quality and value. Swedish Match will endeavor to drive category growth and maintain its leading position in Scandinavia, to develop the snus category in the US and establish a strong presence in the market, to build on

the Company's position in the US moist snuff market, and to explore global opportunities for Swedish snus through SMPM International.

Success will come from dedicated employees collaboratively working 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.

## Financial development

Sales for the product area during the year increased by 3 percent to 5,001 MSEK (4,868). Operating profit for the year increased by 1 percent to 2,207 MSEK (2,195).

<sup>1)</sup> Source: In this opening section, market and share information is from Swedish Match estimates, based on various sources, including Nielsen.



QUALITY



“ A feedback culture is one of the key factors behind organizational development. By providing high quality constructive feedback, based on honesty and people’s individual strengths, we further someone else’s opportunity for development and ability to create results.

I ask for and give feedback every day. That is the organizational state I aim to achieve, that feedback is natural and vital for development. Continuous feedback improves quality in all matters. ”

**Mattias Josander**, Vice President Marketing,  
Scandinavia Division

In the Scandinavian market, Swedish Match sales increased by more than 1 percent versus prior year.

In the US, Swedish Match’s moist snuff sales increased by 1 percent in local currency.

The operating margin was 44.1 percent (45.1) for the year, impacted by higher spending levels for Swedish snus expansion projects in both the US and through SMPM International.

## SNUS AND MOIST SNUFF HIGHLIGHTS

- Scandinavia snus sales increased by more than 1 percent.<sup>1)</sup>
- Scandinavia shipment volumes increased by 3 percent, helped by year-end hoarding.<sup>1)</sup>
- Solid volume growth for Swedish value priced product range.
- US moist snuff sales increased, driven by higher volumes for pouches and tubs.
- General snus further strengthened its number two position in the US.

<sup>1)</sup> Versus full year 2013.

Key data, MSEK <sup>1)</sup>	2014	2013	2012
Sales	5,001	4,868	5,049
Operating profit	2,207	2,195	2,349
Operating margin, %	44.1	45.1	46.5
Investments in property, plant and equipment	127	169	110
Average number of employees	1,050	1,091	1,038

<sup>1)</sup> Excluding larger one-time items.

### Sales and operating profit



### Share of Group total



<sup>1)</sup> Excluding Other operations, share of net profit in STG, and larger one-time items.

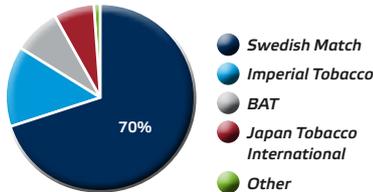
## SNUS IN SCANDINAVIA

### Main brands:

**Sweden:** *General, Göteborgs Rapé, Ettan, Grov, Catch, Kaliber, Kronan*

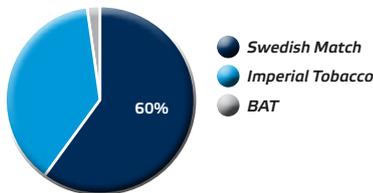
**Norway:** *General, Nick & Johnny, The Lab*

### COMPETITORS – SWEDEN



Source: Swedish Match estimates, full year, 2014.

### COMPETITORS – NORWAY



Source: Swedish Match estimates, full year, 2014.

Swedish Match snus brands are available in a broad range of varieties with strong positions in both the premium and the value segments. In Sweden, *General* is the largest brand in the premium segment and *Kaliber* is the largest brand in the value priced pouch segment.<sup>1)</sup> In Norway, *General* is the largest Swedish Match brand on the market. In addition to its traditional snus products, Swedish Match offers the number one brand in the non-tobacco segment, *Onico*, providing consumers with a high quality nicotine free alternative.

### Market

The Scandinavian snus market is estimated to have amounted to approximately 345 million cans in 2014, up by approximately 5 percent from previous year.<sup>1)</sup> Over the past several years, consumption has been moving from traditional loose products to pouch products, which at the end of 2014 accounted for approximately 80 percent of volumes in Scandinavia.<sup>2)</sup>

In Scandinavia, Swedish Match's shipment volumes measured in number of cans, increased by 3 percent, while underlying volumes (excluding hoarding and year-end calendar effects) increased by 1 percent. Volumes increased in both Norway and in Sweden.

<sup>1)</sup> Source: Nielsen and Swedish Match estimates.

<sup>2)</sup> Source: Swedish Match estimates.

<sup>3)</sup> Ipsos Sweden, Market Report, 2014.

## Swedish Match market shares and shipment volumes

Shipment volumes (millions of cans)	2014	2013	Change, %
Snus, Scandinavia	238,1	231,3	3

Market shares (percent) <sup>1)</sup>	2014	2013	Change, pts
Snus, Sweden, total	69.9	72.2	-2.3
Snus, Sweden, premium	94.0	95.3	-1.3
Snus, Sweden, value	38.1	36.7	1.4
Snus, Norway, total	60.1	63.6	-3.5

<sup>1)</sup> Swedish Match estimates using Nielsen data (excluding tobaccoconists): YTD to December 28, 2014.

Sweden is the largest snus market in Scandinavia with approximately one million consumers.<sup>3)</sup>

The Swedish snus market is estimated by Swedish Match to have grown by close to 5 percent in volume in 2014 versus prior year. The growth in Sweden is driven by the value priced segment which at the end of 2014 represented approximately 45 percent of the Swedish snus market. The Norwegian snus market volume has grown by approximately 20 percent over the past three years and close to 8 percent in 2014 versus prior year.<sup>1)</sup>

It is estimated that some 20 percent of Swedish men use snus on a regular basis. The overall percentage of women using snus is lower than for men.<sup>3)</sup>

Competition in Sweden within the growing value priced segment remained intense in 2014. Swedish Match's market position is strongest in the premium segment which has declined as a share of the total market. Modest market share erosion for Swedish Match results from this change in market mix. Swedish Match has strengthened its position in the value priced segment during the year, from less than 37 percent at the start of the year reaching close to 40 percent by year end.

In Norway, Swedish Match's market share in volume terms is estimated to have declined by somewhat more than 3 percentage points<sup>1)</sup> while its shipment volumes increased.

### Highlights in Scandinavia

During 2014, Swedish Match took significant steps to improve its market share trends in Scandinavia. During the year, for example there was a noted improvement of Swedish Match's market share in the growing Swedish value priced segment.

In Sweden, Swedish Match successfully defended its strong position in the premium segment, despite efforts by competition with new products. Swedish Match's well known brands and quality were once again highlighted with improved new line extensions and packaging. In the highly competitive value priced pouch segment, the *Kaliber* brand maintained its leadership position during the year. During the second quarter of the year, the *Kronan* brand was repositioned and a combination of price adjustments and successful line extensions strengthened the brand's position in the following months.

In Norway, Swedish Match increased its efforts throughout the year to address the competitive situation. The Company launched products under a new *General* sub brand, *G.3*, with functional properties such as a soft fit, minimal drip and a long-lasting snus experience. In addition, the packaging for *Nick & Johnny* was redesigned and the product formulation improved to better reflect the brand's positioning and product appeal. The Group has continued to grow overall volumes for its pouch products, led by its *Nick & Johnny* and *The Lab* offerings.





Production of Kaliber snus at the Kungälv factory in Sweden.

Volumes for loose snus in Norway, a segment in which Swedish Match has an extremely strong position, declined, contributing to overall share declines for Swedish Match.

Swedish Match continued to launch products employing the new patent-pending technology NATUFIBE®, which delivers both improved product performance and a better mouth feel. This new technology was employed for a number of new offerings during the year, and is expected to continue to support Swedish

Match's market positions in both Sweden and Norway.

In December 2012, Swedish Match opened the world's first snus store, "Svenskt Snus", in the heart of Stockholm, Sweden. The store quickly became a popular destination for Swedes and tourists alike, offering the full range of Swedish Match snus products. In March 2014, to follow up on its success, the Company opened its second snus store in Strömstad, Sweden.

#### Tobacco taxes

On January 1, 2014, Swedish excise taxes on snus were virtually unchanged from 2013.

On January 1, 2015, Swedish excise taxes on snus were raised by 12 percent, with a higher percent increase on snus than for cigarettes. In Norway, the excise tax on snus was raised by 2 percent on January 1, 2014 and by 2 percent on January 1, 2015.



#### PASSION

Swedish Match opened the world's first snus store, "Svenskt Snus", in 2012. Located in the heart of Stockholm, Sweden, the store offers the full range of the Company's snus products.

Visitors are given the opportunity to learn more about Swedish Match's well-known brands from the knowledgeable members of staff. They can also learn more about the history of snus and create their own snus blends. Staff members are

educated in all aspects with respect to snus and can upon request inform about the different snus products and describe the manufacturing process behind Swedish Match's snus – from seed to can. As for all Swedish Match employees, this kind of passion is key in order to exceed consumer expectations. //



## SNUS AND MOIST SNUFF IN THE US

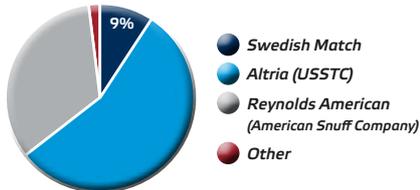
Main brands:

*Longhorn, Timber Wolf, General*

### Swedish Match shipment volumes

Shipment volumes (millions of cans)	2014	2013	Change, %
Moist snuff, US	132,6	135,3	-2

### COMPETITORS – THE US



Source: Swedish Match and industry estimates, full year 2014.

The Swedish Match brand portfolio for moist snuff is positioned in the value priced segment, with both traditional loose and pouch products. *Longhorn* is Swedish Match's largest brand in the US market.

Swedish Match sells Swedish snus in the US under the *General* brand, priced in line with premium priced moist snuff products.

### Market

Moist snuff is sold throughout the US and volumes are particularly strong in the southern and mid-Atlantic states. The moist snuff market is highly competitive, brought on by high levels of price and product competition from the largest competitor brands. The vast majority of moist snuff users in the US are men. The recent rapid growth of the pouch segment of the market has broadened the appeal of moist snuff to a larger consumer base.

Since 2011, can consumption in the US moist snuff market has grown by more than 10 percent.<sup>1)</sup>

In 2014, the US moist snuff market is estimated by Swedish Match to have grown by 2 percent to approximately 1.4 billion cans, with the pouch segment accounting for nearly 14 percent of this market. Swedish Match's volume measured in number of can equivalents was down overall by 2 percent during the year, but experienced solid volume growth for pouch and tub (large pack) products. For the full year 2014, Swedish Match estimates its market share by volume to have declined slightly from 2013.

While the US snus market is still quite small at approximately 50 million cans, the potential for growth is strong, as snus which is primarily a pouch category, may appeal to a wider segment of the adult tobacco consuming population. Snus is a discrete, spitless alternative to cigarettes and other tobacco products.

### Highlights in the US

The premium priced segment of the moist snuff market declined in 2014, while the value segment grew.<sup>1)</sup> There was continued intensive competitive activity among large competitors, especially in the value priced segment. Swedish Match's volume and market share declined for its higher priced brands in the value priced segment. Swedish Match has a growing position in the value priced segment with its *Longhorn* brand.

While more than 85 percent of moist snuff in the US is sold in the traditional loose format<sup>1)</sup>, over the past several years, the percentage of moist snuff sold in pouches has increased. Swedish Match estimates the growth in the pouch segment



<sup>1)</sup> Source: Swedish Match estimates.

to have been approximately 12 percent in volume terms in 2014. The Company saw rapid growth in both volume and market share for its pouch assortment, and its percentage volume growth for both its pouch and tub products outpaced the market in these segments.

Swedish Match continued its efforts behind Swedish snus in the US market and there were significant investments during the year to support the expansion of snus. In the US, the Company markets the *General* snus brand – an authentic Swedish snus, available in tobacconists, conve-

nience, and other select stores. The trends for *General* snus are encouraging and the brand expanded its distribution during the year. However, the focus during 2014 was mainly on distribution expansion to selected high-quality outlets and the pace of store expansion was therefore more modest than during previous years. Investments have been increasingly directed toward brand development and consumer engagement activities. By the end of 2014, the brand was present in more than 24,000 stores, up from just over 21,000 stores at the end of 2013.

During the year, Swedish Match submitted a Modified Risk Tobacco Product (MRTTP) application to the US Food and Drug Administration (FDA) for products within the *General* snus portfolio. The MRTTP application seeks a risk modification order permitting the use of warning label statements on the Company's snus tobacco products that differ from those carried by other commercially marketed smokeless tobacco products.

In 2014, the Company initiated a test with a new non-tobacco nicotine pouch product under the brand name ZYN<sup>NT</sup>.



## SNUS OUTSIDE SCANDINAVIA AND THE US

Through SMPM International, the joint venture company with Philip Morris International, Swedish Match will continue the work to establish Swedish snus in selected markets. 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 Inter-

national thereby has both state of the art products and outstanding distribution opportunities.

During 2014, SMPM International continued to test market snus in a selected number of stores in Canada using the *General* snus brand. In Russia, a test of snus is being conducted under the *Parliament* brand. During 2014, the product range in

Russia was expanded to include the *Chesterfield* brand, at a price point below the premium *Parliament* range. In Israel, a test is being conducted using the *Marlboro* brand. In addition, Swedish Match continued small activities with the *General* brand in Malaysia.

## SNUS AND HEALTH

**During the past decades a large number of scientific studies have been published on health effects on snus use.**

The scientific findings conclude among other things:

- The availability of snus in Sweden and Norway reduces the prevalence of smoking.
- There is no evidence of a link between snus and increased risk for lung cancer.
- There is no evidence of a link between snus and increased risk for oral cancer.
- Swedish men demonstrate the lowest incidence of lung- and oral cancer in the western world.

More information and references on snus and health are available on the Company's website, [www.swedishmatch.com/snus-and-health](http://www.swedishmatch.com/snus-and-health).

“ 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.”<sup>1)</sup>

<sup>1)</sup> WHO TobReg Report 951, Scientific Basis of Tobacco Product Regulation, 2008.



## GOTHIA TEK® – THE QUALITY GUARANTOR FOR SNUS

**The GOTHIA TEK® quality standard for Swedish Match's snus products is a guarantee to consumers that new technology, new methods for analytical testing and other scientific advances are continuously incorporated into manufacturing processes with the overarching aim of minimizing any adverse health effects among consumers of snus.**



The most important determinant of health effects among individual users with any product for oral consumption, including food, lies in the chemical properties of the product. While unwanted constituents found in plants used as food are typically regulated, thereby avoiding the risk of adverse health effects, regulation of the same constituents found in the tobacco plant is absent. Therefore, GOTHIA TEK® includes a set of requirements for maximum permissible limits of selected undesired constituents, specific and non-specific to tobacco, in finished products. Simply put, the governing principles for food form the basis of the GOTHIA TEK® standard.

The development of GOTHIA TEK® is an important and trail blazing work that had already started in the mid '80s when the head of Swedish Match Scandinavia formulated his vision: *"Swedish snus by Swedish Match should not have a negative impact on the user's health"*. The passionate and dedicated research and development work that followed resulted in a dramatic reduction in unwanted constituents.

A few years ago the World Health Organization's Tobacco Regulatory Committee (WHO/TobReg) recommended; *"Smokeless tobacco products should be regulated by controlling the contents of the products. The metric for measuring toxicants in smokeless tobacco should be the*

*amount per gram of dry weight of tobacco"*.<sup>1)</sup> WHO/TobReg also proposed maximum permissible levels on specific constituents. The selected constituents and the maximum levels of these constituents were in line with the GOTHIA TEK® quality standard.

The high quality of Swedish Match's snus and the effectiveness of using snus as an alternative to the traditional cigarette have had an unprecedented impact on the tobacco consumption pattern in Sweden. Even though Swedish snus is not marketed or sold as a smoking cessation product, switching to Swedish snus remains the most common way to

stop smoking in Sweden among smokers who opt for a product to aid in quitting cigarettes. A similar trend is taking place in Norway – the use of snus is growing at the expense of cigarette smoking. It is a reasonable prediction that tobacco related diseases in Norway will drop due to this change in tobacco consumption pattern similar to what has happened in Sweden. Overall incidence levels for tobacco consumption in Sweden is similar to the European average. The difference is that the majority of Swedish tobacco users are not smokers – they use snus. The consequences are well documented in official public health statistics which demonstrate that the prevalence of all diseases typically associated with cigarette smoking (or tobacco) are significantly lower in Sweden than in any other western population.

Today GOTHIA TEK® is recognized as the quality benchmark for smokeless tobacco products and is often referred to in the scientific literature.

More information on GOTHIA TEK® is available on the Company's website, <http://www.swedishmatch.com/en/Snus-and-health/GOTHIA TEK>.

<sup>1)</sup> WHO TobReg Report 955, 2010.

## OTHER TOBACCO PRODUCTS: CIGARS AND CHEWING TOBACCO

# Volume growth for US cigars

**Other tobacco products include cigars and chewing tobacco for the US market. During 2014, Swedish Match again exhibited strong volume growth in a highly competitive cigar market. Swedish Match maintains a leadership position in chewing tobacco, with solid performance in a declining product category.**

## Strategy

In the product area Other tobacco products, Swedish Match is leveraging its strong platforms in order to maximize long term profitability.

For cigars, the Company will drive profitable growth through consumer-driven innovation and strong sales execution. The Company continues to innovate, in order to introduce high quality products appreciated by consumers.

For chewing tobacco, Swedish Match will capitalize on its leading position in the category and continuously drive productivity improvements. With its efficient produc-

tion, well known and trusted brands, as well as category leadership, the Group has been able to leverage its strengths in a declining product category in order to maximize profits.

## Financial development

Sales for the product area for the year increased by 10 percent to 2,832 MSEK (2,564), and operating profit increased by 8 percent to 1,109 MSEK (1,029). In local currency, sales for the year were 5 percent higher with growth from both cigars and chewing tobacco. Operating profit in local currency increased by 3 percent compared to the prior year. The operating margin for the product area was 39.2 percent (40.1).



Swedish Match shipment volumes	2014	2013	Change, %
Cigars, millions of sticks	1,127	1,003	12
Chewing tobacco, thousands of pounds (excluding contract manufacturing volume)	7,856	8,260	-5



## INNOVATION

“ The majority of natural leaf cigars are machine made. However, natural leaf cigars need that special human touch to select, inspect and shape tobacco leaves used for wrapping. That means very few manufacturers are equipped to make these products with the quality and dedication that our Dominican operation can. *Garcia y Vega 1882* is Swedish Match's first entry into the

natural rolled leaf segment, a 2014 Retailer choice *Best new product*. ”

Ryan Krasner, Brand Manager and Jay White, Assistant Brand Manager, US Division

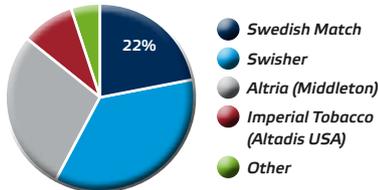


## CIGARS

### Main brands:

*White Owl, Garcia y Vega, Game by Garcia y Vega*

### COMPETITORS – US MASS MARKET CIGARS (EXCLUDING LITTLE<sup>1)</sup> CIGARS)



Source: Swedish Match estimates, full year, 2014.

Swedish Match maintains a strong presence with cigars in the US with such well known mass market brands as *White Owl* and *Garcia y Vega*.

### Market and highlights

It is estimated by Swedish Match that the US mass market cigar market grew by more than 9 percent in volume terms in 2014 and amounts to more than 5 billion cigars excluding little cigars<sup>1)</sup> (a segment in which Swedish Match does not participate). Swedish Match's cigar volumes increased by 12 percent. During 2014 the market remained highly competitive with a shift in

consumption and wholesaler order activity toward lower priced and more promotional products. Swedish Match estimates that the Company's consumption share of market was approximately 22 percent in 2014.

During 2014, Swedish Match launched a number of new cigar products under both the *Garcia y Vega* and *White Owl* brands. *Garcia y Vega* natural leaf cigars demonstrated particularly strong volume growth. This rapid growth follows price/promotion repositioning as well as successful new product launches.

<sup>1)</sup> Little cigars are typically filter tipped and packaged in packs of 20 (similar to cigarette packaging).

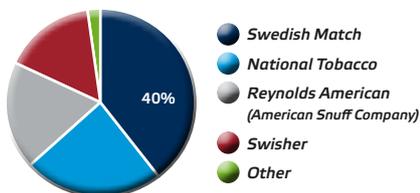
## CHEWING TOBACCO

### Main brand:

*Red Man*



### COMPETITORS – CHEWING TOBACCO



Source: Swedish Match estimates, full year, 2014.

Swedish Match is the largest player in the US chewing tobacco category, with the market's number one selling brand, *Red Man*.

### Market and highlights

The US market for chewing tobacco is in a long term state of decline. Swedish Match's

chewing tobacco shipments (excluding contract manufacturing volumes) were down by 5 percent in 2014 versus prior year, in line with the overall market decline.

The Group's best known chewing tobacco brand, *Red Man*, is by far the largest in the US, accounting for more than one third of all volumes sold on that market. Swedish Match brands account for approximately 40 percent volume share of the market.<sup>1)</sup>

With declining consumption, manufacturers continuously strive to reduce their costs and adjust pricing in order to maintain profitability. An example of this is the contract manufacturing agreement with National Tobacco, whereby Swedish Match produces the chewing tobacco range of this competitor in the Owensboro, Kentucky, US facility.

While the chewing tobacco market continues to decline, Swedish Match's strong market share allows this business to remain highly cash generative, profitable, and important in the Swedish Match portfolio. Also, as the market declines, Swedish Match is well positioned to maintain or strengthen its share position (shelf space allocation by retailers is often reduced for certain slower selling competitive brands).

<sup>1)</sup> Source: Swedish Match estimates, full year, 2014.

## Red Man – the flagship of chewing tobacco

Swedish Match holds a leading position in the US market for chewing tobacco. The Company's best known brand, Red Man, is the main reason for Swedish Match's ability to maintain its strong market share and accounts for more than one third of all volumes sold in the US. Red Man is by far the largest chewing tobacco brand in the country with equity so strong that it is almost synonymous with the entire product category.

Although chewing tobacco category volumes decline each year, Swedish Match has been able to maintain profitability by always striving to drive productivity

improvements and reduce costs. Successful brand management as well as innovation and product development to defend the Company's strong market position have also been key. Red Man was for example the first brand of chewing tobacco packaged in a resealable bag that extends product life. All these factors has led to the chewing tobacco business remaining a significant, profitable, and highly cash generative part of Swedish Match's product portfolio, despite the category being in a long term state of decline.

## OTHER TOBACCO PRODUCTS HIGHLIGHTS

- Strong volume growth for cigars, increasing by 12 percent to 1.1 billion sticks.<sup>1)</sup>
- Higher sales and operating profit in local currency, led by cigars.<sup>1)</sup>
- Successfully mitigated volume declines for chewing tobacco, and profit grew.
- Payments to the US government to fund a tobacco quota buy-out program ended on October 1, 2014.

<sup>1)</sup> Versus full year 2013.

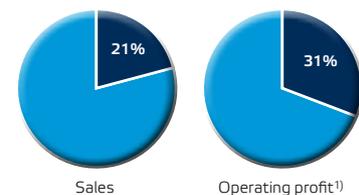
Key data, MSEK <sup>1)</sup>	2014	2013	2012
Sales	2,832	2,564	2,661
Operating profit	1,109	1,029	1,161
Operating margin, %	39.2	40.1	43.6
Investments in property, plant and equipment	33	62	54
Average number of employees	1,848	1,737	1,661

<sup>1)</sup> Excluding larger one-time items.

### Sales and operating profit



### Share of Group total



<sup>1)</sup> Excluding Other operations, share of net profit in STG, and larger one-time items.



# Good performance despite volume declines



Swedish Match's matches and lighters are sold in markets across the globe. Match brands tend to be local, with one brand being iconic in its own country. The Company's match assortment includes products for a wide variety of uses, in sizes and formats that fit every fire lighting need. For lighters, Swedish Match manufactures and sells the Cricket brand, with its range of disposable lighters and specialty products for both household and outdoor lighting needs. Cricket lighters are well-known for their quality, unique design and a number of safety features, such as a fixed flame technology, child safety mechanisms, and fire resistant lighter bodies.

## Strategy

With its portfolio of well-known brands and strong market positions, Swedish Match works for continuous operational excellence in the Lights product area. The Company is committed to maintaining and improving its already efficient manufacturing operations as well as capitalizing on its market positions. With its high and demanding quality standards, fast and flexible production, and ongoing customer feedback, Swedish Match is able to provide

consumers and customers with the quality products they demand at attractive prices. The Company will work to maintain sales and profitability in the Lights product area by tightly controlling costs and managing its price/mix and by growing its overall presence for its premium disposable lighters and utility lighters. The Company will also focus on further developing its complementary products business sold in the Brazilian market. These complementary products now account for close to 10 percent of total sales in the Lights product area.

## Financial development

Sales for the Lights product area for the year declined by 3 percent to 1,295 MSEK (1,332). Operating profit declined by 5 percent to 218 MSEK (230). Excluding currency translation effects, sales and operating profit declined by 3 and 7 percent respectively. The operating margin was 16.8 percent (17.3).

## Market

Consumption of matches in markets in developed markets declined during the year, consistent with long term market declines. During 2014, Swedish Match's lighter volumes in certain European countries were down versus 2013, while in a number of Asian markets, lighter volume grew. In Eastern Europe volumes were negatively impacted by increased geopolitical uncertainty.

Swedish Match sells matches and lighters through both its own and third party distribution networks, including the distribution network of Scandinavian Tobacco Group.

COMPETITORS: Match competition varies widely between markets. Lighter competitors include Bic, Tokai, Flamagas, and a number of other smaller manufacturers.

Swedish Match shipment volumes globally	2014	2013	Change, %
Matches, billion sticks	81.5	91.0	-10
Lighters, million units	422.5	468.0	-10

## MATCHES

### Main brands:

*Solstickan (Sweden), Swan (UK), Tres Estrellas (Spain), Fiat Lux (Brazil), Feudor (France), Redheads (Australia)*

During the year, Swedish Match maintained significant or leading market positions in its largest markets for matches, including Australia (*Redheads*), the UK (*Swan*), Spain (*Tres Estrellas*), France (*Feudor*), the Nordic countries (*Solstickan*, *Nitedals Hjelpstikker*, and *Tordenskjold*), and Latin America (*Fiat Lux*). Volumes generally declined following long term market trends in most markets. Sales of matches declined compared to the



prior year as a result of lower volumes and negative currency translation effects, partly offset by improved pricing. Operating profit declined.

## LIGHTS HIGHLIGHTS

- Increased geopolitical uncertainty in Eastern Europe negatively affected lighter volumes.
- Production efficiencies for lighters mitigated impact from volume declines.
- Sales declines for matches on lower volumes, partially offset by improved pricing.
- Sales of complementary products in Brazil increased.<sup>1)</sup>

<sup>1)</sup> Versus full year 2013.

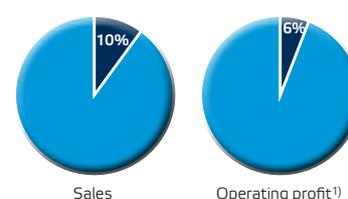
Key data, MSEK <sup>1)</sup>	2014	2013	2012
Sales	1,295	1,332	1,339
Operating profit	218	230	222
Operating margin, %	16.8	17.3	16.6
Investments in property, plant and equipment	49	64	61
Average number of employees	1,234	1,320	1,269

<sup>1)</sup> Excluding larger one-time items.

### Sales and operating profit



### Share of Group total



<sup>1)</sup> Excluding Other operations, share of net profit in STG, and larger one-time items.

## LIGHTERS

### Main brand:

*Cricket (globally)*

Swedish Match offers a wide range of lighter products which include both premium disposable lighters (primarily for lighting cigarettes) and utility lighters (for such occasions as lighting grills and candles). With its flexible and efficient manufacturing process, Swedish Match is able to quickly manufacture and deliver both

mainstream and special order varieties to satisfy customer requirements for quality, reliability, design, and innovation. While overall lighter volumes and sales declined during the year, certain markets, particularly in Asia, exhibited solid growth. The lighter business faced challenging market conditions in parts of Europe, including geopolitical effects in Russia and Ukraine. Factory efficiencies successfully mitigated volumes declines and operating profit was flat compared to the prior year.

## COMPLEMENTARY PRODUCTS

On the Brazilian market, Swedish Match offers a portfolio of complementary products, including disposable razors, batteries, high efficiency light bulbs and tooth picks under the *Fiat Lux* brand. Sales of complementary products increased in 2014 compared to the prior year.



## OWNERSHIP

Ownership comes in many forms. We need to feel pride and ownership in everything we do, taking actions and responsibility in our work, and in the world around us. Through our reforestation project in Brazil we preserve some 1 hectare of native forest

for every hectare reforestation area, which is about 50 percent above the legal requirements. On the one hand, we help to ensure a sustainable business by being self-sufficient for timber supplies. On the other hand, we help to preserve an ecological corridor for

animal and plant biodiversity. Sound business practice and environmental stewardship can work together. We take great pride in that symbiosis. //

**Peter Hedlund,**  
COO Lights Latin America

# Higher sales driven by premium cigars

**Scandinavian Tobacco Group, 49 percent owned by Swedish Match, is the world's largest manufacturer of cigars and pipe tobacco. It has number one position in machine-made cigars and pipe tobacco globally, and is the largest player in the US market for handmade cigars and fine-cut tobacco.**

## Financial development

Reported sales for Scandinavian Tobacco Group for the full year were 6,126 MDKK (5,925). Sales also increased in local currencies, driven by positive volume development within all core product areas, as well as contribution from the acquisition of Verellen, a Belgian cigar producer, effective as of September 1, 2014. The comparison to prior year for machine-made cigars was favorably impacted by a one-off stock reduction at a major European distributor during the fourth quarter of 2013. EBITDA amounted to 1,183 MDKK (1,180). EBITDA also increased when adjusted for currency translation effects and costs of a temporary nature in both periods, driven by higher sales and lower underlying operating expenses benefiting from continuation of the on-going cost focus. The costs of a temporary nature in 2014 relate primarily to the integration of Verellen and the supply chain optimization program. In 2013, the EBITDA was negatively affected by personnel related restructuring charges.

Net profit for Scandinavian Tobacco Group amounted to 550 MDKK (573). Net profit in 2013 included a non-recurring tax gain following a restructuring of the legal structure of the group. The Swedish Match share of net profit in Scandinavian Tobacco Group amounted to 334 MSEK (319).

During 2014, Scandinavian Tobacco Group's cash flow from operations significantly improved reaching 1,056 MDKK.

The group is a market leader in the attractive niche markets of cigars and pipe tobacco. In fine cut tobacco, it is a market leader in the US and the Nordics. The business is diversified across categories and geographies with sales to more than 100 countries. Core

markets for cigars are in the US and Europe where the group has its strongholds. More than 75 percent of net sales are generated in markets where the group has the no. 1 or the no. 2 market positions.

Since 2011, Scandinavian Tobacco Group has delivered top line growth averaging 3 percent per year in local currencies. The strategy is to grow by developing the product portfolio and geographical presence while at the same time focusing on consolidation and optimization of the supply chain. Furthermore, the group continues to consolidate its core markets through selected acquisitions. In 2014, the Belgian cigar manufacturer Verellen and the US cigar brand portfolio of Toraño were acquired.

## Market

The US handmade cigar market is estimated to have been flat during 2014 versus 2013.<sup>1)</sup> The European machine made cigar market is estimated to have been lower in volume terms in 2014 and was close to 5.3 billion cigars.<sup>1)</sup> Scandinavian Tobacco Group sells cigars under its own brands, as well as having contract manufacturing agreements and private label manufacturing, making Scandinavian Tobacco Group the world's largest cigar manufacturer.

<sup>1)</sup> Source: Scandinavian Tobacco Group estimates.



The global pipe tobacco market continues its long term decline in volume terms. The most important markets are North America and Europe which account for an estimated 2,800 tons per year. Scandinavian Tobacco Group has either the number one position or strong positions in most markets in these regions.

Lighter and match products distributed by Scandinavian Tobacco Group, primarily in parts of Europe as well as Australia and New Zealand, are manufactured by Swedish Match. Scandinavian Tobacco Group products are distributed through both the company's own sales subsidiaries and third party distributors.

#### **Main brands:**

##### **US handmade premium cigars:**

**Luxury:** *Cohiba and Partagas*  
**Premium:** *Macanudo, CAO, Punch and Hoyo de Monterrey*  
**Boutique:** *La Gloria Cubana and Foundry*  
**Value-for-money:** *Don Tomas and Sancho Panza*

##### **Machine-made cigars:**

**Premium:** *La Paz, Henri Wintermans and Petit*  
**Mainstream:** *Café Crème, Captain Black and Mercator*  
**Value-for-money:** *Talon, Break and Moments*

##### **Pipe tobacco:**

**Premium:** *W.Ø. Larsen and Erinmore*  
**Mainstream:** *Captain Black, Borkum Riff and Clan*  
**Value-for-money:** *Smoker's Pride*

##### **Fine-cut tobacco:**

**Premium:** *Tiedemanns and Bali Shag*  
**Mainstream:** *Escort and Bugler*  
**Value-for-money:** *Break*

## **SCANDINAVIAN TOBACCO GROUP HIGHLIGHTS**

- Acquisition of the Belgian cigar manufacturer Verellen and the Toraño cigar brand portfolio.
- In local currencies, sales increased driven by positive volume development within all core product areas, as well as contribution from the acquisition of Verellen.<sup>1)</sup>
- During 2014, Scandinavian Tobacco Group's cash flow from operations significantly improved reaching 1,056 MDKK.
- Swedish Match share of net profit from Scandinavian Tobacco Group during the year amounted to 334 MSEK.

<sup>1)</sup> Versus full year 2013.

## **FACTS AND FIGURES**

### **Scandinavian Tobacco Group**

- World's largest manufacturer of cigars and pipe tobacco.
- Produces approximately 3 billion cigars and 5,000 tons of pipe and fine cut tobacco annually.
- 75 percent of sales in markets with number 1 or 2 position.
- 18 sales offices in North America, Europe, Australia and New Zealand and exports to more than 100 countries globally.
- Production units are located in Belgium, Denmark, the Dominican Republic, Honduras, Indonesia, the Netherlands, Nicaragua, and the US.
- More than 200 global, regional and local tobacco brands.
- About 8,400 employees world-wide.

#### **Has number 1 positions in the**

- global market for machine-made cigars
- global market for pipe tobacco
- US market for handmade cigars (General Cigar)
- US market for online retailing of handmade cigars (Cigars International)
- US market for pipe tobacco
- US and Nordic markets for fine-cut tobacco
- market for little cigars in Russia and Denmark

# Our approach to Corporate Sustainability

**Swedish Match has a vision of a world without cigarettes. This vision demonstrates the Company's commitment to contributing to improved public health.**

**For Swedish Match, sustainability implies always striving to balance economic responsibility with environmental and social responsibility; or put in other words – delivering growing and sustainable profits, mindful of the world around us.**

## A sustainable and responsible business

Sustainability entails generating value for the Company and its stakeholders while addressing environmental impacts – in order to assure long term and sustainable growth.

Swedish Match creates shareholder value by offering tobacco consumers enjoyable products of superior quality in a responsible way. By providing products that are recognized as safer alternatives to cigarettes, Swedish Match can contribute significantly to improved public health.

For Swedish Match, a sustainable and responsible business goes hand in hand. Consistent with the Swedish Match vision, the Company works systematically with Corporate Sustainability across the organization – a work that provides many long term benefits to the Company. It helps to make Swedish Match more competitive, to identify and reduce costs and risks, as well as to strengthen the corporate reputation and brand. It also enables the Company to be an attractive employer. Working with

sustainability is thus an important element for Swedish Match's value creation and future growth.

Swedish Match's sustainability activities also aim to provide value to the Company's stakeholders while addressing environmental issues. This includes for example an improved working environment for

employees, a reduced negative environmental impact, and adherence to high standards of conduct within the supply chain. Many of these activities also benefit consumers by enabling them to make well informed decisions based on, for example, product information provided by the Company (e.g. concerning nicotine and snus).

## SWEDISH MATCH'S SUSTAINABILITY MODEL<sup>1)</sup>



<sup>1)</sup> In this document, the sections Environmental responsibility and Employee responsibility are presented separately from Social responsibility. Employee responsibility refers to the Company's responsibility with regards to its internal stakeholder group while social responsibility entails responsibility towards external stakeholder groups such as suppliers, consumers and marketplace as well as society at large. Economic responsibility is not discussed in a separate section. For financial performance, please refer to the back part (pages 44-94) of this annual report. For other information regarding economic responsibility, please refer to Swedish Match's Sustainability Report 2014.

## SUSTAINABILITY REPORTING

Swedish Match publishes a sustainability report annually which is available on the Company's website. Swedish Match reports its sustainability information according to the guidelines set forth by the Global Reporting Initiative (GRI) G3 in order to reach measurable, transparent, clear, and comparable results. Swedish Match currently reports according to the GRI reporting guidelines for self-declared B level.

Global Reporting Initiative has performed an Application Level Check which concludes that the 2013 Sustainability Report fulfills the requirements of Application level B.

## Sustainability and tobacco

The Group strives to conduct business in a responsible and sustainable manner towards its stakeholders and the environment. Tobacco products are not without risk, however certain tobacco product categories carry higher levels of risk than others. Swedish Match believes that snus can play an important role in reducing harm related to tobacco (harm reduction) and providing consumers with health benefits compared to cigarettes, consistent with a society moving away from cigarettes.

## Stakeholder engagement

Swedish Match maintains an active dialogue with its stakeholders. For the past year, Swedish Match has conducted a sustainability stakeholder survey among prioritized stakeholder groups (consumers, customers/retailers, employees, legislators/regulators, investors/financial analysts, the scientific health community, and suppliers). This methodical engagement helps the Company to consider the views of stakeholders and to examine whether the Company is focusing on sustainability activities that are material to stakeholders.

## Strategic sustainability focus areas and overall ambitions

Based on recent sustainability stakeholder surveys, Swedish Match has chosen to conceptualize and focus its efforts on seven strategic sustainability focus areas deemed to be material to the Company (see Swedish Match's sustainability model on page 24). The Company has set overall ambitions within each area, and going forward the focus will be to set clear objectives and targets.

<sup>1)</sup> The figures for economic performance using the GRI methodology do not correspond to figures reported in Swedish Match's annual report due to definitions set forth by GRI which may differ from Swedish Match's reporting under the IFRS methodology. For more information, please refer to Swedish Match's Sustainability Report 2014.

## SUSTAINABILITY KEY ACHIEVEMENTS 2014

<p><b>Economic responsibility</b></p> 	<ul style="list-style-type: none"> <li>Economic value generated in 2014 amounted to 13,617 MSEK, up 4 percent from 2013.<sup>1)</sup></li> <li>Economic value distributed amounted to 12,446 MSEK in 2014, up 5 percent from 2013.<sup>1)</sup></li> <li>Economic value retained amounted to 1,171 MSEK in 2014, down 6 percent from 2013.<sup>1)</sup></li> </ul>
<p><b>Employee responsibility</b></p> 	<ul style="list-style-type: none"> <li>Joakim Tilly, President of Swedish Match Scandinavia Division, was nominated Sweden's Employer Branding person of the year by the employer branding company Universum. The award goes to an individual who, through their efforts, has helped to increase engagement and interest in employer branding within their organization.</li> <li>In Sweden, Swedish Match initiated a special gender equality project in the beginning of 2014 to secure the right future conditions for an equal workplace.</li> <li>In the Netherlands, Swedish Match Lighters BV received an award for its efforts within workplace health and safety, IJzersterk Bedrijf 2014. As a part of being awarded, Swedish Match Lighters BV acted as an ambassador company for workplace health and safety matters during the year.</li> </ul>
<p><b>Supplier responsibility</b></p> 	<ul style="list-style-type: none"> <li>In 2014, Swedish Match received its first annual set of results from LeafTc's Social Responsibility in Tobacco Production (SRTP) program covering the calendar year 2013. The Company's overall SRTP index score, the average of the scores within the five SRTP categories, was 81. This will be used as a baseline to track performance going forward.</li> </ul>
<p><b>Consumer and marketplace responsibility</b></p> 	<ul style="list-style-type: none"> <li>To prevent the underage use of tobacco, Swedish Match continued to work with retailers, distributors, and public officials.</li> <li>Focus on snus documented to have significantly lower negative health effects than cigarettes.</li> <li>The Swedish Match GOTHIA TEK® standard for snus, with maximum permissible levels on undesired constituents, aids in efforts to improve public health.</li> </ul>
<p><b>Community responsibility</b></p> 	<ul style="list-style-type: none"> <li>The ECLT (Eliminating Child Labour in Tobacco Growing) Foundation Board approved a pledge to remove child labor from the tobacco supply chain. The pledge was signed off by all the major leaf suppliers, US and multinational tobacco manufacturers, and is supported by the International Labour Organization (ILO) and Save the Children Switzerland. Swedish Match is represented on the Board of the ECLT.</li> </ul>
<p><b>Regulatory engagement</b></p> 	<ul style="list-style-type: none"> <li>During the year, Swedish Match submitted a Modified Risk Tobacco Product (MRTP) application to the US Food and Drug Administration (FDA) for products within the <i>General</i> snus portfolio. The MRTP application seeks a risk modification order permitting the use of warning label statements on the Company's snus tobacco products that differ from those carried by other commercially marketed smokeless tobacco products.</li> </ul>
<p><b>Environmental responsibility</b></p> 	<ul style="list-style-type: none"> <li>The Company significantly improved its disclosure score in Carbon Disclosure Project's (CDP) global annual review mapping the companies' CO<sub>2</sub> emissions. The disclosure score reflects the comprehensiveness of a company's response to CDP in terms of the depth and breadth.</li> </ul>

## SWEDISH MATCH'S CODE OF CONDUCT

The Swedish Match Code of Conduct is the foundation for the Company's position in areas related to Corporate Sustainability. It is applicable to all employees within the Group, regardless of position or geographical location, and reflects the position of the Swedish Match Group with regard to Corporate Sustainability issues when interacting with employees (including workplace practices, business ethics, and communication), suppliers (supplier contracts), customers and marketplace (issues specific to tobacco products), general society (including human rights and child labor), and the environment (the Group's Environmental Management System and the Group Environmental Policy). These areas of the Code of Conduct are consistent with international conventions and guidelines on

human rights and labor conditions.<sup>1)</sup> Individual company policies in all business units must always conform to the principles stated in the Code of Conduct.

Every employee has a personal responsibility to make sure that actions taken comply not only with the words but the spirit of the Code of Conduct. Management has an additional responsibility to foster a culture in which compliance with the Code of Conduct is expected. Concerns about inappropriate conduct must be promptly addressed.

To further secure sound business ethics within the Company, consistent with the Code of Conduct, Swedish Match has a whistleblower function that provides every employee with the opportunity to report any suspicion of infringement of Group policies.

Various procedures are in place for monitoring the Code of Conduct to ensure that employees are aware of, understand, and comply with its content.

The Code of Conduct is reviewed internally and approved by the Swedish Match Board of Directors. In addition, monitoring of the availability and knowledge of the Code of Conduct is conducted by the external partner AON (an international risk management company) who visit the Group's operating units at least once every two years at the factory level.

<sup>1)</sup>The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the eight ILO Core Conventions (Nos. 87, 98, 29, 105, 100, 111, 138, and 182), and the OECD Guidelines for Multinational Enterprises.



Occupational Health & Safety coordinator giving safety update in the Owensboro factory, the US.

# Employee responsibility



**One of Swedish Match's success factors is the ability to attract, develop, and retain highly competent employees while simultaneously pursuing efforts to motivate them in order to build a strong and sustainable company.**

The Company continues to focus on employee related processes. A key objective is to continuously develop the skills of both leaders and employees in order to strengthen the result-oriented culture, while at the same time contributing to the improvement and growth of the Company.

In 2014, Swedish Match employed an average of 4,395 people, of whom 37 percent were women, with the largest number of employees in the US, Sweden, and the Dominican Republic followed by Brazil, the Philippines, and the Netherlands.

## Human resources organization

The majority of the Group's HR activities are handled locally within the Company's operating units. Local units are represented by dedicated HR professionals, who ensure clear communication and coordination of efforts relating to the Company's employees.

The HR organization supports the Company's efforts in managing talent and leadership development, works to provide clear and consistent documentation of activities, and upholds employee practices consistent with the Code of Conduct and local laws and regulations, among other tasks.

## Workplace practices

### Recruitment and talent attraction

Swedish Match focuses on Employer Branding efforts in order to maintain its position as an attractive employer as well as to retain and attract a strong employee base. Efforts to recruit talented individuals, both internally and externally, continued during the year in order to secure the Company's competence base for both short and long term challenges.

Empowerment is a key component of the Swedish Match culture and leadership style. Initiatives and result-oriented actions are encouraged in a professional and informal

atmosphere. 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.

### Leadership and talent pipeline

Successful leadership is a focus area for Swedish Match. During the past year, key employees in the Company have been monitored closely by the Group management, with the objective of securing appropriate staffing of senior management and critical positions, as well as to identify and develop high potential employees in the Company.

This process, which starts locally, enables Swedish Match to identify management capabilities, potential future internal careers, and succession planning.

### Developing competence and promoting careers

In order to meet current and future competence needs and business objectives, Swedish Match focuses on strengthening and reinforcing an overall performance-oriented culture by continuing to develop leadership and employee skills.

Managers and employees have ongoing open discussions regarding individual targets and plans as well as the overall objectives of the Company. Managers must demonstrate good leadership by setting clear targets, providing ongoing coaching and counseling, conducting reviews, and delegating tasks and assignments.

The Company continuously evaluates adequate training and development efforts to promote professional growth and career enhancement. The annual performance evaluation is an instrumental part in this career development, as the tool helps to identify individual goals, targets, and development needs.

An important part of the Company culture is to recruit internally. The ambition is to take advantage of internal competence by providing development opportunities so that employees can accept more responsibilities in the organization during the course of their careers. All members of the Swedish Match Group Management Team



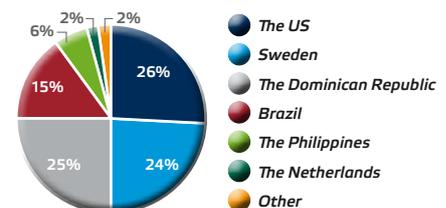
Employee at the Owensboro factory, the US, where moist snuff and chewing tobacco production takes place.

have been recruited internally and during this past year, most management vacancies were also recruited internally.

### Employee programs

Social initiatives vary among countries and are closely linked to the social framework in which Swedish Match operates as an employer. The Group runs several employee programs across its operating units. These programs focus mainly on health, education, and other opportunities to help employees and their families.

### EMPLOYEES PER COUNTRY



Source: Swedish Match.



Employee at the Gothenburg factory in Sweden, where snus production takes place.

### **Occupational health and safety**

Swedish Match is dedicated to providing ergonomically sound workplaces that are free from health and safety hazards. Health and safety committees and structures are in place in all manufacturing facilities and many proactive actions, including safety training and wellness programs, are taken at the Company's various workplaces. Potential safety issues are continuously monitored and, in addition, factory audits are conducted both internally and by external third parties.

### **Employee surveys**

The HR organization coordinates and conducts a global employee survey to identify common improvement areas. Following the presentation of the results, employees and managers develop action plans together based on the survey results. The most recent survey, in 2014, was conducted in eight countries and provided in seven different languages. A total of 88 percent of all employees participated. The survey measured levels of employee engagement, satisfaction, and employer attractiveness and evaluated communication effectiveness

and other areas critical to the performance of the Company, such as leadership and management capabilities.

### **Collective bargaining**

Swedish Match supports the International Labour Organization (ILO) Core Conventions regarding labor rights and believes that all employees should be free to form associations and to engage in collective bargaining. According to the Company's Code of Conduct, all employees should be free to join or form (non-violent) assembly or associations.

## **EMPLOYEE RESPONSIBILITY**

### **Swedish Match's operations in the Netherlands awarded for efforts within health and safety**

In early 2014, Swedish Match Lighters BV in Assen, the Netherlands, received an award for its efforts within workplace health and safety, IJzersterk Bedrijf 2014.

The award is given out annually by an advisory body of the local employers' organization. Subject to new and much stricter regulation,

Swedish Match's Dutch operations have successfully managed to improve upon its performance within this area by involving employees through active participation and training. A designated Health and Safety Committee monitor the facility's development on a monthly basis as the performance is reflected in its overall goals. A new working committee was also set up to focus more broadly on issues relating to safety.

As a part of being awarded, Swedish Match Lighters BV acted as an ambassador company for workplace health and safety matters during the rest of 2014. In June, for example, a workshop was organized for all Swedish Match employees as well as for employees from other companies in the area.

# Social responsibility

**Social responsibility comprises four areas in the Swedish Match sustainability model: supplier responsibility, consumer and marketplace responsibility, community responsibility, and regulatory engagement.**

## Swedish Match and social responsibility

For Swedish Match, social responsibility implies working conscientiously and responsibly in relation to the Company's external stakeholders.

Value creation derived from working closely with external stakeholders can have direct positive benefits on the Group as well

as to the stakeholders themselves. Swedish Match has chosen to structure its social responsibility communication towards stakeholder groups/areas external to the Company: suppliers, consumers and the marketplace, communities, as well as regulators and scientific bodies.

## Social responsibility organization

Issues with regard to social responsibility are managed across the Company's operating units and Corporate functions. Employees working within the Swedish Match internal functions of HR, Legal, Marketing/Sales, Public Affairs, Procurement, R&D, as

well as Supply Chain are all involved in this work in addition to the Corporate Sustainability function. Community involvement projects are managed locally in the respective operating units. Dedicated resources are provided at the Corporate level to monitor and guide activities with regard to community involvement.

## SUPPLIER RESPONSIBILITY



Swedish Match seeks to treat its suppliers and business contacts impartially and strives for stable long term relations with suppliers with whom the Company can develop goods and services through collaboration. The Company strives to work with suppliers who have a healthy long term financial situation and chooses suppliers who also support Swedish Match's long term requirements regarding quality, service, ethics, and environmental approach.

### Supplier base

Swedish Match's largest suppliers are involved in the purchase of tobacco. The Company buys tobacco for its production of smokefree products and cigars from a small number of large global independent leaf tobacco suppliers, who are all major international organizations with their own regulatory frameworks and controls of ethical, social, and environmental issues. These suppliers, in turn, source tobacco from farmers in countries such as Brazil, the Dominican Republic, India, Indonesia, and the US, and process the tobacco according to Swedish Match's requirements.

Swedish Match sources forestry and paper products for its match production from a small number of suppliers, increasingly from Forest Stewardship Council™ (FSC™) certified sources (license code: FSC-C037294). In the Company's match production in Brazil, the supplier base is small as more than 95 percent of the wood used in the manufacturing process is sourced from the Company's own plantations.

The supplier base for indirect materials within the Company's operating units is larger and more local.

### Supplier commitment and ethics

Swedish Match endeavors to support and promote ongoing efforts with regard to ethical, social, and environmental issues within its supply chain.

In accordance with the Swedish Match Code of Conduct, the Group shall encourage its suppliers to establish and fulfill their own Codes of Conduct which address for example, basic human rights, occupational health and safety, ethical business conduct, and environmental issues.

As of fall 2013, supplier contracts have been revised to incorporate standards of

conduct. Swedish Match's major contracted suppliers are expected to sign off on and adhere to the Company's Supplier Code of Conduct. This document reflects Swedish Match's internal Code of Conduct and specifies what Swedish Match expects and requires from suppliers in the following four areas: employment and labor practices, workplace practices, ethical business practices, and environmental management practices.

Swedish Match holds the right to follow up compliance to the requirements set in the Supplier Code of Conduct, and suppliers shall on demand supply Swedish Match, or a party appointed by Swedish Match, with relevant information concerning the requirements set in the document.

During the supplier engagement process, Swedish Match may recommend that certain actions be taken to improve a supplier's sustainability efforts. Should a supplier fail to comply with the Company's recommendations, Swedish Match shall strive to resolve the situation through cooperation and information or, if deemed necessary, terminate the relationship.



Air curing of tobacco in Argentina.

**Tobacco leaf suppliers**

The Company’s tobacco purchasers visit suppliers and tobacco markets on a yearly basis to proactively discuss social issues. It also promotes responsible farming practices. In addition to promoting the respect of human rights and other important matters, Swedish Match partners with suppliers in its efforts toward the elimination of child labor in the supply chain.

Swedish Match is a small purchaser in the global tobacco market; the Company buys less than one percent of the world’s total tobacco supply. The Company’s tobacco leaf suppliers are all audited by other large international tobacco companies. The suppliers

also have own strict policies with regard to human rights, child labor, and farming practices.

In the end of 2013, Swedish Match entered into an agreement with LeafTc (a division of ABSustain), an independent and experienced consultant, in order to enhance the supplier responsibility process within the Company’s tobacco leaf supply chain. LeafTc’s Social Responsibility in Tobacco Production (S RTP) program is based on road mapping principles that enable continuous improvement throughout a wide ranging, extensive and global supply chain. The program is used by a number of other tobacco companies to

reduce the burden on suppliers while also encouraging clear and consistent standards across the industry.

**Other suppliers**

From 2014, Swedish Match sends out self-assessment questionnaires to certain suppliers who operate in higher risk geographies (higher risk geographies are defined based on Transparency International’s Corruption Perceptions Index) as the Company deems these suppliers to have a higher risk of non-compliance with social, environmental, and ethical requirements.

**SIMPLIFIED ILLUSTRATION OF SWEDISH MATCH’S SUPPLIER RESPONSIBILITY PROCESS**



1) Larger suppliers with whom Swedish Match has a contract. The Supplier Code of Conduct is an appendix to all new and renegotiated contracts for these larger suppliers.  
 2) “Higher risk suppliers” are defined as identified suppliers operating in geographies with higher risk according to Transparency International’s Corruption Perception Index.

## CONSUMER AND MARKETPLACE RESPONSIBILITY



Consumer and marketplace responsibility implies working closely with customers/retailers to maintain high standards of corporate conduct in the marketplace – to market and sell tobacco to adults of legal tobacco age, as well as to market both tobacco and lights products responsibly. It also implies to continuously work to reduce or eliminate undesired constituents in the Company's tobacco products and to increase knowledge about its potential impact on consumers.

### Product quality and safety

#### Harm reduction and consumer health

Swedish Match is convinced that smokeless tobacco products, such as Swedish snus manufactured according to Swedish Match's quality standard GOTHIA TEK<sup>®</sup>, play an important role to achieve harm reduction.

The adverse health effects of tobacco use are primarily related to inhalation of smoke. Scientific data clearly demonstrate that the health risks associated with smokeless products in the Western world are significantly lower than those of cigarettes. Data from both Scandinavia and the US show that smokeless tobacco is used by many smokers for smoking cessation purposes.

The availability of snus in Sweden has helped many people to quit smoking and contributed to fewer people taking up the habit, often referred to as "the Swedish experience". Swedish males have very low rates of tobacco-related diseases although their overall rate of any tobacco use is comparable to that of other countries.

#### Product quality and GOTHIA TEK<sup>®</sup>

Swedish Match's production of snus is aligned with the World Health Organization's (WHO) Tobacco Regulatory Committee's (TobReg) scientific recommendations about permitted acceptable limits of undesired constituents in smokeless tobacco. The Swedish Match GOTHIA TEK<sup>®</sup> quality standard provides a guarantee assuring consumers that Swedish Match snus undergoes controls to maintain the highest quality from tobacco plant to the end consumers. This includes requirements on maximum permitted levels of undesired constituents that occur naturally in tobacco, as well as requirements on raw material, the manufacturing process, and product information to consumers. More information with regard to GOTHIA TEK<sup>®</sup> can be found on page 16.

#### Match and lighter safety

Most of Swedish Match's matches are safety matches which means that the match only will be ignited when struck against a specially treated, chemically active friction surface on the side of the box.

Regarding lighter safety, Swedish Match's largest lighter brand *Cricket* is one of the world's safest lighters. Safety attributes include self-extinguishing nylon, child resistancy functions, fixed flames, and calibrated gas levels and gas flows. Innovative, advanced technology and quality ensure that *Cricket's* child-resistant lighters comply with very high demands.

### Responsible marketing communication and product labeling

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 laws and requirements is reviewed continuously.

Swedish Match has an *Under 18 No Tobacco principle* and believes that all tobacco products should only be sold to adults of legal tobacco age, and to those who are 18 years of age or over. To prevent the underage use of tobacco, Swedish Match works with retailers, distributors, and public officials. The Company does not direct its marketing, advertising, or promotion of tobacco products to people under the age of 18 and will continue to educate and inform tobacco retailers in order to prevent the underage sale of tobacco as well as provide support and leadership in any efforts they make to demonstrate their endorsement of the *Under 18 No Tobacco principle*.

The Company is transparent with regards to the content of its snus products. Ingredients are listed on the Company's website and are disclosed to the relevant public health authorities. Certain laws and regulations concern labeling of tobacco products and Swedish Match's compliance with these laws and requirements is reviewed continuously.



The Swedish Match GOTHIA TEK<sup>®</sup> quality standard provides a guarantee assuring that Swedish Match snus undergoes controls to maintain the highest quality from tobacco plant to snus can.

## COMMUNITY RESPONSIBILITY



For Swedish Match, community responsibility implies contributing to and supporting the local communities connected with the Company's business interests.

### Human rights and child labor

Swedish Match policy on human rights, included in Swedish Match's Code of Conduct, is based on international laws and accepted practices and guidelines.<sup>1)</sup>

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

Swedish Match works through industry collaboration to address the issue of child

labor. Swedish Match is represented on the Board of the ECLT Foundation, Eliminating Child Labour in Tobacco Growing. In 2014 the members of the ECLT Foundation signed a pledge of commitment to align and reinforce members' policies and practices in combatting child labor in tobacco growing. For more information on the ECLT Foundation and the pledge of commitment, see the ECLT Foundation's website, [www.eclt.org](http://www.eclt.org).

<sup>1)</sup> The international conventions and guidelines referred to here are the UN Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, the eight ILO Core Conventions (Nos. 87, 98, 29, 105, 100, 111, 138, and 182), and the OECD Guidelines for Multinational Enterprises.



### Community involvement

Swedish Match has a long history of social investments and community involvement, with most of the efforts originating at the local level. The Company's approach is to conduct community projects that are relevant to local business operations 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. Swedish Match may also decide to provide emergency relief in the event of natural disasters.



The Solstickan Foundation, in Sweden, is one example of the Company's longstanding social commitment. For every product sold under the *Solstickan* brand, a portion of sales goes to the foundation. The Solstickan Foundation was established in 1936, and works primarily to promote the interests of children and the elderly by granting project funds and scholarships as well as giving out an annual Solstickan Award.

*The original label of the Solstickan match box, designed by Swedish artist Einar Nerman. Solstickan is one of Sweden's most recognized symbols and probably one of the world's most widely reproduced artwork.*

## Community involvement in the Philippines

Swedish Match Philippines, Inc. (SMPI), is based in the Laguna Technopark, a privately-owned industrial estate in the city of Binan. In 2008, the landowner of Laguna Technopark initiated a Corporate Social Responsibility (CSR) program called the Laguna Technopark Annual CSR program. The program is supported by the majority of the companies within the industrial park. The supporting companies work together on projects that benefit the environment, communities, and the people.

SMPI have participated in the program's various CSR activities since 2009. Most activities are the same from year to year, although some change venue. Activities have included eco-trail restoration, safety orientation seminars, lake-shore clean-ups, school rehabilitation programs,

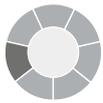
orphanage house visits, Mangrove tree planting projects, dental and pediatric medical missions, visiting homes for the aged, SMPI Feeding Program as well as Christmas gift giving activities. The program is voluntary and based on participants choosing to spend time to participate outside of their working hours – contributing with their own spare time and effort.

SMPI and the other participating companies continuously strives to achieve positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the community. These CSR projects proactively promote the public interest by encouraging community growth and development, honoring the triple bottom line<sup>1)</sup>: people, planet, and profit.



<sup>1)</sup> The triple bottom line (TBL) is an accounting framework that incorporates three dimensions: social, environmental and financial. The TBL dimensions are also commonly called the three Ps: people, planet and profits.

## REGULATORY ENGAGEMENT



Swedish Match expects that for the foreseeable future, hundreds of millions of people around the world will continue

to consume tobacco, the vast majority by smoking cigarettes. Swedish Match believes that smokers should have access to a traditional, viable, non-combustible tobacco alternative, such as Swedish snus, which is scientifically documented to have significantly lower negative health effects.

Swedish Match believes that tobacco regulation will continuously become more global in character and steadily increase in scope. It is Swedish Match's aspiration to see a move from "one-size-fits-all" tobacco regulation, to an approach that takes into account the differences between product categories and their accompanying risk profiles. Smokefree tobacco regulation should ultimately be based upon standards which strive to ensure that consumers receive the highest possible product quality at the lowest possible risk i.e. product standards based on the principles of food regulation.

Existing regulatory frameworks must be respected and complied with; however, these frameworks are not necessarily always efficient, nor, in some cases, sufficient. Truly effective regulation must be evidence based, and requires an exchange of knowledge and experience between governments and industry. The Company believes that, when determining what interventions are chosen, developed and implemented, then better regulation is achieved by maintaining focus on those who are directly affected by the regulation – consumers, customers/retailers and producers. This is why Swedish Match is monitoring relevant regulatory developments and is actively engaged with stakeholders in various ways, while recognizing that regulatory decisions will ultimately always be at the discretion of the lawmaker.

Swedish Match also monitors and evaluates the emerging scientific data, and interacts with the scientific community. Swedish Match considers itself accountable to all stakeholders in addressing and informing them about the established science and relevant product information.

Swedish Match is also committed to preventing the availability of tobacco products to minors. The Company is actively engaged with retailers to ensure that they properly understand the need to enforce required age-verification upon purchase of tobacco products. There is a mutual understanding between Swedish Match, leading retailers and their trade organizations of the necessity for commercial stakeholders to actively work against underage purchases. Swedish

Match also cooperates with retailers in order to reduce the growing volume of illicit products, which distort competition on the market.

### Regulatory developments in the US

The Family Smoking Prevention and Tobacco Control Act (the Act), signed into law June 2009, empowered the Food and Drug Administration (FDA) to regulate tobacco products such as cigarettes, roll-your-own tobacco and smokefree tobacco. Along with regulatory authority for the manufacture, sale and marketing of tobacco, the Act includes a provision that will enable a company to have one or more of its products classified as modified risk products. Products classified this way by the FDA Center for Tobacco Products (CTP) may then have warning labels that better reflect the risk profile agreed to by the FDA and may allow a company to make appropriate harm reduction claims. In August, 2014, FDA accepted Swedish Match's Modified Risk Tobacco Products application as complete, which means that it will be reviewed by the authority. The Company is seeking to have the warning labels for its Swedish snus products inform consumers that these products present substantially fewer risks to health than cigarettes. The application is currently being reviewed.

The Act also empowers the FDA to regulate other tobacco products, such as cigars, e-cigarettes and pipe tobacco. In April 2014, FDA published its proposed regulations over these products. The proposed regulations addressed certain areas, such as product health warnings and the process companies must follow to have new products approved for sales in the US. A comment period followed, and now the CTP must determine which of those comments to accept and to incorporate into proposed final regulations. At this point it is not known when these regulations will come into force.

### Regulatory developments in Scandinavia

Tobacco products for oral use, except those intended to be smoked or chewed, have been banned in the EU since 1992. As Swedish snus is neither smoked nor chewed, it is prohibited for sale. Upon Sweden's entry into the EU in 1995, the country was granted a permanent exemption from the sales ban on snus. Cigarettes and other types of traditional smokefree tobacco products, including Asian/African types, chewing tobacco and nasal snuff can all be legally sold within the EU.

In 2013, the Tobacco Products Directive 2001/37/EC underwent a process of revision. The new directive (2014/40/EU) was approved by the European parliament in February 2014 and by the European Council in April 2014. The sales ban on snus will remain in the EU. Changes that the revised EU legislation will bring are increased and amended warning labels on snus cans, and restrictions on product presentation, among other things. For instance, Swedish Match may likely no longer disclose product information such as nicotine content, taste or flavorings on its snus packages.

EU member states and Norway, associated with the European Union through its membership in the European Economic Area (EEA), in the context of being a European Free Trade Association (EFTA) member shall nationally bring into force the laws, regulations and administrative provisions necessary to comply with the new directive by May 2016.

In Norway, a self-service ban went into force in July 2014 for tobacco products including Swedish snus.

### SWEDISH MATCH IS OF THE OPINION THAT:

- Regulation must take into account the relative risk among different tobacco products.
- The EU ban on Swedish snus is discriminatory, disproportionate, violates the free trade and subsidiarity principles and distorts the function of the internal market.
- The new Directive (2014/40/EU) violates the fundamental consumer right to be informed of content and product taste by banning product information disclosure on snus packages.
- All smokefree tobacco products should be subject to consistent and competition neutral product regulation based on product quality and consumer protection i.e. similar to food standards.

# Environmental responsibility



**For Swedish Match, environmental responsibility implies working consciously and actively to reduce and mitigate negative environmental impacts of the Company's business operations.**

## Swedish Match and environmental responsibility

Swedish Match's environmental responsibility extends across the value chain, from sustainable tobacco sourcing and forest management to efficient management of energy, waste, and water in manufacturing, to eco-efficiency measures in all facilities.

Although the production processes and raw materials used in the tobacco industry generally are considered to have limited environmental impact, improvements and savings from more efficient uses of resources can have positive direct benefits on the sustainability and profitability of the Company as well as on the environment itself.

## Environmental organization

The Senior Vice President Investor Relations and Corporate Sustainability, who reports to the CEO, is responsible for the Corporate Sustainability function and for communicating environmental issues. The Senior Vice President Investor Relations and Corporate Sustainability also chairs the Group's Environmental Council, and presents findings and updates to the Board of Directors on a periodic basis.

The Group's Environmental Council, with representation from all Swedish Match factories, is an advisory and reporting body on matters relating to environmental issues and aids in reporting results internally in this area. The council's task is to safeguard compliance with Swedish Match's Group Environmental Policy and the Environmental Management System (EMS) throughout the organization. This is achieved by regular meetings and by a structured information exchange between meetings.

## Environmental management (quality and standards)

In 2014, the ten most significant of the Company's twelve manufacturing facilities, with products accounting for more than 95 percent of Company sales of its own pro-

duced products, had management systems certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001.

Basic environmental education is a requirement according to the environmental management standard ISO 14001 in those facilities that are certified according to the standard. The main purpose of the education is to promote environmental awareness among the staff and increased knowledge of the EMS and the Company's routines.

## Environmental KPIs and targets

Swedish Match has set long term targets at the factory level (five year horizon to 2016) and is monitoring and reporting on the following six environmental KPIs: total energy consumption, electricity, greenhouse gas emissions, total waste, hazardous waste, and water use.

The Company measures all KPIs on a factory level, both in absolute numbers as well as per unit of output produced. In the Company's Sustainability Report, aggregated results are reported for each product area – per unit of output by weight for smokefree products (snus, moist snuff, and chewing tobacco) as well as per unit of output for cigars and lights products (matches and lighters). Where applicable, totals are presented in relation to total Company sales as well as per employee.

## Energy consumption

Swedish Match works persistently on energy saving programs as well as programs to reduce electricity consumption for heating, cooling, and lighting. Each Swedish Match factory has its own target and/or activities in order to limit its energy consumption per unit of output produced. As electricity constitutes the largest part of Swedish Match's total energy consumption, the Group tracks both total energy consumption in general as well as electricity consumption specifically. In Sweden, Swedish Match's suppliers of electricity undertake to produce and supply the amount of electricity that Swedish Match purchases and consumes without the use of fossil fuels.

## Greenhouse gas emissions

Swedish Match works persistently on improvement activities and projects in order to limit its emissions of greenhouse gas, specifically with regards to CO<sub>2</sub> emissions, and each factory has its own target and/or activities in order to limit its CO<sub>2</sub> emissions per unit of output. Swedish Match is participating in an annual review administrated by the Carbon Disclosure Project (CDP), an independent organization, which maps companies' greenhouse gas emissions. On an aggregate factory level, Swedish Match's target is to stay at or below baseline for CDP Scope 1 (direct emissions) and Scope 2 (indirect emissions). During 2014, the Company reported an improved CDP disclosure score for the calendar year 2013 compared to the prior year. The disclosure score reflects the comprehensiveness of a company's response in terms of the depth and breadth of its answers.

## Waste management

Swedish Match works systematically to reduce its production of waste, in total or per unit of output produced, as applicable. The vast majority of waste is non-hazardous. The environmentally harmful substances (hazardous waste) that do exist are limited and primarily related to match production. Several waste reduction projects have been initialized across the factories during recent years.

## Water use

Swedish Match neither withdraws water from any water source that is significantly affected by the water withdrawal, nor discharges water into sensitive water bodies. The Company's target for water use is to maintain a level of zero in terms of the withdrawal or discharges of water affecting sensitive water bodies. Swedish Match's water footprint in absolute terms is fairly low as the Company's production processes require rather low water usage. The one area where Swedish Match needs a higher water supply is for its poplar farms in Brazil (trees are planted to be used in the Brazilian match production), where some dryer periods during spring and summer may lead to a higher necessity of irrigation.

### Other environmental topics

#### ***Environmentally adapted products and packaging***

Swedish Match strives to deliver the best possible products with a minimum of waste. The Company works to minimize packaging and strives to use environmentally adapted materials for its product packaging while introducing continuous improvements that not only deliver high consumer value, but also reduces the negative environmental footprint, and adhere to standards of quality. For matches, for example, post-consumer recycled fibers are being used for the vast majority of the production of inner and outer match boxes. Forest Stewardship Council™ (FSC™) certified materials are increasingly being used for match cardboard.

#### ***Sustainable agriculture***

Significant 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. These suppliers are also encouraged to grow tobacco according to Good Agricultural Practice (GAP) guidelines which aim at ensuring responsible and economically viable production of usable tobacco.

While the Company does not have its own tobacco farms, Swedish Match sources wood and maintains plantations for use in its match production. Timber sourcing and forestry is thus an important environmental area for the Company. In Brazil, where more than 95 percent of Swedish Match's wood consumption comes from the Company's own plantations, the Company complies with Brazilian environmental monitoring and control measures and environmentally adapted growing methods are used.

For its production of matches, Swedish Match uses aspen, pine, and poplar, and sourcing takes place near production, primarily from sources in Sweden and Brazil. All sourcing must be from timber that meets or exceeds the minimum requirements of government regulations.

#### ***Eco-efficiency***

In addition to its efforts at the factory and sourcing levels, the Company 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.



*Swedish Match's poplar plantation in Brazil.*

## ISO CERTIFICATIONS

ISO (International Organization for Standardization) is the world's largest developer of voluntary international standards. The standards specifies requirements for products, services and good practice, helping to make industries more efficient and effective. Founded in 1947, the organization has published more than 19,500 international standards covering almost all aspects of technology and business.

The majority of Swedish Match's production facilities, with products accounting for more than 95 percent of Company sales of its own produced products, is certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001.

More information about ISO can be found on ISO's website, [www.iso.org](http://www.iso.org).

## GROUP ENVIRONMENTAL POLICY

Swedish Match has adopted a Group Environmental Policy, designed to ensure that Swedish Match achieves a balance whereby the Group consistently reaches its commercial objectives while addressing the environmental requirements of the Company as well as its stakeholders. The policy is based on the principles of the environmental management standard ISO 14001 and is available on the Group's website and intranet.

To review the Group Environmental Policy, visit the sustainability section of the Swedish Match website, [www.swedishmatch.com/sustainability](http://www.swedishmatch.com/sustainability).

# Shareholder communication



## SWEDISHMATCH.COM – for fast and timely information

The Swedish Match Company website is an effective channel of communication to stakeholders and a principal source of information about the Group. The website is continuously updated to provide current and historical information about the Group's operations and activities, such as information on corporate governance, sustainability, share data, and debt market information.

Press releases, presentations, webcasts, downloadable annual and interim reports, as well as information about the Annual General Meeting, can also be found on the Company website.

The website is fully responsive across desktop, tablet and mobile devices.

## ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of Swedish Match AB (publ) will be held on Thursday, April 23, 2015, at 4.30 p.m. CET at Citykonferensen, Malmskillnads-gatan 46, in Stockholm, Sweden. Doors to the AGM will open at 3.30 p.m.

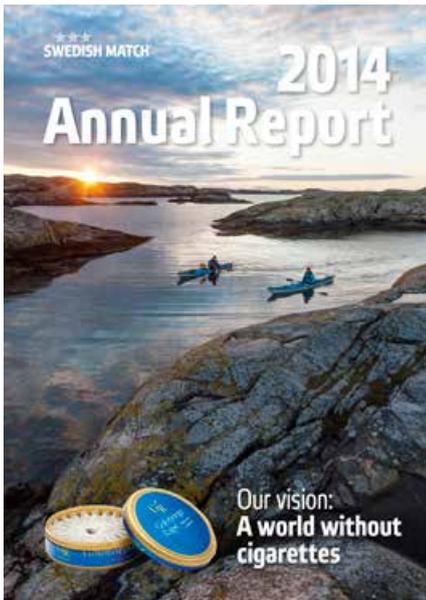
[www.swedishmatch.com](http://www.swedishmatch.com)   
More information is available on the Company website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

## DIVIDEND

The Board of Directors proposes that a dividend of 7.50 SEK per share be paid to shareholders. The proposed record date for entitlement to receive a cash dividend is April 27, 2015. If the AGM approves the Board's proposal, the dividend will be paid through Euroclear Sweden AB on April 30, 2015.

## AGM 2015 CALENDAR

- 17 April, 2015:**  
Record date for AGM
- 23 April, 2015:**  
AGM
- 24 April, 2015:**  
Ex-dividend date
- 27 April, 2015:**  
Proposed record date for dividend
- 30 April, 2015:**  
Proposed date for dividend payment



## FINANCIAL INFORMATION

Swedish Match's financial reports are available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com). These PDF files, which are adapted for accessibility, allow persons with functional disabilities, such as those who are visually impaired or those with reading difficulties, to interpret and access the information.

From January 2015 Swedish Match's interim reports are only distributed electronically. Shareholders can subscribe to interim reports via e-mail.

Printed annual reports are distributed to shareholders who have requested to receive a copy.

New shareholders automatically receive login credentials to access a personal user account with an option to request further financial information. Modifications to the user account can be made through the subscription service [www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe), or by e-mailing: [investorrelations@swedishmatch.com](mailto:investorrelations@swedishmatch.com).

### PUBLICATION CALENDAR

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

- May 8, 2015:**  
Interim report January–March
- July 17, 2015:**  
Half year report January–June
- November 4, 2015:**  
Interim report January–September
- February 19, 2016:**  
Full year report 2015
- April, 2016:**  
Annual report for 2015

[www.swedishmatch.com](http://www.swedishmatch.com)

Visit Swedish Match subscription service:  
[www.swedishmatch.com/subscribe](http://www.swedishmatch.com/subscribe)



## CONTACTS

### Investor Relations and Corporate Sustainability

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Emmett Harrison is responsible for Investor Relations issues, financial communication to media, shareholders, analysts, and other stakeholders. Emmett Harrison is also responsible for Corporate Sustainability.



### External Communications

Djuli Holmgren

Tel: +46 (0)8-658 02 61

[contactus@swedishmatch.com](mailto:contactus@swedishmatch.com)

Djuli Holmgren is responsible for the Swedish Match annual report and the Company website along with other external communications activities.



# The share

**The Swedish Match share is listed on NASDAQ OMX Stockholm. Total share capital on December 31, 2014 amounted to 390 MSEK, distributed among 200.5 million shares with a quotient value of 1.9427 SEK each. Each share carries one vote.**

## Turnover<sup>1)</sup>

Total turnover in 2014 amounted to 198,839,703 Swedish Match shares on the NASDAQ OMX Stockholm, with an average daily volume of 0.8 million shares. The turnover velocity of the share on the NASDAQ OMX Stockholm, was 97 percent during the year, compared with the average turnover velocity of 67 percent for the NASDAQ OMX Stockholm.

## Trading platforms<sup>2)</sup>

Approximately 60 percent of total trading volume of Swedish Match was handled through the NASDAQ OMX Stockholm trading platform, which was the same as for 2013. Chi-X was the second most traded platform during 2014.

## Share price development and market capitalization<sup>1)</sup>

The Company's market capitalization at year-end 2014 amounted to 47.9 billion SEK, an increase of 6.8 billion compared with December 31, 2013.<sup>3)</sup> The share price

rose by 18 percent during the year, while the OMXS30 Index increased by 12 percent. The lowest price paid during the year was 188.30 SEK on February 5, and the highest price paid was 260.70 SEK on November 28.

## Ownership structure<sup>4)</sup>

At year-end, ownership outside of Sweden corresponded to 71.1 percent of total share capital, a decline of 1.5 percentage points compared with 2013.<sup>3)</sup> Swedish ownership interests, totaling 28.9 percent, were distributed among institutions, with 7.3 percent of the share capital, mutual funds, with 12.1 percent, and private individuals, with 9.5 percent.

## Dividend

The Swedish Match dividend policy specifies that the dividend should be within the range of 40 to 60 percent of earnings per share (EPS), subject to adjustments for larger one-time items. The Board of Directors intends to propose to the Annual General Meeting a dividend for 2014 of 7.50 SEK (7.30) per share, for a total of 1,468 MSEK (1,453), based on the 195.7 million of shares outstanding at the end of the year (excluding shares held in treasury by Swedish Match). The dividend corresponds to 57 percent (57) of EPS for the year.

## SHORT FACTS SWEDISH MATCH SHARE

### Listing:

NASDAQ OMX Stockholm, Large Cap

### No. of shares at year end:

200,500,000

### Market cap at year end<sup>3)</sup>:

47.9 billion SEK

### Symbol:

NASDAQ OMX Stockholm: SWMA

Bloomberg: SWMA

Reuters: SWMA:ST

### ISIN code:

SE0000310336

## 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. The size and scope of the share buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buybacks are efficient availability of credit, the share price, the Group's interest and tax expenses as well as 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 45.

## Largest shareholders

Largest shareholders <sup>1)</sup>	Number of shares	Holding in percent	Votes in percent
Didner & Gerge Funds	6,838,358	3.4	3.5
Standard Life Investment Funds	6,723,535	3.4	3.4
Nordea Funds	5,397,602	2.7	2.8
SEB Funds	4,588,562	2.3	2.3
Second Swedish National Pension Fund	3,897,481	1.9	2.0
SHB Funds	3,081,482	1.5	1.6
Fourth Swedish National Pension Fund	2,517,386	1.3	1.3
Govt of Singapore Inv Corp	1,967,150	1.0	1.0
UBS (Lux) Funds	1,891,937	0.9	1.0
Third Swedish National Pension Fund	1,632,835	0.8	0.8
<b>Subtotal 10 largest shareholders</b>	<b>38,536,328</b>	<b>19.2</b>	<b>19.7</b>
Other	157,140,739	78.4	80.3
<b>Sub total</b>	<b>195,677,067</b>	<b>97.6</b>	<b>100.0</b>
Shares held by Swedish Match	4,822,933	2.4	0.0
<b>Total</b>	<b>200,500,000</b>	<b>100.0</b>	<b>100.0</b>

<sup>1)</sup> Registered direct ownership and ownership through trustees. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB, as of December 31, 2014. Totals may be affected by rounding.

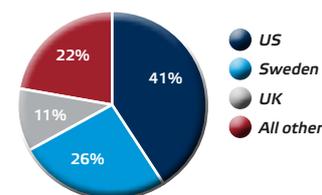
<sup>1)</sup> Source: NASDAQ OMX Stockholm.

<sup>2)</sup> Source: SIX Financial Information.

<sup>3)</sup> Excluding shares held in treasury by Swedish Match AB, which corresponded to 2.41 percent of the total number of shares as per December 31, 2014.

<sup>4)</sup> Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB.

## OWNERSHIP STRUCTURE – SHARE CAPITAL BY COUNTRY



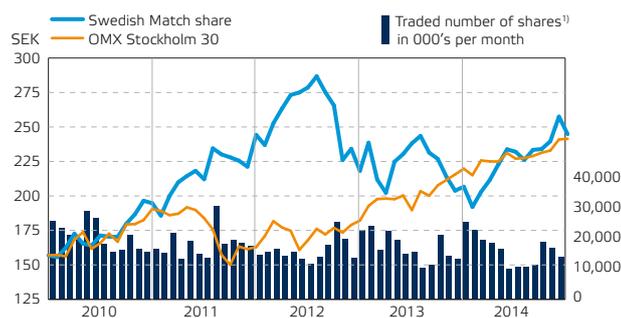
Source: SIS Ågarservice AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2014. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

[www.swedishmatch.com](http://www.swedishmatch.com)

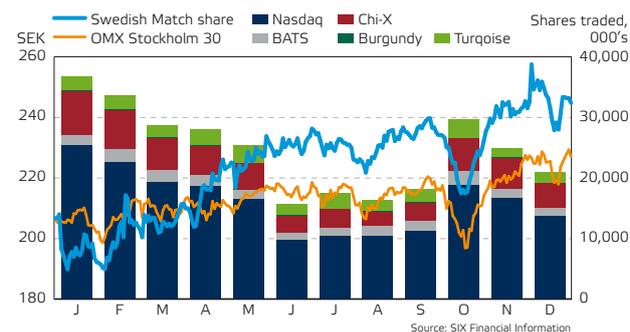
More information is available on the Company website [www.swedishmatch.com/investors](http://www.swedishmatch.com/investors).



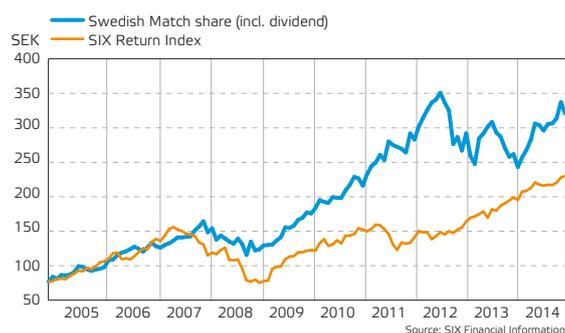
## Share price and turnover 2010–2014



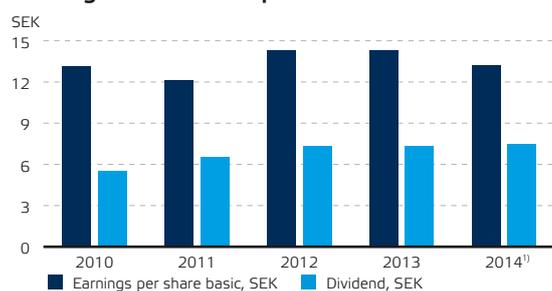
## Share price and turnover 2014



## Total return 2005–2014



## Earnings and dividend per share 2010–2014



## Transfer of capital to Swedish Match's shareholders

MSEK	2014	2013	2012	2011	2010	Total
Dividend paid	1,453	1,459	1,334	1,152	1,089	6,487
Repurchase of own shares, net	836	164	1,532	2,304	2,961	7,797
<b>Total</b>	<b>2,289</b>	<b>1,623</b>	<b>2,866</b>	<b>3,456</b>	<b>4,050</b>	<b>14,284</b>

Dividend proposed for calendar year 2014 to be paid in 2015 is 1,468 MSEK.

Share distribution<sup>1)</sup>

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1–1,000	43,321	90.3	8,927,681	4.5	4.6
1,001–5,000	3,616	7.5	7,221,157	3.6	3.7
5,001–20,000	562	1.2	5,266,722	2.6	2.7
20,001–50,000	159	0.3	4,990,289	2.5	2.5
50,001–100,000	88	0.2	6,192,198	3.1	3.2
100,001–1,000,000	158	0.3	52,190,135	26.0	26.6
1,000,001–	48	0.1	115,711,818	57.7	56.7
<b>Total at December 31, 2014</b>	<b>47,952</b>	<b>100</b>	<b>200,500,000</b>	<b>100</b>	<b>100</b>

<sup>1)</sup> Including shares held by Swedish Match as well as custodial ownership.

Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB. Totals may be affected by rounding.

## Share data

	2014	2013	2012	2011	2010
Earnings per share, basic, SEK					
From continuing operations, including larger one time items	13.23	13.63	14.33	12.14	13.12
From continuing operations, excluding larger one time items	13.23	12.82	14.18	12.14	9.92
Earnings per share, diluted, SEK					
From continuing operations, including larger one time items	13.22	13.61	14.25	12.07	13.09
From continuing operations, excluding larger one time items	13.22	12.80	14.10	12.07	9.89
Dividend per share, SEK	7.50 <sup>1)</sup>	7.30	7.30	6.50	5.50
Dividend yield at year-end, %	3.06 <sup>1)</sup>	3.53	3.35	2.66	2.82
Dividend pay-out ratio, excluding larger one time items, %	57 <sup>1)</sup>	57	51	54	55
Market price at year-end, SEK	244.80	206.70	218.20	244.30	194.70
Market capitalization at year-end, billion SEK <sup>2)</sup>	47.9	41.1	43.5	49.9	41.8
P/E ratio	18.5	15.2	15.3	20.2	14.9
EBIT multiple	14.8	12.8	13.0	15.9	12.6
Total return, %	22.4	-2.3	-8.5	28.8	27.7
Average number of shares, basic	198,475,824	198,930,422	202,888,955	209,001,190	225,331,835
Average number of shares, diluted	198,583,328	199,274,054	203,995,039	210,296,918	225,969,047
Number of shareholders	47,952	49,405	51,244	51,646	53,238

<sup>1)</sup> Board proposal.

<sup>2)</sup> Excluding shares held by Swedish Match.

# Five year summary

Condensed consolidated income statement, MSEK	2014	2013	2012	2011	2010
<b>Sales</b>	<b>13,305</b>	<b>12,610</b>	<b>12,486</b>	<b>11,666</b>	<b>13,606</b>
<b>Gross profit</b>	<b>6,197</b>	<b>5,963</b>	<b>6,349</b>	<b>5,892</b>	<b>6,944</b>
Larger one time items	-	161	30	-	644
<b>Operating profit</b>	<b>3,780</b>	<b>3,855</b>	<b>4,062</b>	<b>3,702</b>	<b>4,169</b>
Net finance cost	-510	-544	-551	-523	-562
<b>Profit before income tax</b>	<b>3,270</b>	<b>3,310</b>	<b>3,511</b>	<b>3,180</b>	<b>3,607</b>
<b>Profit for the year</b>	<b>2,626</b>	<b>2,711</b>	<b>2,907</b>	<b>2,538</b>	<b>2,958</b>
EBITDA	4,083	3,968	4,328	3,992	3,813

Condensed consolidated balance sheets, MSEK	2014	2013	2012	2011	2010
<b>Assets</b>					
Intangible assets	1,030	973	962	992	1,027
Property, plant and equipment <sup>1)</sup>	2,074	2,027	2,010	2,076	2,097
Investments in associated companies and joint ventures	5,233	4,506	4,354	4,481	4,085
Other non-current financial receivables <sup>2)</sup>	1,669	1,165	1,140	1,395	1,368
Current operating assets	4,255	3,038	3,080	3,031	2,886
Other current investments and current financial assets <sup>3)</sup>	-	8	-	0	1
Cash and cash equivalents	2,312	3,164	2,824	2,533	3,275
<b>Total assets</b>	<b>16,573</b>	<b>14,881</b>	<b>14,371</b>	<b>14,507</b>	<b>14,739</b>
<b>Equity and liabilities</b>					
Equity attributable to equity holders of the Parent	277	-786	-2,053	-1,602	-482
Non-controlling interests	1	1	2	2	2
Non-current provisions	1,081	1,031	1,009	1,070	1,050
Non-current loans	7,803	9,420	9,238	8,535	9,209
Other non-current financial liabilities <sup>2)</sup>	2,063	1,440	1,870	1,787	1,478
Current provisions	98	103	102	84	98
Current loans	1,141	920	1,119	1,283	525
Other current liabilities <sup>3)</sup>	4,109	2,751	3,084	3,347	2,861
<b>Total equity and liabilities</b>	<b>16,573</b>	<b>14,881</b>	<b>14,371</b>	<b>14,507</b>	<b>14,739</b>

<sup>1)</sup> Includes forest plantations.

<sup>2)</sup> Includes pension obligations and derivatives financial instruments.

<sup>3)</sup> Includes short term derivatives financial instruments.

Condensed consolidated cash flow, MSEK	2014	2013	2012	2011	2010
Net cash from operating activities	3,276	2,500	2,805	2,608	2,616
Net cash used in/from investing activities	-274	-240	-323	-151	959
Net cash transferred to shareholders	-2,290	-1,623	-2,866	-3,456	-4,050
Net cash used in/from other financing activities	-1,798	-289	754	237	1,403
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-1,085</b>	<b>348</b>	<b>371</b>	<b>-763</b>	<b>928</b>
Cash and cash equivalents at beginning of the year	3,164	2,824	2,533	3,275	2,530
Effects of exchanges rate fluctuations on cash and cash equivalents	232	-8	-79	21	-183
<b>Cash and cash equivalents at end of year</b>	<b>2,312</b>	<b>3,164</b>	<b>2,824</b>	<b>2,533</b>	<b>3,275</b>

Key data <sup>1)</sup>	2014	2013	2012	2011	2010
Operating capital at year-end, MSEK	8,314	7,729	7,253	7,224	7,099
Net debt, MSEK	8,126	8,388	9,289	8,886	7,650
Investments in property, plant and equipment, MSEK <sup>2)</sup>	223	306	251	245	311
Operating margin, %	28.4	29.3	32.3	31.7	25.2
Return on operating capital, %	47.1	49.3	55.7	51.7	44.0
EBITA interest cover	7.6	7.0	7.6	7.4	7.0
Net debt/EBITA	2.1	2.3	2.3	2.4	2.2
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Dividend per share, SEK	7.50 <sup>3)</sup>	7.30	7.30	6.50	5.50
Earnings per share basic, SEK					
From continuing operations, including larger one time items	13.23	13.63	14.33	12.14	13.12
From continuing operations, excluding larger one time items	13.23	12.82	14.18	12.14	9.92
Earnings per share diluted, SEK					
From continuing operations, including larger one time items	13.22	13.61	14.25	12.07	13.09
From continuing operations, excluding larger one time items	13.22	12.80	14.10	12.07	9.89

<sup>1)</sup> 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.

<sup>2)</sup> Including investments in forest plantations of 19 MSEK (18).

<sup>3)</sup> Board proposal.

Sales by product area, MSEK	2014	2013	2012	2011	2010
Snus and moist snuff	5,001	4,868	5,049	4,726	4,522
Other tobacco products	2,832	2,564	2,661	2,388	2,440
Lights	1,295	1,332	1,339	1,346	1,429
Other operations	4,178	3,847	3,437	3,206	2,831
<b>Sales from products areas</b>	<b>13,305</b>	<b>12,610</b>	<b>12,486</b>	<b>11,666</b>	<b>11,222</b>
Businesses transferred to STG	-	-	-	-	2,385
<b>Sales</b>	<b>13,305</b>	<b>12,610</b>	<b>12,486</b>	<b>11,666</b>	<b>13,606</b>

Operating profit/loss by product area, MSEK	2014	2013	2012	2011	2010
Snus and moist snuff	2,207	2,195	2,349	2,181	2,080
Other tobacco products	1,109	1,029	1,161	1,049	942
Lights	218	230	222	240	279
Other operations	-88	-80	-65	-105	-142
<b>Operating profit from product areas</b>	<b>3,446</b>	<b>3,375</b>	<b>3,666</b>	<b>3,365</b>	<b>3,158</b>
Share of net profit/loss in STG <sup>1)</sup>	334	319	366	337	-60
Businesses transferred to STG	-	-	-	-	334
<b>Subtotal</b>	<b>3,780</b>	<b>3,693</b>	<b>4,032</b>	<b>3,702</b>	<b>3,433</b>
Capital gain from transfer of businesses to STG	-	-	30	-	585
Net gain from pension settlements	-	-	-	-	59
Reversal of depreciation and amortization relating to assets held for sale	-	-	-	-	93
Capital gain from sale of land	-	161	-	-	-
<b>Operating profit</b>	<b>3,780</b>	<b>3,855</b>	<b>4,062</b>	<b>3,702</b>	<b>4,169</b>

<sup>1)</sup> Businesses were transferred to STG on October 1, 2010.

Operating margin by product area, % <sup>1)</sup>	2014	2013	2012	2011	2010
Snus and moist snuff	44.1	45.1	46.5	46.1	46.0
Other tobacco products	39.2	40.1	43.6	44.0	38.6
Lights	16.8	17.3	16.6	17.9	19.5
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.9</b>	<b>26.8</b>	<b>29.4</b>	<b>28.8</b>	<b>28.1</b>
<b>Operating margin<sup>3)</sup></b>	<b>28.4</b>	<b>29.3</b>	<b>32.3</b>	<b>31.7</b>	<b>25.2</b>

<sup>1)</sup> Excluding larger one time items.

<sup>2)</sup> Excluding share of net profit/loss in STG.

<sup>3)</sup> Including share of net profit/loss in STG.

# Quarterly data 2013–2014

Condensed consolidated income statements, MSEK	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>	<b>3,178</b>	<b>3,230</b>	<b>3,220</b>	<b>2,982</b>
<b>Gross profit</b>	<b>1,627</b>	<b>1,563</b>	<b>1,555</b>	<b>1,452</b>	<b>1,481</b>	<b>1,481</b>	<b>1,546</b>	<b>1,455</b>
<b>Operating profit</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>	<b>1,031</b>
Net financial cost	-132	-127	-125	-126	-128	-142	-138	-136
<b>Profit before income tax</b>	<b>861</b>	<b>862</b>	<b>816</b>	<b>732</b>	<b>804</b>	<b>782</b>	<b>830</b>	<b>895</b>
<b>Profit for the period</b>	<b>700</b>	<b>695</b>	<b>651</b>	<b>580</b>	<b>675</b>	<b>628</b>	<b>667</b>	<b>741</b>
<b>EBITDA excluding larger one time items</b>	<b>1,074</b>	<b>1,067</b>	<b>1,013</b>	<b>930</b>	<b>1,009</b>	<b>990</b>	<b>1,031</b>	<b>938</b>

Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, % <sup>1) 3)</sup>	28.1	29.0	28.2	28.5	29.3	28.6	30.0	29.2
Investments in property, plant and equipment, MSEK	57	33	78	56	74	72	89	70
Earnings per share, basic SEK	3.55	3.50	3.27	2.91	3.43	3.15	3.34	3.72

Sales by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	1,323	1,257	1,267	1,154	1,247	1,217	1,230	1,173
Other tobacco products	723	724	699	687	590	622	687	664
Lights	362	319	299	315	345	332	326	328
Other operations	1,129	1,117	1,074	858	996	1,058	976	816
<b>Sales</b>	<b>3,536</b>	<b>3,416</b>	<b>3,339</b>	<b>3,014</b>	<b>3,178</b>	<b>3,230</b>	<b>3,220</b>	<b>2,982</b>

Operating profit/loss by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	577	562	562	505	562	553	546	534
Other tobacco products	288	276	279	267	228	246	295	260
Lights	63	51	49	55	63	56	53	59
Other operations	-27	-15	-28	-18	-18	-19	-22	-20
<b>Operating profit from product area</b>	<b>900</b>	<b>874</b>	<b>862</b>	<b>809</b>	<b>835</b>	<b>836</b>	<b>871</b>	<b>832</b>
Share of net profit in STG	92	115	78	49	97	88	95	39
<b>Subtotal</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>966</b>	<b>872</b>
Capital gain from sale of land	-	-	-	-	-	-	2	159
<b>Total larger one time items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>159</b>
<b>Operating profit</b>	<b>992</b>	<b>989</b>	<b>941</b>	<b>858</b>	<b>932</b>	<b>924</b>	<b>968</b>	<b>1,031</b>

Operating margin by product area, % <sup>1)</sup>	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and moist snuff	43.6	44.8	44.4	43.8	45.1	45.4	44.4	45.5
Other tobacco products	39.8	38.1	39.9	38.8	38.6	39.6	42.9	39.2
Lights	17.3	16.0	16.4	17.6	18.1	16.8	16.2	17.8
<b>Operating margin from product areas<sup>2)</sup></b>	<b>25.5</b>	<b>25.6</b>	<b>25.8</b>	<b>26.9</b>	<b>26.3</b>	<b>25.9</b>	<b>27.1</b>	<b>27.9</b>
<b>Operating margin<sup>3)</sup></b>	<b>28.1</b>	<b>29.0</b>	<b>28.2</b>	<b>28.5</b>	<b>29.3</b>	<b>28.6</b>	<b>30.0</b>	<b>29.2</b>

<sup>1)</sup> Excluding larger one time items.

<sup>2)</sup> Excluding share of net profit in STG.

<sup>3)</sup> Including share of net profit in STG.

# Definitions used in financial tables

## DIVIDEND PAY-OUT RATIO (%)

$$\frac{100 \times \text{Dividend (proposed after year-end)}}{\text{Earnings per share from continuing operations, basic}}$$

## EBITA MARGIN (%)

$$\frac{100 \times \text{EBITA}}{\text{Sales}}$$

## OPERATING MARGIN (%)

$$\frac{100 \times \text{Operating profit}}{\text{Sales}}$$

## DIVIDEND YIELD (%)

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

## EBITDA

Earnings excluding net finance cost, tax, depreciation, amortization and impairments of tangible and intangible assets

## P/E RATIO

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

## EARNINGS PER SHARE

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

## EBITDA MARGIN (%)

$$\frac{100 \times \text{EBITDA}}{\text{Sales}}$$

## RETURN ON OPERATING CAPITAL (%)

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

## EBITA

Earnings excluding net finance cost, tax, amortization and impairments of intangible assets

## 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

## TOTAL RETURN (%)

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

## EBITA INTEREST COVERAGE RATIO

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

## OPERATING CAPITAL

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

## FINANCIAL REPORTS

**Sales for the full year increased by 6 percent to 13,305 MSEK (12,610). In local currencies, sales increased by 4 percent.**

**Operating profit, including share of net profit in STG, amounted to 3,780 MSEK (3,855 including larger one-time items).**

**EPS (basic) for the full year amounted to 13.23 SEK (13.63). EPS (basic), excluding larger one-time items, amounted to 13.23 SEK (12.82).**

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# Report of the Board of Directors

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

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

## Sales

Sales for the year were 13,305 MSEK (12,610). In local currencies, sales increased by 4 percent.

For the year, sales of *Snus and moist snuff* increased to 5,001 MSEK (4,868). Sales were positively impacted by year-end hoarding and calendar effects in Scandinavia in advance of the January 2015 excise tax increases. In Scandinavia, sales revenues increased by more than 1 percent, while shipment volumes increased by 3 percent with value priced products comprising a larger share of the product portfolio. Swedish Match estimates that its underlying volumes (excluding hoarding and year-end calendar effects) on the Scandinavian market increased by 1 percent for the year. In the US, sales revenues in local currency for moist snuff were also up 1 percent on 2 percent lower volumes.

For *Other tobacco products* (cigars and chewing tobacco), total sales for the year amounted to 2,832 MSEK (2,564). In local currency, sales for the year increased by 5 percent compared to the previous year. Cigar volumes increased by 12 percent, but due to a high level of price promotions, sales in local currency increased less in percentage terms. For chewing tobacco, sales in local currency increased slightly as higher pricing compensated for a decline in volumes.

Product area *Lights* includes matches, lighters and complementary products. Sales for *Lights* for the year amounted to 1,295 MSEK

(1,332). Excluding currency translation effects, sales for the product area declined by 3 percent. Sales of complementary products in Brazil increased.

Sales in *Other operations* amounted to 4,178 MSEK (3,847). Other operations primarily comprise the distribution of tobacco products on the Swedish market, and corporate overhead costs.

## Operating profit

Full year operating profit from product areas increased by 2 percent to 3,446 MSEK compared to 3,375 MSEK in 2013. In local currencies, and excluding prior year restructuring charges of 28 MSEK, the operating profit from product areas was unchanged despite higher investments for Swedish snus outside Scandinavia.

Operating profit for *Snus and moist snuff* amounted to 2,207 MSEK (2,195), and included net costs for Swedish snus expansion outside Scandinavia amounting to 341 MSEK (294). The third quarter of 2013 included restructuring costs in the Scandinavian operations amounting to 28 MSEK.

Operating profit for *Other tobacco products* increased by 8 percent to 1,109 MSEK (1,029). In local currency, operating profit increased by 3 percent. For cigars, the increase in operating profit in local currency was less in percentage terms than the sales increase mainly as a consequence of a lower average price per cigar. Operating profit for chewing tobacco in local currency increased.

Operating profit for *Lights* for the year amounted to 218 MSEK (230). Compared to prior year, operating profit was flat for lighters despite lower volumes but declined for matches.

Operating loss for *Other operations* for the year was 88 MSEK (80).

Operating profit, including share of net profit from Scandinavian Tobacco Group (STG) and larger one-time items, for the year amounted to 3,780 MSEK (3,855). The share of net profit in STG amounted to 334 MSEK (319) for the year.

## Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2014	2013	2014	2013
Snus and moist snuff	5,001	4,868	2,207	2,195
Other tobacco products	2,832	2,564	1,109	1,029
Lights	1,295	1,332	218	230
Other operations	4,178	3,847	-88	-80
<b>Sales and operating profit from product areas</b>	<b>13,305</b>	<b>12,610</b>	<b>3,446</b>	<b>3,375</b>
Share of net profit in STG	-	-	334	319
<b>Total</b>	<b>13,305</b>	<b>12,610</b>	<b>3,780</b>	<b>3,693</b>
<i>Larger one-time items:</i>				
Capital gain from sale of land			-	161
<b>Total larger one-time items</b>			<b>-</b>	<b>161</b>
<b>Total</b>			<b>3,780</b>	<b>3,855</b>

## Summary of consolidated income statement

MSEK	2014	2013
Sales	13,305	12,610
Operating profit	3,780	3,855
Net finance cost	-510	-544
Taxes	-644	-600
<b>Profit for the year</b>	<b>2,626</b>	<b>2,711</b>
<i>Attributable to:</i>		
Equity holders of the Parent	2,625	2,712
Non-controlling interest	0	-1
<b>Profit for the year</b>	<b>2,626</b>	<b>2,711</b>
Earnings per share, basic (SEK)	13.23	13.63

Operating margin from product areas for the year was 25.9 percent (26.8). Operating margin, including share of net profit in STG and larger one-time items, was 28.4 percent (30.6).

### Scandinavian Tobacco Group

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

On January 30, 2015, STG announced the appointment of Niels Fredriksen as new CEO, replacing the departing CEO, Anders Colding Friis.

During 2014, the shareholders of STG have engaged advisors to assess the strategic alternatives for STG. The strategic review has identified further opportunities and the shareholders of STG have agreed that it is in their best interests to continue growing STG in view of a potential future Initial Public Offering.

Swedish Match's 49 percent share of STG's net profit after interest and tax amounted to 334 MSEK (319) for the full year. Total STG net sales for the year amounted to 6,126 MDKK (5,925). EBITDA for total STG in the year amounted to 1,183 MDKK (1,180).

### Larger one-time items

In 2007 Swedish Match sold a parcel of land adjacent to the old headquarters building in Stockholm, for which the final purchase price was subject to the approval of a changed city plan. The city plan was approved in January 2013, which resulted in an additional capital gain of 161 MSEK reported under larger one-time items in the first quarter of 2013.

### Net finance cost

Net finance cost for the year decreased to 510 MSEK (544) mainly due to lower interest bearing debt.

### Taxes

For the full year the reported tax expense amounted to 644 MSEK (600), corresponding to a tax rate of 19.7 percent (18.1). The low reported tax rate for 2013 is explained by a non-taxable additional capital gain from the sale of a parcel of land. The reported tax rate, excluding associated companies and joint ventures, was 21.6 percent (20.9, excluding larger one-time items). The earnings from associated companies and joint ventures are reported net after tax, and relate mainly to the share of earnings from STG.

### Earnings per share

For the full year basic earnings per share amounted to 13.23 SEK (13.63). Diluted earnings per share was 13.22 SEK (13.61). Basic earnings per share for the year, excluding larger one-time items, amounted to 13.23 SEK (12.82), while diluted earnings per share, excluding larger one-time items, was 13.22 SEK (12.80).

### Liquid funds

Cash and cash equivalents amounted to 2,312 MSEK at the end of the year, compared with 3,164 MSEK at the beginning of 2013. As of December 31, 2014, Swedish Match had 1,500 MSEK in unutilized committed credit lines.

### Financing and cash flow

Cash flow from operating activities for 2014 amounted to 3,276 MSEK compared with 2,500 MSEK for the previous year. The cash flow from operations increased compared to the prior year mainly as a result of improved cash flow from changes in working capital. Cash flow from changes in working capital benefited from timing effects in 2014 and was negatively affected by timing effects in 2013.

The net debt as of December 31, 2014 amounted to 8,126 MSEK compared to 8,388 MSEK at December 31, 2013.

During 2014 no new bond loans were issued. During the year 945 MSEK of bond loans matured and another 860 MSEK with shorter maturities were repurchased. At December 31, 2014 Swedish Match had 8,703 MSEK of interest bearing debt excluding retirement benefit obligations compared to 10,508 MSEK at December 31, 2013. During 2015, 1,139 MSEK of this debt falls due for payment. As of December 31, 2014, Swedish Match had net retirement benefit obligations of 1,734 MSEK compared to 1,044 MSEK at December 31, 2013. The increase in net retirement benefit obligations during 2014 is due to the impact of lower discount rates, changes in demographic assumptions and currency translation, mostly affecting the US plans.

### Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 223 MSEK (306). Total investments in intangible assets during 2014 amounted to 5 MSEK (35).

### Depreciations, amortizations and write-downs

During the year, total depreciation, amortization and write-downs amounted to 303 MSEK (275), of which depreciation and write-down on property, plant and equipment amounted to 262 MSEK (244) and amortization and write-down of intangible assets amounted to 41 MSEK (31).

## Summary of consolidated balance sheet

MSEK	2014	2013
Non-current assets	10,006	8,670
Other current assets	4,255	3,047
Cash and cash equivalents	2,312	3,164
<b>Total assets</b>	<b>16,573</b>	<b>14,881</b>
Equity	279	-785
Non-current financial liabilities and provisions	3,144	2,472
Non-current loans	7,803	9,420
Current liabilities and provisions	4,207	2,854
Current loans	1,141	920
<b>Total equity and liabilities</b>	<b>16,573</b>	<b>14,881</b>

## Summary of consolidated cash flow statement

MSEK	2014	2013
Net cash from operating activities	3,276	2,500
Net cash used in investing activities	-274	-240
Net cash transferred to shareholders	-2,290	-1,623
Net cash from other financing activities	1,798	-289
<b>Net increase in cash and cash equivalents</b>	<b>-1,085</b>	<b>348</b>
Cash and cash equivalents at beginning of the year	3,164	2,824
Effects of exchanges rate fluctuations on cash and cash equivalents	232	-8
<b>Cash and cash equivalents at end of year</b>	<b>2,312</b>	<b>3,164</b>

### 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 3 times EBITA.

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

### Proposed dividend per share

The Board proposes an increased dividend of 7.50 SEK (7.30), equivalent to 57 percent of the full year's earnings per share. The proposed dividend amounts to 1,468 MSEK based on the 195.7 million shares outstanding at the end of the year.

### Share structure

The Annual General Meeting on May 7, 2014 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, 1.5 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 200.5 million shares with a quotient value of 1.9427 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy, 3.7 million shares were repurchased during the year for 890 MSEK at an average price of 237.59 SEK, following authorization from the Annual General Meetings held in 2013 and 2014. 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 buy-back programs started have been repurchased at an average price of 108.43 SEK. During the year the Company sold 0.4 million treasury shares at an average price of 141.52 SEK, totaling 53 MSEK, as a result of option holders exercising their options. As per December 31, 2014 Swedish Match held 4.8 million shares in treasury, corresponding to 2.41 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, 2014 amounted to 195.7 million. As of December 31, 2014, the Company has outstanding call options corresponding to 0.7 million shares that expire in February 2015.

The Board will propose to the Annual General Meeting in April 2015 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares in the Company until next Annual General Meeting in 2016.

In addition a proposal will be made to cancel 4.0 million shares held in treasury with a contemporaneous bonus issue without issuing new shares of an amount equivalent to the reduction of share capital through the cancellation of shares.

### Average number of Group employees

The average number of employees in the Group during the year was 4,395 compared with 4,382 for the full year 2013.

### Corporate governance report

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corpo-

rate Governance Report instead of including the report in the Board of Director's report. The Corporate Governance Report is presented on page 95 and is also available on the Company's website [www.swedishmatch.com](http://www.swedishmatch.com).

The Corporate Governance Report includes information on risk management and internal control over financial reporting, see further on page 101.

### Corporate Sustainability

Consistent with the Swedish Match vision, Swedish Match works systematically with Corporate Sustainability across the organization – a work that provides many long term benefits to the Company. It helps to make Swedish Match more competitive, to identify and reduce costs and risks, and to strengthen the corporate reputation and brand. It also enables the Company to be an attractive employer. Working with sustainability is thus an important element for Swedish Match's value creation and future growth.

Swedish Match reports its sustainability information according to the guidelines set forth by Global Reporting Initiative (GRI) G3 in order to reach measurable, transparent, clear, and comparable results.

### Environmental impact

Swedish Match strives to conduct its business in a manner that does not put the environment at risk and in compliance with relevant environmental legislation, regulations, and other local requirements. To support its environmental efforts, Swedish Match has adopted a Group Environmental Policy that encompasses all aspects of its operations. The policy is designed to ensure that Swedish Match achieves a balance whereby the Group consistently reaches its commercial objectives while addressing the environmental requirements of the Company as well as its stakeholders.

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

In 2014, the majority of Swedish Match's production facilities, with products accounting for more than 95 percent of Company sales of its own produced products, had been certified according to the environmental management standard ISO 14001 as well as the quality management systems standard ISO 9001. The ten most significant of the Company's twelve manufacturing facilities had both ISO 14001 certification and ISO 9001 certification.

### Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2014. The snus plants in Gothenburg and Kungälv in Sweden are subject to obligatory reporting in accordance with the Swedish Environmental Code.

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

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

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

### Organization and personnel

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

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

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

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

### Risk factors

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

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

Tobacco products are also subject to substantial taxes in most countries where Swedish Match has significant sales. In many of

those countries, the taxes on tobacco are generally increasing but the rate of increase varies between different types of tobacco products. Increased excise taxes or changes in relative tax rates for different tobacco products may impact overall sales volume for the Group's products.

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

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

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

Refinancing risk is the risk of not being able to meet the need for future funding. To avoid this risk all maturing loans shall be able to be repaid by the operating cash flow. Furthermore there shall be a liquidity reserve consisting of available cash and cash equivalents as well as unutilized committed credit facilities. The aim of the Group is to have an even maturity structure of the debt portfolio and the objective for interest rate fixing periods is to achieve an even and low cost of interest. Since the part of loans with variable interest rates is approximately 6 percent of the total debt portfolio, the cash-flow interest rate risk is considered to be low. Interest rate swaps and currency swaps are used mainly to convert the Group's borrowing into SEK and fixed interest rates and hedge accounting is applied in accordance with the description in *Note 1 Accounting principles*.

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

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

### Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 1,500 MEUR Global Medium Term Note Program and the 1,500 MSEK Revolving Credit Facility have clauses that can force the Company to pay back loans in a change of control situation. Some agreements with third parties in the Scandinavian tobacco distribution and sales businesses can be cancelled should there be a change of control of Swedish Match. The 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 two other members of the Group Management Team may initiate the termination of their employment if the Company is delisted or in the event of a major change of ownership of the Company provided such change has a significant impact on the duties and responsibility compared with the duties and responsibility immediately prior to such change. In such an event, these persons has the right to a notice period of six months and severance pay for 18 months. Also some executives in the US operations have change of control clauses which may be triggered by certain events.

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

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2015. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

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

*Note 5 Personnel* sets out details of the remuneration and benefits of the GMT during 2014.

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

### 1. Fixed salary

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

### 2. Variable salary

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

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

### 3. Profit Sharing System

All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS"). For 2015 the maximum total accruals for GMT members is estimated to 0.3 MSEK.

### 4. Insurable benefits

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

### 5. Severance pay, etc

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

### 6. Other benefits

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

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

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

### 8. Committee work and decisions

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

### 9. Previous undertakings not yet due

The Company has no previous undertakings not yet due besides what is evident from the Annual Report 2014.

## Application of principles on variable salary for 2015

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

### 1. Short term variable salary

The maximum short term variable salary for the President and other members of the GMT residing in Sweden shall be 70 and 60 percent respectively of their 2015 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden shall be 70 percent of the 2015 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President. Accruals for short term variable salary objectives for GMT members 2015 are estimated<sup>1)</sup> to range between 0 MSEK and 14 MSEK.

## 2. Long term variable salary

The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2015 base salary or 750 000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

The outcome in the long term variable salary program is dependent on one criterion determined at the beginning of 2015 but measured over the full performance period 2015–2017. The criterion is total Group Operating profit from product areas for the years 2015–2017. There will not be any pay-out at all unless there is an improvement in relation to the comparable performance of the Group in 2014.

Accruals for the GMT long term incentive programs are estimated<sup>1)</sup> to range between 0 MSEK below minimum level and 10 MSEK at maximum level depending on performance outcome. For the principles of remuneration adopted by the Annual General Meeting in April 2014, see *Note 5 Personnel*.

## Outlook

Swedish Match generates a substantial share of its sales and operating profit in the US. Based on current exchange rates and particularly the stronger US dollar, currency translation effects on sales and operating profit in 2015 are expected to be positive.

In the second half of 2014 we noted a slowdown in market growth for snus in Scandinavia. For 2015 we expect Scandinavian snus consumption to continue to grow as measured in number of cans, although at a somewhat slower pace than in 2014. Shipment volumes in Scandinavia are expected to be negatively affected by destocking following the 2014 year-end trade hoarding. In Sweden as well as in the US moist snuff market, we expect value priced products to grow faster than the overall market. In the US moist snuff market, Swedish Match's product portfolio is exclusively positioned in the value segment. In Sweden, Swedish Match competes in all price segments of the market with a particularly strong position in the premium segment. The expected faster growth of value priced products in Sweden, the price repositioning of the *Kronan* snus brand and the absence of price increases in 2014 are likely to imply negative mix effects.

During the year we will continue to invest in growth for snus internationally, particularly in the US. In Sweden and Norway, we will work hard to defend our market share.

For cigars in the US, Swedish Match expects the market to remain highly competitive during 2015. The US Food and Drug Administration (FDA) is expected to begin regulating cigars sometime in 2015 and in conjunction with this Swedish Match, like the rest of the cigar industry, will be subject to user fees to the FDA.

Due to the relatively high corporate income tax rate in the US, the strengthening of the US dollar is likely to put upward pressure on the effective corporate tax rate of the Group in 2015 compared to 2014.

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.

The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries.

Sales in the Parent Company for the full year amounted to 48 MSEK (44). Profit before income tax amounted to 1,075 MSEK (2,648) and net profit for the year amounted to 989 MSEK (2,607). The lower net profit for the year mainly pertains to lower dividends from subsidiaries compared to the previous year. In addition, previous year included a gain on sale of a subsidiary amounting to 757 MSEK and additional proceeds of 161 MSEK relating to a parcel of land adjacent to the old headquarters building in Stockholm.

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

Capital expenditures on tangible fixed assets for the year amounted to 1 MSEK (0). No capital expenditures on intangible assets have been recognized during 2014, nor during 2013.

No new bond loans were issued during 2014 and repayments of bond loans amounted to 1,805 MSEK. During the period, the Parent Company made share repurchases of 3.7 million (1.6) shares for 890 MSEK (352) and sold 0.4 million (1.2) treasury shares for 53 MSEK (187).

A dividend of 1,453 MSEK (1,459) has been paid during the period.

<sup>1)</sup> Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 8.28.

## Consolidated income statement

MSEK	Note	2014	2013
Sales, including tobacco tax		25,908	24,991
Less tobacco tax		-12,603	-12,381
<b>Sales</b>	3	<b>13,305</b>	<b>12,610</b>
Cost of goods sold		-7,109	-6,647
<b>Gross profit</b>		<b>6,197</b>	<b>5,963</b>
Selling expenses		-1,910	-1,818
Administrative expenses		-786	-728
Other operating income and expenses	4	-6	-10
Share of profit in associated companies and joint ventures	14	285	287
Capital gain from sale of land		-	161
<b>Operating profit</b>	3, 5, 6, 7, 21, 26	<b>3,780</b>	<b>3,855</b>
Finance income		27	34
Finance costs		-537	-578
<b>Net finance cost</b>	8	<b>-510</b>	<b>-544</b>
<b>Profit before income tax</b>		<b>3,270</b>	<b>3,310</b>
Income tax expense	9	-644	-600
<b>Profit for the year</b>		<b>2,626</b>	<b>2,711</b>
<i>Attributable to:</i>			
Equity holders of the Parent		2,625	2,712
Non-controlling interests		0	-1
<b>Profit for the year</b>		<b>2,626</b>	<b>2,711</b>
Earnings per share, basic, SEK	10		
Including larger one-time items		13.23	13.63
Excluding larger one-time items		13.23	12.82
Earnings per share, diluted, SEK	10		
Including larger one-time items		13.22	13.61
Excluding larger one-time items		13.22	12.80

## Consolidated statement of comprehensive income

MSEK	Note	2014	2013
<b>Profit for the year</b>		<b>2,626</b>	<b>2,711</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Translation differences related to foreign operations	19	732	127
Translation differences included in profit and loss	19	-	0
Effective portion of changes in fair value of cash flow hedges	19	-57	-28
Share of other comprehensive income in associated companies and joint ventures	19	322	-147
Income tax relating to reclassifiable components of other comprehensive income	9	13	6
<b>Subtotal, net of tax for the year</b>		<b>1,009</b>	<b>-42</b>
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains and losses attributable to pensions, incl. payroll tax		-410	359
Share of other comprehensive income in associated companies and joint ventures		-25	5
Income tax relating to non-reclassifiable components of other comprehensive income	9	154	-144
<b>Subtotal, net of tax for the year</b>		<b>-281</b>	<b>221</b>
<b>Other comprehensive income, net of tax for the year</b>		<b>728</b>	<b>179</b>
<b>Total comprehensive income for the year</b>		<b>3,353</b>	<b>2,889</b>
<i>Attributable to:</i>			
Equity holders of the Parent		3,353	2,890
Non-controlling interests		0	-1
<b>Total comprehensive income for the year</b>		<b>3,353</b>	<b>2,889</b>

## Consolidated balance sheet

MSEK	Note	Dec. 31, 2014	Dec. 31, 2013
<b>Assets</b>			
Intangible assets	11	1,030	973
Property, plant and equipment	12	1,937	1,907
Forest plantations	13	137	120
Investments in associated companies and joint ventures	14	5,233	4,506
Other non-current receivables	15	693	442
Deferred income tax assets	9	976	723
<b>Total non-current assets</b>		<b>10,006</b>	<b>8,670</b>
Inventories	16	2,419	1,304
Trade receivables	17	1,557	1,440
Prepaid expenses and accrued income		92	89
Income tax receivables		73	74
Other current receivables	15	115	139
Cash and cash equivalents	18	2,312	3,164
<b>Total current assets</b>		<b>6,567</b>	<b>6,211</b>
<b>TOTAL ASSETS</b>		<b>16,573</b>	<b>14,881</b>
<b>Equity</b>			
Share capital	19	390	390
Reserves		597	-412
Retained earnings		-709	-763
<b>Equity attributable to equity holders of the Parent</b>		<b>277</b>	<b>-786</b>
Non-controlling interests		1	1
<b>TOTAL EQUITY</b>		<b>279</b>	<b>-785</b>
<b>Liabilities</b>			
Loans and borrowings	20, 25	7,803	9,420
Other liabilities	23	248	312
Provision for pensions and similar obligations	21	1,815	1,128
Other provisions	22	410	464
Deferred income tax liabilities	9	671	567
<b>Total non-current liabilities</b>		<b>10,946</b>	<b>11,892</b>
Loans and borrowings	20, 25	1,141	920
Trade payables		957	559
Income tax liabilities		52	51
Other liabilities	23	2,369	1,459
Accrued expenses and deferred income	24	730	682
Provisions	22	98	103
<b>Total current liabilities</b>		<b>5,348</b>	<b>3,774</b>
<b>TOTAL LIABILITIES</b>		<b>16,294</b>	<b>15,666</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16,573</b>	<b>14,881</b>

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

## Consolidated statement of changes in equity

2013	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	19	<b>390</b>	<b>-370</b>	<b>-2,072</b>	<b>-2,053</b>	<b>2</b>	<b>-2,051</b>
Profit for the year		-		2,712	2,712	-1	2,711
Other comprehensive income, net of tax <sup>1)</sup>		-	-42	221	179	0	179
<b>Total comprehensive income</b>		<b>-</b>	<b>-42</b>	<b>2,932</b>	<b>2,890</b>	<b>-1</b>	<b>2,889</b>
Dividend		-	-	-1,459	-1,459	0	-1,459
Repurchase of own shares		-	-	-352	-352	-	-352
Stock options exercised		-	-	187	187	-	187
Cancellation of shares		-8	-	8	0	-	0
Bonus issue		8	-	-8	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>-412</b>	<b>-763</b>	<b>-786</b>	<b>1</b>	<b>-785</b>

2014	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
<b>Equity at beginning of year</b>	19	<b>390</b>	<b>-412</b>	<b>-763</b>	<b>-786</b>	<b>1</b>	<b>-785</b>
Profit for the year		-		2,625	2,625	0	2,626
Other comprehensive income, net of tax <sup>1)</sup>		-	1,009	-281	728	0	728
<b>Total comprehensive income</b>		<b>-</b>	<b>1,009</b>	<b>2,344</b>	<b>3,353</b>	<b>1</b>	<b>3,353</b>
Dividend		-	-	-1,453	-1,453	-	-1,453
Repurchase of own shares		-	-	-890	-890	-	-890
Stock options exercised		-	-	53	53	-	53
Cancellation of shares		-3	-	3	0	-	0
Bonus issue		3	-	-3	0	-	0
<b>Equity at end of year</b>		<b>390</b>	<b>597</b>	<b>-709</b>	<b>277</b>	<b>1</b>	<b>279</b>

<sup>1)</sup> Other comprehensive income included in retained earnings consists of actuarial gains and losses attributable to the Group's defined pension plans and the Group's share of actuarial gains and losses in associated companies and joint ventures, net after payroll and income taxes, in an amount of -281 MSEK (221).

# Consolidated cash flow statement

MSEK	Note	2014	2013
<b>Operating activities</b>	30		
Profit before income tax		3,270	3,310
Share of net profit/loss in associated companies and joint ventures		-285	-287
Dividends received from associated companies		235	234
Adjustments for other non-cash items and other		253	194
Income tax paid		-580	-632
<b>Cash flow from operating activities before changes in working capital</b>		<b>2,893</b>	<b>2,820</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/ Decrease (+) in inventories		-933	-15
Increase (-)/ Decrease (+) in operating receivables		-71	24
Increase (+)/ Decrease (-) in operating liabilities		1,388	-328
<b>Net cash generated from operating activities</b>		<b>3,276</b>	<b>2,500</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment <sup>1)</sup>		-223	-306
Proceeds from sale of property, plant and equipment		2	-
Purchase of intangible assets		-5	-35
Acquisition of subsidiaries		-2	-
Investments in associated companies and joint ventures <sup>2)</sup>		-45	-57
Proceeds from sale of subsidiaries, net of cash disposed of <sup>3)</sup>		-	158
Changes in financial receivables, etc.		-0	0
<b>Net cash from investing activities</b>		<b>-274</b>	<b>-240</b>
<b>Financing activities</b>			
Proceeds from non-current borrowing		-	1,225
Repayment of borrowings		-1,805	-1,502
Repurchase of own shares		-890	-352
Stock options exercised		53	187
Dividend paid to equity holders of the Parent		-1,453	-1,459
Other		7	-12
<b>Net cash used in financing activities</b>		<b>-4,088</b>	<b>-1,912</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>-1,085</b>	<b>348</b>
Cash and cash equivalents at the beginning of the year		3,164	2,824
Effect of exchange rate fluctuations on cash and cash equivalents		232	-8
<b>Cash and cash equivalent at end of year</b>		<b>2,312</b>	<b>3,164</b>

<sup>1)</sup> Including investments in forest plantations of 19 MSEK (18).

<sup>2)</sup> Investments in associated companies and joint ventures pertain to additional investments in SMPM International of 35 MSEK in 2014 and 57 MSEK in 2013. Additional investments in Road Cargo of 10 MSEK have been made in 2014.

<sup>3)</sup> The cash flow from sale of subsidiaries in 2013 is related to the final payment on the sale of land in 2007 and additional payments relating to the divestment of Swedish Match UK and Swedish Match Plam Bulgaria DA. In addition, an outlay of 10 MSEK relating to guarantees in the purchase agreement of STG has been made during 2013.

# 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, 2013.

### Compliance with standards and legislation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee, approved by the European Commission for application within the EU. In addition, RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The Parent Company applies the same accounting principles as the Group, except in those instances described below in the section "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 17, 2015.

### 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 through profit and loss or as financial assets available for sale. Biological assets refer to forest plantations. Assets and groups of assets classified as held for sale are reported as held for sale as of the date certain events confirm the assets or group of assets are held for sale. Assets held for sale are reported at the lower of carrying value and fair value adjusted for selling costs.

### Use of the assessments in the financial reports

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

### Significant accounting principles applied

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

### New standards, amendments and interpretations

A number of new standards, amendments to standards and interpretations of accounting standards have been applied in 2014. New standards and amendments to standards that have been applied as of January 1, 2014 are described below. Other changes in IFRS effective as of January 1, 2014 have not had any impact on the Group's financial statements.

The following new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2014 have not had any significant impact on the Group's financial result or position: *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IFRS 12 Disclosure of Interests in Other Entities*, amendments to *IAS 27 Separate Financial Statements*, amendments to *IAS 28 Investments in associates* and amendments to *IAS 32 Financial Instruments: Presentation*, and *IAS 39 Financial Instruments: Recognition and Measurement*.

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

A number of new standards, changes in standards and interpretations of standards apply from 2015 or later and have not been applied in these financial reports.

*IFRIC 21 Levies*, which is expected to be effective in 2015 addresses the accounting for a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The impact from IFRIC 21 is not expected to have any significant impact on the Group's financial result or position.

*IFRS 15 Revenue from Contracts with Customers* which is expected to be effective in 2017 and supersedes *IAS 18 Revenue* and *IAS 11 Construction Contracts* and the related Interpretations when it becomes effective, introduces a 5-step approach in determining when to recognize revenue from customers. The impact from *IFRS 15* on the Group's financial statements has not been assessed.

*IFRS 9 Financial Instruments* which is expected to be effective in 2018 and replacing *IAS 39 Financial Instruments: Recognition and Measurement* brings about changes regarding classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment on financial assets, changes in recognition and derecognition of financial instruments, and new requirements for general hedge accounting. The impact from *IFRS 9* on the Group's financial statement has not been assessed.

The following new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2015 or later are not expected to have any significant impact on the Group's financial result or position: amendments to *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IFRS 12 Disclosure of Interests in Other Entities*, *IAS 1 Presentation of Financial Statements*, *IAS 16 Property, Plant and Equipment*, *IAS 19 Employee Benefits*, *IAS 27 Separate Financial Statements*, *IAS 28 Investments in Associates and Joint Ventures*, *IAS 38 Intangible Assets*, *IAS 41 Agriculture* and annual improvements to *IFRS 2*, *IFRS 3*, *IFRS 5*, *IFRS 7*, *IFRS 8*, *IFRS 13*, *IAS 16*, *IAS 19*, *IAS 24*, *IAS 34*, *IAS 38*, and *IAS 40*.

### Consolidation principles

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

### Subsidiaries

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

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

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

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

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

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

#### Non-controlling interest

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

#### Discontinued operations

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

#### Classification etc.

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

#### Reporting by segment

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

Operating assets are not monitored on a segment basis.

#### Foreign currencies

##### (i) Transactions in foreign currencies

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

##### (ii) Financial reports of foreign operations

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

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

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

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2014	2013	2014	2013
USA	USD	6.86	6.51	7.79	6.48
Euro zone	EUR	9.10	8.65	9.47	8.93
Denmark	DKK	1.22	1.16	1.27	1.20
Brazil	BRL	2.92	3.03	2.92	2.77
Norway	NOK	1.09	1.11	1.05	1.06

#### Revenues

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

#### Financial income and expenses

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

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recog-

## NOTE 1 Continued

nized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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

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

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

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

#### **Financial assets and liabilities at fair value through profit and loss**

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

#### **Loans and receivables**

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

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

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

#### **Other financial liabilities**

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

#### **Derivatives used for hedge accounting**

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

#### **Financial assets available for sale**

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

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

Derivative instruments such as forward contracts and swaps are utilized to cover the risk of exchange rate differences and exposure to interest rate risks. Changes in fair value affecting derivative instruments are reported in the income statement based on the reason for the holding. If hedge accounting is not applied, increases or decreases in the value of the derivative are reported as a revenue or expense item under operating profit or under net finance cost, based on the reason for using the derivative instrument and whether its use is related to an operating item or a financial item. When hedge accounting is used, the ineffective portion is reported in the same manner as changes in value affecting derivatives that are not used for hedge accounting. In those cases derivatives were entered into in order to manage interest rate risk, Swedish Match applies hedge accounting as described in IAS39.

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

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

#### **Cash flow hedges**

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

#### **Fair value hedges**

In cases where fixed interest rate obligations are converted into floating interest rate obligations, hedge accounting according to the fair value hedge technique is applied. The fair value changes arising from revaluation of derivatives are recognized directly in profit and loss, and the related value change from the hedged item is similarly recognized in profit and loss thus offsetting the effective portion in the hedge relationship. Swedish Match had no fair value hedges at December 31, 2014.

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

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

#### **Leased assets**

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

#### **Intangible assets**

##### **(i) Goodwill**

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill that has arisen from the acquisition of associated companies is included in the carrying amount for participations in associated companies. For goodwill in acquisitions made before January 1, 2004, the Group has, with the transition to IFRS, not applied IFRS retroactively, but rather the value reported on this date continues to be the Group's acquisition value, subject to impairment testing.

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

**(ii) Trademarks and other intangible assets**

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

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

**(iii) Amortization**

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

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

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

**Tangible assets**

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

**Depreciation**

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

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

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

**Forest plantations**

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

**Inventory**

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

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

**Impairment**

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

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

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

**Provisions**

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

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

**Share capital**

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

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

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

Expected cost for profit-sharing and bonuses plans are recognized when the company has a present legal or constructive obligation to make such payment as a result of a past event and when the obligation can be reliably estimated.

**Termination benefits**

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

**Post-employment benefits**

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

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

Pension costs for defined benefit plans are calculated according to the Projected Unit Credit Method in a manner that distributes the cost over the employee's remaining active working life. These assumptions are valued at the present value of the expected future disbursements using a discount rate that

**NOTE 1 Continued**

corresponds to the interest rate on first-class corporate bonds or government bonds with a remaining maturity that approximates the particular commitments. Service cost, past service cost and any administration costs relating to post-employment defined benefit plans are classified as operating cost. A finance component calculated based on the discount rate on the net liability or net asset is recognized in the net finance cost. The finance component is recognized as interest expense or interest income net by plan.

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

When there is a difference between how pension costs are determined for a legal entity and the Group, a provision or claim pertaining to a special employer's salary tax based on this difference is recorded. The provision or claim for special employer's salary tax is included in the net present value of the net obligation or net asset. Special employer's salary tax pertains to pension plans in Sweden.

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

**Share-based payments**

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

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

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

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

**Taxes**

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

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

Deferred tax is computed using the balance sheet method, using temporary differences between reported and taxable values of assets and liabilities as the

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

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

**Contingent liabilities**

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

**Earnings per share**

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

**Parent Company accounting principles**

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

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

**Subsidiaries, joint ventures and associated companies**

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

**Employee benefits**

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

**Taxes**

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

**Group and shareholder contributions**

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

## 2. Critical estimates and judgments

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

### Intangible assets

According to IFRS intangible assets are to be defined as having either definite or indefinite lives. Intangible assets with indefinite useful lives are not amortized but instead tested annually for impairment. Goodwill, according to IFRS, has by definition an indefinite useful life and is therefore not amortized. Acquired trademarks have been deemed to have definite useful lives and are in general amortized over a period of 10–20 years. Trademarks and intangible assets that are being amortized are tested for impairment when circumstances indicate that the value of an intangible asset is impaired. The impairment tests include significant judgments made by management, such as assumption of projected future cash flows used in the valuation of the assets. Future events could cause management to conclude that impairment indicators exist and that an intangible asset is impaired. Any resulting impairment loss could have a material impact on the financial condition and result of operations. The Group's intangible assets as of December 31, 2014 amounted to 1,030 MSEK and amortization and write downs amounted to 41 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 634 MSEK. For further information on impairment test of intangible assets see *Note 11 Intangible assets*.

### Investments in associated companies and joint ventures

The carrying value of the investments in associated companies and joint ventures are tested for impairment when there is an indication of a decline in the value. As per December 31, 2014 the Group's investments in associated companies and joint ventures amounted to 5,233 MSEK. For further information on the Group's investments in associated companies and joint ventures see *Note 14 Investments in associates and joint ventures*.

### Legal disputes

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

### Post-employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations are based on assumptions on the discount rate, future mortality, rate of compensation increase etc., often for a long time period. The actual outcome could differ from the assumptions made which can lead to an adjustment to the amount recognized in the balance sheet. The benefit obligations of the Group's defined benefit pension plans and post-employment medical benefit plans as of December 31, 2014 were estimated to exceed the fair value of plan assets by 1,734 MSEK. Further details of the Group's defined benefit plans are presented in *Note 21 Employee benefits*.

## 3. Segment information

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

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

**Other tobacco products** represent cigars and chewing tobacco manufactured and sold on the U.S. market. Swedish Match is a major player in the US mass market cigar market, with such well known brands as *White Owl, Garcia y Vega*, and *Game by Garcia y Vega*. Swedish Match is the leading producer of chewing tobacco in the US where the product is mainly sold in the southern states of the country. Well known brands include *Red Man* and *Southern Pride*. The market for chewing tobacco shows a declining trend.

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

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

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

## NOTE 3 Continued

Operating segments	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit in STG		Swedish Match Group	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
External sales	5,001	4,868	2,832	2,564	1,295	1,332	4,178	3,847	13,305	12,610	-	-	13,305	12,610
Depreciations, amortizations and write-downs <sup>1)</sup>	-174	-163	-53	-52	-34	-33	-43	-28	-303	-275	-	-	-303	-275
Income from associated companies and joint ventures	-47	-37	8	7	1	1	-10	-3	-48	-32	334	319	285	287
<b>Operating profit</b>	<b>2,207</b>	<b>2,195</b>	<b>1,109</b>	<b>1,029</b>	<b>218</b>	<b>230</b>	<b>-88</b>	<b>-80</b>	<b>3,446</b>	<b>3,375</b>	<b>334</b>	<b>319</b>	<b>3,780</b>	<b>3,693</b>
Capital gain from sale of land	-	-	-	-	-	-	-	161	-	161	-	-	-	161
<b>Operating profit, including larger one-time items</b>	<b>2,207</b>	<b>2,195</b>	<b>1,109</b>	<b>1,029</b>	<b>218</b>	<b>230</b>	<b>-88</b>	<b>82</b>	<b>3,446</b>	<b>3,536</b>	<b>334</b>	<b>319</b>	<b>3,780</b>	<b>3,855</b>
Finance income													27	34
Finance costs													-537	-578
<b>Profit before income tax</b>													<b>3,270</b>	<b>3,310</b>

<sup>1)</sup> Write-downs of tangible assets amounted to 5 MSEK (6) for snus and moist snuff and 2 MSEK (0) for other tobacco products. Write-downs of intangible assets amounted to - (1) for other operations.

Restructuring costs and results from sale of fixed assets	Snus and moist snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit in STG		Swedish Match Group	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Restructuring charges	-	-28	-	-	-	-	-	-	-	-28	-	-	-	-28
Gains/losses from sale of fixed assets	0	-0	0	0	0	-0	-0	0	0	-0	-	-	0	-0
<b>Investments</b>														
Property, plant and equipment <sup>1)</sup>	127	169	33	62	49	64	14	11	223	306	-	-	223	306
Intangible assets	1	0	-	-	-	-	5	35	5	35	-	-	5	35

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

### Geographic information

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

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

Country	Sales to external customers				Fixed assets <sup>1)</sup>			
	2014		2013		2014		2013	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	7,352	55	7,028	56	6,920	80	6,333	81
USA	3,869	29	3,523	28	1,103	13	929	12
Rest of the world	2,084	16	2,059	16	621	7	547	7
<b>Total</b>	<b>13,305</b>	<b>100</b>	<b>12,610</b>	<b>100</b>	<b>8,644</b>	<b>100</b>	<b>7,808</b>	<b>100</b>

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

### Information about major customers

Swedish Match generates its sales from a diverse customer portfolio and the reliance on individual customers is therefore limited.

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

## 4. Other operating income and expenses

Other operating income and expenses are specified below:

	2014	2013
Foreign exchanges gains	16	12
Foreign exchanges losses	-22	-20
Result from sale of fixed assets	0	0
Other	-	-1
<b>Total</b>	<b>-6</b>	<b>-10</b>

## 5. Personnel

The average number of employees, including temporary employees, in the Parent Company during 2014 was 41, and in the Group 4,395. The corresponding numbers in 2013 were 42 and 4,382, respectively.

Group employees by country are summarized in the table below:

	2014		2013	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
<b>Parent Company</b>				
Sweden	41	51	42	50
<b>Subsidiaries</b>				
Belgium	3	-	2	-
Brazil	672	70	714	66
Dominican Republic	1,101	50	986	53
Netherlands	101	95	101	95
Norway	48	67	48	67
Philippines	268	59	306	52
Sweden	997	63	1,008	60
Turkey	15	73	15	73
United States	1,147	69	1,158	68
Other countries	2	50	2	50
<b>Total</b>	<b>4,395</b>	<b>63</b>	<b>4,382</b>	<b>62</b>

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

	2014		2013	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
<b>Parent Company</b>				
Board members	10	60	10	60
President and other management	7	86	7	86
<b>Group</b>				
Board members	79	62	69	83
President and other management	40	88	39	92

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

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

	2014			2013		
	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>	Wages, salaries and other remunerations	Social costs	of which, pension costs <sup>1)</sup>
Parent Company	72	52	28	48	30	13
Subsidiaries	1,178	508	154	1,076	530	174
<b>Total</b>	<b>1,251</b>	<b>560</b>	<b>182</b>	<b>1,124</b>	<b>560</b>	<b>187</b>

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

The pension costs for the Parent Company include 6 MSEK (6) attributable to the President and other management consisting in average of six persons during 2014 and seven persons in 2013.

The pension costs for the subsidiaries include 7 MSEK (11) attributable to Presidents and other management consisting on average of 18 persons during 2014 (28 persons in 2013). The decrease in the average number of persons included in Presidents and other management reflects the reorganization of the Company's operating structure in 2013. The defined benefit obligations related to Presidents and other management as of December 31, 2014 amounted to 72 MSEK (57).

## NOTE 5 Continued

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

	2014			2013		
	Board, President and other management <sup>1)</sup>	of which, variable salaries <sup>2)</sup>	Other employees	Board, President and other management <sup>1)</sup>	of which, variable salaries <sup>2)</sup>	Other employees
<b>Parent Company</b>						
Sweden	37	11	35	23	-3	25
<b>Subsidiaries</b>						
Total in subsidiaries	45	14	1,133	36	-5	1,041
<b>Total</b>	<b>82</b>	<b>25</b>	<b>1,168</b>	<b>59</b>	<b>-7</b>	<b>1,066</b>

<sup>1)</sup> The Board, President and other management employed by the Parent Company consisted on average of 13 persons (14). Presidents and other management employed by the subsidiaries consisted in average of 18 persons (28), whereof one person was a member of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team".

<sup>2)</sup> Negative amounts in variable salary for 2013 reflect the reversal of provisions for long term incentive programs charged in previous years, as a result of lower expected outcome.

During 2014, 31 MSEK (6) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

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

The Annual General Meeting on May 7, 2014 decided, for the period up to and including April 23, 2015 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,750,000 SEK, the deputy Chairman shall receive 830,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 700,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 250,000 SEK respectively and the other members of these committees shall each receive 125,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2014. In 2014 a study fee in the amount of 57,048 SEK was paid to each of the three employee representatives on the Board, and in the amount of 42,699 SEK to each of the three deputy members. The study fees were paid by each employee representative's respective company. The fees to Board members elected by the Annual General Meeting for Board work during 2014 and 2013 are shown in the tables below:

### Fees to Board members

TSEK	2014			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson <i>Board chairman</i>	1,750	250	-	2,000
Andrew Cripps <i>Board member</i>	830	-	125	955
Karen Guerra <i>Board member</i>	700	125	-	825
Wenche Rolfsen <i>Board member</i>	700	-	125	825
Robert Sharpe <i>Board member</i>	700	125	-	825
Meg Tivéus <i>Board member</i>	700	-	250	950
Joakim Westh <i>Board member</i>	700	-	125	825
<b>Total</b>	<b>6,080</b>	<b>500</b>	<b>625</b>	<b>7,205</b>

TSEK	2013			
	Board fee	Compensation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson <i>Board chairman</i>	1,710	250	-	1,960
Andrew Cripps <i>Board member</i>	810	-	125	935
Karen Guerra <i>Board member</i>	685	125	-	810
Wenche Rolfsen <i>Board member</i>	685	-	125	810
Robert Sharpe <i>Board member</i>	685	125	-	810
Meg Tivéus <i>Board member</i>	685	-	250	935
Joakim Westh <i>Board member</i>	685	-	125	810
<b>Total</b>	<b>5,945</b>	<b>500</b>	<b>625</b>	<b>7,070</b>

### Remuneration and other benefits to Group Management Team

The Annual General Meeting on May 7, 2014 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.

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

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

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

#### Application of principles on variable salary for 2014

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 Group Management Team ("GMT") the variable salary includes a short term cash incentive and a long term cash incentive program where the short term program includes an incentive for the GMT members to purchase and retain shares in the Company while the long term program includes an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively.

*Short term variable salary:* The maximum short term variable salary for the President and other members of the GMT residing in Sweden was 70 and 60 percent respectively of their 2014 base salary. To comply with local market standards the maximum short term incentive for one member residing outside of Sweden was 70 percent of the 2014 base salary. Subject to justified exemptions, a 20 percentage point reduction in maximum variable salary shall apply to any GMT member who does not commit to purchase Company shares for at least 50 percent of the received cash award net of income tax and to retain such shares for a period of not less than three years. The minimum level of performance that must be reached to earn any allocation and the maximum level of performance at which payout is capped shall be defined in the beginning of each year by the Compensation Committee in relation to the GMT members other than the President and by the Board of Directors in relation to the President.

*Long term variable salary:* The maximum long term variable salary of the President and other members of the GMT (except as set forth below) shall be either 45 percent of the 2014 base salary or 750,000 SEK depending on the remit of the GMT member. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden participates in an additional long term variable salary program capped at 100 percent of the base salary every second year.

#### Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance costs
<b>President</b>	<b>2014</b>	<b>6,252</b>	<b>4,412</b>	<b>152</b>	<b>2,271</b>	<b>13,086</b>	-	-
	2013	6,159	-1,071	142	2,247	7,478	-	-
<b>Other members of Group Management Team</b>	<b>2014</b>	<b>14,926</b>	<b>10,338</b>	<b>1,173</b>	<b>4,860</b>	<b>31,297</b>	<b>18,425</b>	-
	2013	15,928	-3,476	992	5,285	18,729	11,481	3,441
<b>Total</b>	<b>2014</b>	<b>21,177</b>	<b>14,750</b>	<b>1,325</b>	<b>7,130</b>	<b>44,383</b>	<b>18,425</b>	-
	2013	22,087	-4,547	1,134	7,532	26,207	11,481	3,441

#### Comments to the table

- At the end of 2014, the Group Management Team consisted of seven persons including the President. The President and five other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary. Two members of the Group Management Team have during 2014 been partly absent due to parental leave. Acting members during the time of absence are not included in the Group Management Team headcount or in the table above.
- At the end of 2013, the Group Management Team consisted of eight persons including the President. During 2013, nine persons, including the President, were assigned to the Group Management Team. The President and six other members of the Group Management Team were employed by the Parent Company and one member was employed by a subsidiary. During 2013, one member of the Group Management Team, employed by a subsidiary, left the company. Two members of the Group Management Team were during 2013 partly absent due to parental leave. Acting members during the time of absence are not included in the Group Management Team headcount or in the table above.
- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs. Negative amounts in variable salary for 2013 reflect the reversal of provisions for long term incentive programs charged in previous years, as a result of lower expected outcome.
- 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).

## NOTE 5 Continued

**Variable salary**

In 2014, the Group Management Team ("GMT") participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The predominant performance criterion for the CEO and the heads of Corporate functions in the short term incentive program for 2014 was Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia). The CEO and three heads of Corporate functions also had an additional criterion, constituting a maximum of 30 percent of the short term incentive, based on objectives established by the board and the Compensation Committee. 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 performance criteria for the CEO and other members of the GMT for the long term program that started in 2012, for which the performance period ended in 2014, were primarily based on a financial criterion (75 percent) and to a lesser extent on subjective criteria (25 percent). The financial performance criterion was accumulated Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia). The result of the financial performance criterion was established by the Compensation Committee to 3,701 MSEK in relation to 2014 and 11,277 MSEK for the total performance period 2012 to 2014. In regards to the financial performance criterion, the threshold and target for maximum payout were 10,960 MSEK and 12,545 MSEK respectively for the total performance period. The subjective performance criteria were related to the fulfillment of strategic objectives and evaluated by the Compensation Committee. The total performance outcome was 30 percent.

In the long term program that started in 2014, the performance criterion for the CEO and other members of the Group Management team is the accumulated Group operating profit from product areas for the years 2014 to 2016. There will be no pay-out in relation to this criterion unless there is an improvement in relation to the comparable performance of the Group in 2013. As the long term program extends over three years the final result will be established at the end of the three year performance period.

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

**Options**

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

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

SEK	2014		2013	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	178.11	1,088,104	165.47	2,303,920
Granted during period	-	-	-	-
Exercised during period	141.52	376,334	154.15	1,215,813
Expired during period	-	-	171.60	3
<b>Outstanding at period-end</b>	<b>197.45</b>	<b>711,770</b>	<b>178.11</b>	<b>1,088,104</b>
Exercisable at period-end	197.45	711,770	178.11	1,088,104

The average share price for share options exercised in 2014 was 203.81 SEK (211.13).

The options outstanding at December 31, 2014 and which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2013-03-01-2015-02-28	197.45	711,770	1,900	711,770
<b>Total</b>		<b>711,770</b>	<b>1,900</b>	<b>711,770</b>

**Pensions****President**

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

**Other members of Group Management Team**

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

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

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

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

## 6. Audit fees

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

Audit fees	2014	2013
KPMG		
Audit services	7	7
Audit related services	0	0
Tax services	1	1
Other services	1	1
<b>Total</b>	<b>9</b>	<b>9</b>

Other services include assistance with testing of IT-controls.

## 7. Operating expenses classified by nature

Operating expenses	2014	2013
Personnel expenses	1,811	1,685
Depreciation, amortization and write-downs	303	275
Direct material	1,651	1,787
Finished products from third party manufacturers	4,035	3,702
Other operating expenses	2,011	1,755
<b>Total</b>	<b>9,811</b>	<b>9,204</b>

Expenses for research and development are recognized in the income statement as other operating expenses. During 2014 expenses for research and development amounted to 109 MSEK (99).

## 9. Income tax

The major components of income tax expense/income for the years ended December 31, 2014 and 2013 are:

Income tax expense reported in the income statement	2014	2013	Income tax reported outside of the income statement	2014	2013
<i>Current tax:</i>			Deferred tax	167	-138
Current tax on earnings for the year	-551	-667	<b>Total</b>	<b>167</b>	<b>-138</b>
Adjustments in respect of prior years	5	-26	<i>This comprises:</i>		
<b>Total current tax</b>	<b>-546</b>	<b>-693</b>	<b>Tax reported in other comprehensive income</b>		
<i>Deferred tax:</i>			Actuarial net gains/losses attributable to pensions	154	-144
Origination and reversal of temporary differences	-97	94	Revaluation of cash flow hedges net gain/loss	13	6
Impact of change in tax rate	-1	0	Impact of change in tax rate	-	0
<b>Total deferred tax</b>	<b>-98</b>	<b>94</b>	<b>Total tax reported in other comprehensive income</b>	<b>167</b>	<b>-138</b>
<b>Income tax expense</b>	<b>-644</b>	<b>-600</b>	<b>Total tax reported outside of the income statement</b>	<b>167</b>	<b>-138</b>

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2014 and 2013 are summarized below:

Deferred tax assets and deferred tax liabilities	2014			2013		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Tax loss carry forwards	7	-	7	13	-	13
Trade receivables	3	-	3	2	-	2
Pensions and other post-employment benefits	703	18	685	439	19	420
Employment benefits	104	-	104	84	-	84
Intangible assets	112	275	-163	149	246	-98
Tangible assets	12	204	-192	8	185	-177
Tax allocation reserve	-	153	-153	-	98	-98
Inventory	4	53	-49	3	66	-63
Unremitted earnings in foreign subsidiaries	-	21	-21	-	7	-7
Financial assets	37	-	37	25	-	25
Other	47	-	47	55	-	55
<b>Total</b>	<b>1,029</b>	<b>724</b>	<b>305</b>	<b>777</b>	<b>621</b>	<b>156</b>
Netting of assets and liabilities	-53	-53	-	-54	-54	-
<b>Net deferred tax balances</b>	<b>976</b>	<b>671</b>	<b>305</b>	<b>723</b>	<b>567</b>	<b>156</b>

## 8. Net finance cost

Financial income	2014	2013
Interest income relating to pension receivables	3	3
Interest income relating to cash and bank	23	31
Interest income relating to financial instruments held for trading	0	0
Net foreign exchange gains	1	-
<b>Total</b>	<b>27</b>	<b>34</b>
Financial expenses		
Interest expense relating to pension liabilities	-56	-53
Interest expense relating to financial liabilities measured at amortized cost	-472	-516
Interest expense relating to financial instruments pertaining to fair value	0	0
Net foreign exchange losses	0	-2
Other financial expenses	-9	-8
Net gain on financial liabilities revalued to fair value	0	1
<b>Total</b>	<b>-537</b>	<b>-578</b>
<b>Net finance cost</b>	<b>-510</b>	<b>-544</b>

## NOTE 9 Continued

The net of deferred tax liabilities and assets for the years ended December 31, 2014 and 2013 are summarized below:

Movement in deferred tax liabilities, net	2014	2013
Opening balance, net	-156	-205
Deferred tax expense/income in the Income statement	98	-94
Deferred tax in other comprehensive income	-167	138
Translation differences	-80	5
<b>Closing balance, net</b>	<b>-305</b>	<b>-156</b>

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

As of December 31, 2014 the Group's non-recognized deductible temporary differences, excluding tax losses, are in total 10 MSEK (10). The table below shows how the amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2014	-
2015	-
Subsequent years or no time limitation	22
<b>Total tax losses carried forward recognized</b>	<b>22</b>
<b>Total tax losses carried forward not recognized</b>	<b>-</b>

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2014 and 2013 is as follows:

Reconciliation of effective tax rate	2014		2013	
	%	MSEK	%	MSEK
<b>Accounting profit before income tax excluding discontinued operations</b>		<b>3,270</b>		<b>3,310</b>
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>719</b>	<b>22.0</b>	<b>728</b>
Effect of tax rates in foreign jurisdictions	1.5	49	1.5	50
Results from associated companies reported net of tax	-1.9	-63	-1.9	-64
Income tax in respect of prior years	0	1	0.2	7
Income not subject to tax	-2.5	-83	-3.8	-126
Expenses not deductible for tax purposes	0.2	7	0.1	4
Utilization of previously unrecognized tax losses	0	0	0	-1
Effect of enacted change of tax rate	-	-	0	0
Other items	0.4	14	0	1
<b>Reported effective tax</b>	<b>19.7</b>	<b>644</b>	<b>18.1</b>	<b>600</b>

The lower reported tax rate for 2013 is primarily explained by a non-taxable additional capital gain from the sale of a parcel of land.

## 10. Earnings per share

Basic	2014	2013
Profit for the year attributable to equity holders of the Parent	2,625	2,712
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items	2,625	2,550
<b>Weighted average number of shares outstanding, basic</b>	<b>198,475,824</b>	<b>198,930,422</b>

Diluted	2014	2013
Profit for the year attributable to equity holders of the Parent	2,625	2,712
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items	2,625	2,550
Weighted average number of shares outstanding, basic	198,475,824	198,930,422
Effect of issued options	107,503	343,632
<b>Weighted average number of shares outstanding, diluted</b>	<b>198,583,328</b>	<b>199,274,054</b>

Earnings per share, basic, SEK	2014	2013
Including larger one-time items	13.23	13.63
Excluding larger one-time items	13.23	12.82

Earnings per share, diluted, SEK	2014	2013
Including larger one-time items	13.22	13.61
Excluding larger one-time items	13.22	12.80

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

All of the options issued have an exercise price below the average market price during 2014. As of December 31, 2014 the Company has call options corresponding to 0.7 million shares outstanding. These call options can be exercised through February 2015 at an exercise price of SEK 197.45. For a table detailing options outstanding at December 31, 2014 see Note 5 Personnel.

# 11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets <sup>1)</sup>		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Cost at beginning of year</b>	<b>595</b>	<b>596</b>	<b>931</b>	<b>976</b>	<b>198</b>	<b>154</b>	<b>1,723</b>	<b>1,726</b>
Purchases/investments	-	-	-	-	5	35	5	35
Reclassifications <sup>2)</sup>	-	-	-	-	-	8	-	8
Adjustment	-	-	-	-43	-1	-	-1	-43
Translation differences, etc.	78	-2	58	-1	0	0	136	-3
<b>Cost at end of year</b>	<b>673</b>	<b>595</b>	<b>989</b>	<b>931</b>	<b>202</b>	<b>198</b>	<b>1,864</b>	<b>1,723</b>
<b>Accumulated amortization and write-down at beginning of year</b>	<b>-39</b>	<b>-39</b>	<b>-648</b>	<b>-677</b>	<b>-64</b>	<b>-48</b>	<b>-751</b>	<b>-764</b>
Amortization for the year	-	-	-15	-15	-25	-15	-41	-30
Write-down for the year	-	-	-	-	-	-1	-	-1
Adjustment	-	-	-	43	1	0	1	43
Translation differences, etc.	-	-	-43	1	0	0	-43	1
<b>Accumulated amortization and write-down at end of year</b>	<b>-39</b>	<b>-39</b>	<b>-706</b>	<b>-648</b>	<b>-89</b>	<b>-64</b>	<b>-833</b>	<b>-751</b>
<b>Net carrying value at end of year</b>	<b>634</b>	<b>556</b>	<b>283</b>	<b>283</b>	<b>114</b>	<b>134</b>	<b>1,030</b>	<b>973</b>

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

<sup>2)</sup> During 2013, 8 MSEK was reclassified from construction in progress to software.

No borrowing costs have been capitalized during 2014 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.

Amortizations and write-downs have been charged to the income statement as stated below;

	Amortization and write-down	
	2014	2013
Cost of goods sold	0	-1
Selling expenses	-18	-18
Administrative expenses	-23	-12
<b>Total</b>	<b>-41</b>	<b>-31</b>

## Goodwill

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

The value in use of a cash generating unit is calculated using a valuation model based on discounted expected future cash flows. The cash flows are

explicitly forecasted for the coming five years, after which a terminal growth factor is applied to calculate the terminal value. The cash flows used in the valuation model are projected considering historical performance and forecasts, and are based on what management believes are reasonable assumptions. These assumptions may be subject to adjustments if circumstances change or new facts become known. The key assumptions in the calculation are sales growth, EBITDA margin, working capital and investment needs, discount rate and the terminal growth rate of free cash flow. The discount rates are calculated by weighting cost of debt and cost of equity with Swedish Match's target debt ratio. The calculation of cost of debt is based on local risk-free interest rates with a country specific risk premium for applicable markets, local tax rates and a Swedish Match specific interest margin. Cost of equity is calculated using the Capital Asset Pricing Model, applying average beta for the industry adjusted for capital structure, local risk-free interest rates, and an equity risk premium. As local interest rates are included in the calculation of discount rates, the value in use calculations are sensitive to changes in market conditions.

When goodwill was tested for impairment in 2014, the value in use exceeded the carrying values for all cash generating units. To calculate the cash flows after the explicit forecasting period, a terminal growth rate of 0.5 percent (0) is applied for the Other tobacco products operations, 2 percent (2) for Lights operations and 1 percent (2) for the US moist snuff operations. When performing sensitivity analysis by increasing the discount rate by 2 percentage points or decreasing the terminal growth rate by 2 percentage points, the values in use were larger than the carrying values for all cash generating units. Realistic changes in key assumptions show no indications of impairment.

Cash generating units	Goodwill in cash generating units			
	Pre-tax WACC 2014, %	2014	Pre-tax WACC 2013, %	2013
Other tobacco products operations	7.4	402	8.0	327
Lights operations	13.4	170	13.8	170
US moist snuff operations	8.1	62	7.4	59
<b>Total</b>		<b>634</b>		<b>556</b>

## 12. Property, plant and equipment

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

	Buildings and land <sup>1)</sup>		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total <sup>2)</sup>	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>Cost at beginning of year</b>	<b>994</b>	<b>975</b>	<b>3,099</b>	<b>2,955</b>	<b>658</b>	<b>601</b>	<b>105</b>	<b>132</b>	<b>4,857</b>	<b>4,663</b>
Purchases/investments	1	5	46	88	74	97	83	97	204	287
Acquisitions	2	-	-	-	1	-	-	-	3	-
Sales/disposals	-	-	-66	-12	-20	-30	0	-	-87	-42
Reclassifications <sup>3)</sup>	22	21	67	90	2	1	-91	-121	0	-8
Translation differences, etc.	57	-8	248	-22	4	-11	7	-2	315	-43
<b>Cost at end of year</b>	<b>1,076</b>	<b>994</b>	<b>3,394</b>	<b>3,099</b>	<b>718</b>	<b>658</b>	<b>104</b>	<b>105</b>	<b>5,292</b>	<b>4,857</b>
<b>Accumulated depreciation and write-down at beginning of year</b>	<b>-393</b>	<b>-371</b>	<b>-2,162</b>	<b>-2,026</b>	<b>-392</b>	<b>-378</b>	<b>-4</b>	<b>-2</b>	<b>-2,950</b>	<b>-2,777</b>
Depreciation for the year	-27	-25	-170	-161	-58	-53	-	2	-255	-238
Write-down for the year	0	-	-7	-3	-	-	-	-3	-7	-6
Acquisitions	-1	-	-	-	-1	-	-	-	-2	-
Sales/disposals	-	-	63	11	20	30	-	-	84	41
Translation differences, etc.	-36	3	-190	17	-3	10	3	0	-225	30
<b>Accumulated depreciation and write-down at end of year</b>	<b>-456</b>	<b>-393</b>	<b>-2,466</b>	<b>-2,162</b>	<b>-433</b>	<b>-392</b>	<b>0</b>	<b>-4</b>	<b>-3,355</b>	<b>-2,950</b>
<b>Net carrying value at end of year</b>	<b>619</b>	<b>601</b>	<b>928</b>	<b>937</b>	<b>286</b>	<b>267</b>	<b>103</b>	<b>102</b>	<b>1,937</b>	<b>1,907</b>

<sup>1)</sup> Buildings and land include land and land improvements at a book value of 102 MSEK (99).

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

<sup>3)</sup> Reclassifications include property, plant and equipment reclassified from construction in progress. During 2013, 8 MSEK were reclassified from construction in progress to software.

Construction in progress primarily relates to investments in production facilities.

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

Depreciation and write-downs for the year totaling 262 MSEK (244) was charged to cost of goods sold in the income statement in an amount of 205 MSEK (193), to administrative expenses of 19 MSEK (13), and to selling expenses of 38 MSEK (38).

## 13. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2014	2013
<b>Carrying value at beginning of year</b>	<b>120</b>	<b>125</b>
Purchases/investments/new planting	19	18
Sales/disposals during the year	-	0
Change in fair value	-	0
Transfer to inventories	-8	-7
Translation differences, etc.	6	-17
<b>Carrying value at end of year</b>	<b>137</b>	<b>120</b>

The Group's forest plantations comprise poplar and pine forests with a total area of 5,900 hectares at December 31, 2014. The age of the trees varies from newly planted seedlings up to 30 years. The forests are held to ensure the supply of wood for parts in the product area Lights.

Timber felled during 2014 had an estimated value of 8 MSEK at the time of felling, and made up 93,000 cubic meters of wood.

The fair value of the forest is based on estimated volumes and prevailing market prices for timber, less estimated point-of-sale costs. Estimates are made individually for each age category and type of wood. Volume estimates are based on measurement of the height and diameter of trees and the number of trees per unit of area. No change in the fair value was deemed necessary in 2014, whereas the change in fair value is immaterial in 2013.

Replanting is required following harvesting of the Group's pine forest. Based on normal annual harvesting, this involves replanting approximately 150 hectares annually. During 2014, 200 hectares (202) pine forest was replanted. At present, there is no corresponding requirement for poplar.

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

## 14. Investments in associated companies and joint ventures

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

### Investments in associated companies

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

Transaction costs of 19 MSEK attributable to the investment in STG are included in the acquisition value. As Swedish Match continues to own 49 percent of the net assets transferred via STG, 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 543 MSEK.

Other associated companies of Swedish Match, which are not considered material, are a 40 percent ownership interest in Arnold André GmbH & Co. KG, a cigar company in Germany, a 32 percent ownership interest in Malaysian

Match Co. SDN. BHD., which is a Malaysian sales distributor for primarily matches and lighters in the Asia region and a 49 percent interest in Road Cargo Sweden Holding AB, a Swedish company which through its subsidiaries provides road transportation services with SMD Logistics AB as a major client.

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

Associates	2014	2013
<b>Carrying value at beginning of year</b>	<b>4,482</b>	<b>4,351</b>
Investments in associated companies	10	-
Share of net profit/loss in associated companies	333	324
Share of other comprehensive income in associated companies	296	-142
Dividends from associated companies	-235	-234
Translation differences, etc	335	184
<b>Carrying value at end of year</b>	<b>5,221</b>	<b>4,482</b>

During the year, Swedish Match received a dividend of 223 MSEK (224) from STG and 12 MSEK (10) from other associated companies.

The tables below specify the summary financial position of the associated companies and the corresponding carrying values. Operating results of other associated companies are recognized with a time lag of one month, based on the investee's internal financial reporting. Adjustments arising from annual audits of investee results are reflected in the subsequent reporting periods.

	Scandinavian Tobacco Group A/S		Other associated companies		Total	
	2014	2013	2014	2013	2014	2013
Sales	7,476	6,873	1,063	1,070	8,539	7,943
Operating profit	960	905	20	28	980	933
Net profit/loss	671	664	10	19	681	683
Other comprehensive income	606	-293	-	-	606	-293
Total comprehensive income	1,276	371	10	19	1,286	390
Total current assets	6,042	5,328	586	509	6,628	5,837
Total fixed assets	11,712	10,716	94	93	11,806	10,809
Total current liabilities	1,873	1,594	311	247	2,184	1,841
Total non-current liabilities	4,429	4,486	88	83	4,517	4,569
<b>Equity</b>	<b>11,452</b>	<b>9,963</b>	<b>282</b>	<b>271</b>	<b>11,734</b>	<b>10,234</b>
<b>Equity interest</b>	<b>5,644</b>	<b>4,915</b>	<b>113</b>	<b>106</b>	<b>5,757</b>	<b>5,020</b>
Goodwill	-	-	6	4	6	4
Deferred capital gain net of transaction costs	-543	-543	-	-	-543	-543
<b>Carrying value at end of year</b>	<b>5,102</b>	<b>4,372</b>	<b>119</b>	<b>110</b>	<b>5,221</b>	<b>4,482</b>

### Investments in joint ventures

In 2009, Swedish Match and Philip Morris International established an exclusive joint venture company, SMPM International AB, to commercialize Swedish snus and other smokeless products worldwide, outside Scandinavia and the United States. The joint venture agreement is a 50 percent holding of SMPM International. Swedish Match share of the net loss for 2014 was 47 MSEK (37).

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

Joint ventures	2014	2013
Carrying value at beginning of year	23	3
Investment in joint venture	35	57
Net loss of joint venture	-47	-37
<b>Carrying value at end of year</b>	<b>11</b>	<b>23</b>

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

	2014	2013
Sales	7	11
Operating profit	-94	-73
Net loss	-95	-74
Other comprehensive income	-	-
<b>Other comprehensive income</b>	<b>-95</b>	<b>-74</b>
Total current assets	54	79
Total fixed assets	0	0
Total current liabilities	32	32
Total non-current liabilities	-	-
<b>Equity</b>	<b>22</b>	<b>47</b>
<b>Carrying value at end of year</b>	<b>11</b>	<b>23</b>

### Transactions with associated companies and joint ventures

In the normal course of business, Swedish Match conducts various transactions with associated companies and joint ventures. Transactions are conducted at an arms-length basis. Receivables from these companies totaled 34 MSEK (28). Total sales to associated companies and joint ventures amounted to 170 MSEK (177). Payables to these companies totaled 6 MSEK (5). Total purchases from associated companies and joint ventures amounted to 108 MSEK (81).

## 15. Other non-current receivables and other current receivables

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

Non-current receivables	2014	2013
Non-current financial receivables	601	302
Net assets in pension plans	81	84
Other non-current receivables	11	56
<b>Total</b>	<b>693</b>	<b>442</b>

The greater part of non-current financial receivables pertains to life insurance policies in a non-Swedish subsidiary and a substantial part of the remainder refer to foreign exchange derivatives used to hedge the Parent Company's bond loans denominated in EUR.

In 2013 other non-current receivables mainly pertained to endowment insurances in the Parent company. In 2014 the endowment insurances which have been pledged as security for certain defined contribution obligations have been reported in accordance with IAS 19 and netted against the corresponding obligation amount recognized as deferred compensation.

Other current receivables at December 31 comprised the following items:

Other current receivables	2014	2013
Current financial receivables	0	12
VAT receivables	15	18
Other current receivables	100	109
<b>Total</b>	<b>115</b>	<b>139</b>

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

## 16. Inventories

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

Inventories	2014			2013		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	1,496	-	1,496	504	-	504
Work in progress	48	-	48	39	-	39
Leaf tobacco	387	219	606	278	249	527
Other input materials and consumables	269	-	269	234	-	234
<b>Total</b>	<b>2,200</b>	<b>219</b>	<b>2,419</b>	<b>1,055</b>	<b>249</b>	<b>1,304</b>

During 2014, 15 MSEK (27) of inventory write-downs have been expensed.

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

## 17. Trade receivables

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

Trade receivables	2014	2013
Trade receivables	1,585	1,463
Less provision for impairment of trade receivables	-28	-23
<b>Net total</b>	<b>1,557</b>	<b>1,440</b>

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

Trade receivable provision	2014	2013
<b>Carrying value at beginning of year</b>	<b>-23</b>	<b>-25</b>
Provision	-9	-8
Recovery	5	7
Write-off	1	1
Companies acquired	0	-
Translation differences, other deductions or additions, etc.	-1	2
<b>Carrying value at end of year</b>	<b>-28</b>	<b>-23</b>

As of December 2014, trade receivables of 66 MSEK (53) were past due but not impaired. The aging of these trade receivables is as follows:

Aging of trade receivables	2014	2013
Current	1,492	1,387
Overdue < 31 days	46	35
Overdue 31-60 days	9	6
Overdue > 60 days	11	12
<b>Total</b>	<b>1,557</b>	<b>1,440</b>

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

## 18. Cash and cash equivalents

	2014	2013
<b>Cash and cash equivalents</b>		
Cash and bank	2,312	3,164
<b>Total</b>	<b>2,312</b>	<b>3,164</b>

# 19. Equity

## Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. The Board of Directors has further concluded that the strategic position of Swedish Match supports a dividend policy with a targeted pay-out ratio to 40 to 60 percent of the earnings per share for the year, subject to adjustments for larger one-time items. The Board of Directors propose a dividend of 7.50 SEK, equivalent to 57 percent of the earnings per share for the year. Based on the number of shares outstanding at the end of the year, the total proposed dividend amounts to 1,468 MSEK. Dividend for 2013, paid in 2014, amounted to 1,453 MSEK corresponding to 7.30 per share, which is equivalent to 57 percent of the earnings per share for the year, excluding larger one-time items.

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)	
	2014	2013	2014	2013
<b>Balance at beginning of year</b>	<b>2,955</b>	<b>6,592</b>	<b>-22,398</b>	<b>-22,234</b>
Repurchase of own shares during the year	3,745	1,579	-890	-352
Stock options exercised during the year	-376	-1,216	53	187
Allocated to retained earnings by cancellation of treasury shares	-1,500	-4,000	3	8
Bonus issue	-	-	-3	-8
<b>Balance at end of year</b>	<b>4,823</b>	<b>2,955</b>	<b>-23,235</b>	<b>-22,398</b>

The Annual General Meeting on May 7, 2014 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 1.5 million shares held in treasury. The total number of outstanding shares of the Company, including treasury shares, after the cancellations, is 200.5 million shares.

During the year 3.7 million shares were repurchased for 890 MSEK at an average price of 237.59 SEK. As at December 31, 2014 Swedish Match held 4.8 million shares in its treasury, corresponding to 2.41 percent of the total number of shares. During the year the Company has sold 0.4 million treasury shares at an average price of 141.52 SEK, totaling 53 MSEK, 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 195.7 million. In addition, the Company has call options outstanding at year end corresponding to 0.7 million shares that expire in February 2015.

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 222.2 million shares and the total number of cancellation of shares amounts to 203.4 million shares. Total number of shares sold as a result of option holders exercising options amounts to 13.9 million shares.

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

2013	Hedge reserve	Translation reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-119</b>	<b>-252</b>	<b>2</b>
Profit for the year pertaining to non-controlling interest	-	-	-1
Translation differences related to foreign operations for the year	-	127	0
Translation differences included in profit and loss	-	0	-
Effective portion of changes in fair value cash flow hedges	-28	-	-
Share of reserves in associated companies and joint ventures, net of taxes <sup>1)</sup>	17	-164	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	6	-	-
<b>Balance at end of year</b>	<b>-124</b>	<b>-288</b>	<b>1</b>

2014	Hedge reserve	Translation reserve	Non-controlling interest
<b>Balance at beginning of year</b>	<b>-124</b>	<b>-288</b>	<b>1</b>
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	732	0
Effective portion of changes in fair value cash flow hedges	-57	-	-
Share of reserves in associated companies and joint ventures, net of taxes <sup>1)</sup>	-3	324	-
Income tax relating to components of other comprehensive income <sup>2)</sup>	13	-	-
<b>Balance at end of year</b>	<b>-172</b>	<b>768</b>	<b>1</b>

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

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

### Hedge reserve

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

### Translation reserve

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

## 20. Interest bearing liabilities

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

Year	2014	2013
2014	-	6
2015	2	1,999
2016	650	651
2017	3,312	3,120
2018	1,250	1,250
2019	1,145	1,091
2020 and later	1,444	1,303
<b>Total</b>	<b>7,803</b>	<b>9,420</b>

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

Current interest-bearing liabilities	2014	2013
Current portion of non-current loans	1,137	919
Bank overdraft facilities utilized	4	1
<b>Total</b>	<b>1,141</b>	<b>920</b>

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

## 21. Employee benefits

### Post-employment employee benefits

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

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	2014	2013
Defined benefit plans, net liabilities	754	398
Post-employment medical benefits, net liabilities	1,054	723
Other long term employee benefits, net liabilities	7	7
<b>Provision for pensions and similar obligations</b>	<b>1,815</b>	<b>1,128</b>
Defined benefit plans, net assets	-81	-84
<b>Included in non-current receivables</b>	<b>-81</b>	<b>-84</b>
<b>Net post-employment liability</b>	<b>1,734</b>	<b>1,044</b>

The year 2014 was characterized by an overall reduction in discount rates mostly affecting the US plans, Norwegian plans and the UK plan along with the application of mortality tables which reflect longer life expectancy projections in the US. Consequently, the Group experienced an increase in the net pension liability, and has recognized a net actuarial loss during the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Post-employment defined benefits	Defined benefit pension plans		Post-employment medical benefits	
	2014	2013	2014	2013
Present value of funded obligations	2,909	2,246	-	-
Fair value of plan assets	-2,360	-2,029	-	-
<b>Deficit (+)/Surplus (-), net</b>	<b>549</b>	<b>217</b>	<b>-</b>	<b>-</b>
Present value of unfunded obligations	124	88	1,054	723
Unrecognized assets due to recoverability limit	-	10	-	-
<b>Net asset (-)/liability (+) in the balance sheet</b>	<b>674</b>	<b>314</b>	<b>1,054</b>	<b>723</b>
<b>Amounts in the balance sheet</b>				
Liabilities	754	398	1,054	723
Assets	-81	-84	-	-
<b>Net asset (-)/liability (+) in the balance sheet</b>	<b>674</b>	<b>314</b>	<b>1,054</b>	<b>723</b>

### Actuarial assumptions

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

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

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

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

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

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

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

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

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

Actuarial assumptions	Group			
	Defined benefit pension plans		Post-employment medical benefits	
	2014	2013	2014	2013
Discount rate, %	3.9	4.7	4.2	4.9
Future salary increases, %	3.2	3.3	3.3	3.2
Future pension increases, %	2.4	3.0	-	-
Medical cost trend rate, %	-	-	8.0	8.0

### Sensitivity analysis of significant assumptions

Changes in the discount rate may have a significant effect on the Group defined benefit obligation. An increase in the discount rate of 0.5 percent would decrease the defined benefit obligation with 286 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 311 MSEK. The effect from the sensitivity analysis is based on a change in the discount rate assumption while holding all other assumptions constant.

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

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

Defined benefit obligations	Defined benefit pension plans		Post-employment medical benefits	
	2014	2013	2014	2013
<b>Balance at beginning of year</b>	<b>2,334</b>	<b>2,455</b>	<b>723</b>	<b>736</b>
Adjustment of opening balance from change in accounting principle	-	-14	-	-
Service cost	45	54	28	31
Interest expense	111	93	36	28
Administrative expense	-	0	-1	-1
Gain on settlements	-21	-	-	-
Settlements payments from plan assets	-112	-	-	-
Contributions by plan participants	0	-	2	2
Benefits paid	-129	-118	-25	-22
Taxes paid	-1	-	-	-
Remeasurements gain (-)/losses (+)				
Changes in financial assumptions	271	-178	58	-87
Changes in demographic assumptions	109	21	75	51
Experience assumptions	-4	22	-11	-11
Translation differences	430	-1	169	-3
<b>Balance at end of year</b>	<b>3,033</b>	<b>2,334</b>	<b>1,054</b>	<b>723</b>

During 2014, Swedish Match offered a "lump sum window" to deferred inactive participants in one of the US plans, a one-time opportunity to receive their pension benefits under the plan as a single sum payment on December 1, 2014.

Under this lump sum window a total of 112 MSEK payments were made in December 2014. The liabilities associated with these plan benefits were settled at that time. The difference between the settled liabilities and the lump sum payments is treated as a component of the 2014 defined benefit cost as a gain on settlements. The settled defined benefit obligation amounts to 133 MSEK and the lump sum payments amount to 112 MSEK, leading to a settlement gain of 21 MSEK.

In 2013 the adjustment of opening balance refers to a change in accounting policy for salary taxes on pension obligations to be included in the calculation of the present value of the obligation. The adjustment pertains to a reclassification of a salary tax asset relating to the Swedish defined benefit plan, which has decreased the Group's net liability with by 14 MSEK. The salary tax asset in 2012 was reported as non-current financial receivables in the amount of 14 MSEK.

During 2014 the actuarial loss on the defined benefit obligation amounts to 498 MSEK (-182 gain) in total. The actuarial loss consist of 329 MSEK (-265) from changes in financial assumptions, 184 MSEK (72) from changes in demographic assumptions and -15 MSEK (11) from the effect of experience assumptions.

As at the last valuation date the present value of the defined benefit obligation was comprised of approximately 1,563 MSEK (1,056) relating to active employees, 448 MSEK (432) relating to deferred members and 2,076 MSEK (1,569) relating to members in retirement. As per December 31, 2014 the weighted average duration of the defined benefit obligation is 14 years (13).

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	
	2014	2013	2014	2013
<b>Fair value at beginning of year</b>	<b>2,029</b>	<b>1,896</b>	<b>0</b>	<b>0</b>
Interest income on plan assets	94	70	-	-
Administrative expense	-10	-9	-1	-1
Settlements payments from plan assets	-112	-	-	-
Employer contributions	87	12	24	22
Employee contributions	0	-	2	2
Benefits paid	-129	-118	-25	-22
Taxes paid	-1	-1	-	-
Return on plan assets	77	175	-	-
Translation differences	323	3	-	-
<b>Fair value at end of year</b>	<b>2,360</b>	<b>2,029</b>	<b>0</b>	<b>0</b>

The actual return on plan assets in 2014 amounted to 171 MSEK compared to a return in 2013 of 245 MSEK.

## NOTE 21 Continued

Plan assets at December 31 are comprised as follows:

Plan assets	2014	2013
Equity securities <sup>1)</sup>	1,145	1,055
Debt instruments	401	385
Real estate	2	3
Other <sup>2)</sup>	812	586
<b>Total</b>	<b>2,360</b>	<b>2,029</b>

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

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

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

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2014	2013	2014	2013
Current service costs	45	54	28	31
Interest expense on obligation	111	93	36	28
Interest income on plan assets	-94	-70	-	-
Interest expense on asset ceiling	0	-	-	-
Administrative expenses	10	5	-	-
Gain on settlements	-21	-	-	-
<b>Net income (-)/expense (+) reported in the income statement</b>	<b>51</b>	<b>83</b>	<b>64</b>	<b>59</b>

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2014	2013	2014	2013
Cost of goods sold	14	15	12	13
Administrative expenses	24	23	3	4
Selling expenses	18	21	12	14
Other income/expenses	-21	-	-	-
Interest income	-94	-3	0	-
Interest expense	111	26	36	28
<b>Net income (-)/expense (+) reported in the income statement</b>	<b>51</b>	<b>83</b>	<b>64</b>	<b>59</b>

### Post-employment employee benefits per country

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

2014	Present value of obligation	Fair value of plan assets	Net liability/asset	Asset ceiling	Net liability/asset in balance sheet
USA	3,126	1,380	1,746	-	1,746
UK	766	752	14	-	14
Rest of the world	202	228	-26	-	-26
<b>Total</b>	<b>4,094</b>	<b>2,360</b>	<b>1,734</b>	<b>-</b>	<b>1,734</b>

2013	Present value of obligation	Fair value of plan assets	Net liability/asset	Asset ceiling	Net liability/asset in balance sheet
USA	2,268	1,175	1,093	-	1,093
UK	617	627	-10	10	0
Rest of the world	179	227	-48	-	-48
<b>Total</b>	<b>3,064</b>	<b>2,029</b>	<b>1,034</b>	<b>10</b>	<b>1,044</b>

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

Actuarial assumptions	USA				UK		Rest of the world	
	Defined benefit pension plans		Post-employment medical benefits		Defined benefit pension plans		Defined benefit pension plans	
	2014	2013	2014	2013	2014	2013	2014	2013
Discount rate, %	4.1	4.8	4.2	4.9	3.4	4.2	3.7	4.3
Future salary increases, %	3.3	3.2	3.3	3.2	-	-	2.0	1.7
Future pension increases, %	2.3	2.2	-	-	3.1	3.2	1.2	1.6
Medical cost trend rate, %	-	-	8.0	8.0	-	-	-	-

### Expected contribution next year

Expected contributions for post-employment benefit plans for the full year 2015 amount to 52 MSEK.

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

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

Post-employment defined benefits income and expenses	Defined benefit pension plans		Post-employment medical benefits	
	2014	2013	2014	2013
Actuarial gains and losses on obligations, incl. salary taxes	376	-135	122	-47
Return on plan assets, excluding interest income	-77	-171	-	-
Effect from change in asset ceiling	-11	-5	-	-
<b>Net income(-)/expense(+) reported in other comprehensive income statement</b>	<b>288</b>	<b>-312</b>	<b>122</b>	<b>-47</b>

### Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in the respective plan. Costs for defined contribution plans charged to income statement for the year amount to 108 MSEK (101).

### Multi-employer insurance plan

In Sweden there is a multi-employer insurance plan for salaried personnel in Sweden in Alecta. Although this plan is classified as a multi-employer defined benefit plan, it is not possible to get sufficient information to apply defined benefit accounting, to provide specific information for each customer's obligation and fair value of related assets and therefore it has been accounted for as a defined contribution plan. The contribution to the multi-employer plan Alecta for the year ended December 2014 were 49 MSEK (52). Swedish Match contribution represents 0.26 percent (0.25) of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.07 percent (0.07) of all active members in the plan. Alecta has a collective funding ratio as per December 2014 of 143 percent (148). Collective funding ratio is a buffer for Alecta's insurance commitments to protect against fluctuations in investment return and insurance risks. It is a difference between Alecta's assets and the company's insurance commitments to policyholders and insured individuals. The collective solvency is normally allowed to vary between 125 and 155 percent, with the target of 140 percent. If the level of collective solvency is less than 125 percent or exceeds 155 percent, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval.

## 22. Provisions

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

Non-current provisions	2014	2013	Current provisions	2014	2013
Income tax	95	128	Restructurings	-	0
Restructurings	4	3	Other operating provisions	98	103
Other operating provisions	7	6	<b>Total current provisions</b>	<b>98</b>	<b>103</b>
Deferred compensation	199	222	<b>Total provisions</b>	<b>508</b>	<b>568</b>
Other provisions	105	105			
<b>Total non-current provisions</b>	<b>410</b>	<b>464</b>			

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other provisions	Total
<b>Carrying value at beginning of year</b>	<b>128</b>	<b>3</b>	<b>109</b>	<b>222</b>	<b>105</b>	<b>568</b>
Provisions made during the year	13	1	42	40	-	97
Provisions used during the year	-53	-0	-55	-27	-	-136
Provisions reversed during the year and changes in estimates	-	0	-6	-13	-	-20
Reclassifications	-	-	1	-1	-	0
Adjustments	-	-	-	-50	-	-50
Translation differences, etc.	7	0	15	28	-	50
<b>Carrying value at end of year</b>	<b>95</b>	<b>4</b>	<b>105</b>	<b>199</b>	<b>105</b>	<b>508</b>

### Income tax provisions

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

### Restructuring provisions

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

### Other operating provisions

Provisions of operating character, and not related to restructuring or deferred compensation, are reported as operating provisions. A large part of the operating provisions are related to provisions for outstanding redemptions of current coupons and future product returns. 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.

### 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.

Adjustments to deferred compensation relate to the reclassification of endowment insurances, pledged as security for certain defined contribution obligations, which in accordance with IAS 19 have been netted against the corresponding amount recognized as deferred compensation.

### Other provisions

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

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

## 23. Other liabilities

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

Other non-current liabilities	2014	2013
Non-interest bearing non-current liabilities	13	13
Non-current financial liabilities, derivatives	234	299
<b>Total</b>	<b>248</b>	<b>312</b>

Other current liabilities at December 31 comprised the following:

Other current liabilities	2014	2013
Tobacco taxes	2,011	1,058
VAT liabilities	329	327
Current financial liabilities, derivatives	-	29
Other	29	44
<b>Total</b>	<b>2,369</b>	<b>1,459</b>

## 24. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2014	2013
Accrued wage/salary-related expenses	179	112
Accrued vacation pay	60	58
Accrued social security charges	58	48
Accrued interest	135	201
Other	298	263
<b>Total</b>	<b>730</b>	<b>682</b>

## 25. Financial instruments and financial risks

### Operations

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

### Financial instruments

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

### Outstanding derivatives

	2014			2013		
	Nominal	Assets	Liability	Nominal	Assets	Liability
Currency derivatives	351	-	-	-	-	-
Interest-rate derivatives*	5,472	129	15	7,496	18	253
<b>Total:</b>	<b>5,823</b>	<b>129</b>	<b>15</b>	<b>7,496</b>	<b>18</b>	<b>253</b>
<b>*Of which hedge accounting</b>						
Cash flow hedges <sup>1)</sup>	5,472	129	15	5,931	10	237

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

### Currency risks

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

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

The consolidated income statement includes exchange rate losses of 7 MSEK (10) in operating profit and gain of 1 MSEK (loss 2) in net finance cost.

### Transaction exposure

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

The anticipated commercial currency flow net of the reverse flows in the same currencies (transaction exposure) amounts to approximately 1,125 MSEK on an annual basis. It is divided as following; 690 MSEK in NOK (61 percent), 243 MSEK in USD (22 percent), 74 MSEK in GBP (7 percent), 63 MSEK in PHP (6 percent), and in other currencies 55 MSEK (5 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, 2014, no transaction exposure for 2015 has been hedged. A general rise of 10 percent in the value of the SEK against all of the Group's transaction currencies is estimated to reduce consolidated earnings before tax by 112 MSEK (105), which of 69 in NOK, 24 in USD, 7 in GBP, 6 in PHP, and 6 in other currencies for the year ending December 31, 2014.

### 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, BRL and EUR. 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 2,335 MSEK in USD (74 percent), 410 MSEK in BRL (13 percent), 310 MSEK in EUR (10 percent) and in other currencies 100 MSEK (3 percent). The Group does not, as a general rule, hedge the net investments in foreign subsidiaries. If the SEK weakened by 10 percent against all the currencies in which Swedish Match has foreign net assets, the effect on shareholders' equity would be positive in an amount of approximately 315 MSEK, which of 235 in USD, 40 in BRL, 30 in EUR, and 10 in other currencies based on the exposure at December 31, 2014.

### Interest-rate risk

The Swedish Match Group's sources of financing mainly comprise shareholders' equity, cash-flow from current operations, and borrowing. Interest-bearing loans and pension liabilities expose the Group to interest-rate risk. Changes in interest rates have a direct impact on Swedish Match's net interest expense. Swedish Match policy is that the average interest maturity should be less than 5 years. The speed with which a permanent change of interest rate impacts net interest expense depends on the interest maturity periods of the loans. The Group's objective for interest rate fixing is to achieve an even and low cost of interest. Interest rate swaps and currency swaps are used mainly to convert our borrowing into SEK and fixed interest rates. At December 31, 2014, the average interest maturity period for Group loans was 3,5 years (3,8 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2014 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2015	1,139	-	1,139	-
2016	650	-	650	-
2017	3,312	-	3,312	-
2018	903	347	903	347
2019	946	199	946	199
2020-	1,444	-	1,444	-
<b>Total</b>	<b>8,394</b>	<b>546</b>	<b>8,394</b>	<b>546</b>

At December 31, 2014, a general rise of 1 percent (100bp) in short term interest rates of debt with variable interest rates and cash surplus was estimated to increase consolidated earnings before tax by approximately 18 MSEK (24) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 8,126 MSEK (8,388). The assumption is based on the present level of net debt and average interest maturity period.

If interest rates were to rise with 1 percent (100bp), the total effect on equity due to cash flow hedges would have a positive impact on the amount by 2 MSEK (5).

### 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, however, take place in countries where regulations and taxes make central financing impossible or uneconomical. Swedish Match tries to limit its refinancing risk by having a good distribution and a certain length on its gross borrowing, and not being dependent on individual sources of financing.

Swedish Match has a syndicated bank credit facility of 1,500 MSEK, which matures in December 2019. This was unutilized at year-end and contained no financial covenants. At year-end 2014, available cash funds and committed credit facilities amounted to 3,812 MSEK. Of this amount, confirmed credit lines amounted to 1,500 MSEK and cash and cash equivalents making up the remaining 2,312 MSEK.

Most of Swedish Match's financing consists of a global medium-term note program (MTN) with a limit amount of 1,500 MEUR. The program is an uncommitted borrowing program and the availability could be limited by the Group's creditworthiness and prevailing market conditions. At December 31, 2014, a total of 8,964 MSEK of the global program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2014 was 3.7 years.

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

Year	MTN Loans incl. interest	Negative derivatives	Trade payables	Total value	Total booked value
2015	1,471	37	957	2,465	2,101
2016	931	36	-	967	655
2017	3,587	4	-	3,591	3,316
2018	1,369	-	-	1,369	1,250
2019	1,228	-	-	1,228	1,145
2020-	1,726	-	-	1,726	1,444
<b>Total</b>	<b>10,312</b>	<b>77</b>	<b>957</b>	<b>11,346</b>	<b>9,911</b>

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF is hedged to SEK by currency swaps and currency interest rate swaps. The average interest cost for outstanding borrowings (including derivative instruments) on December 31, 2014 was 4.5 percent (4.7).

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.

### Financial instruments under master netting agreements

	2014				
	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
<b>MSEK</b>					
Derivatives – assets	283	-	283	-188	95
Derivatives – liabilities	188	-	188	-188	0
	2013				
	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
<b>MSEK</b>					
Derivatives – assets	59	-	59	-44	15
Derivatives – liabilities	307	-	307	-44	263

### 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 2014.

	2014			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-111	-58	-	-169
<b>Total</b>	<b>-111</b>	<b>-58</b>	<b>-</b>	<b>-169</b>
	2013			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-83	-28	-	-111
<b>Total</b>	<b>-83</b>	<b>-28</b>	<b>-</b>	<b>-111</b>

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

	2015	2016	2017	2018	2019	2020-
Fixed rate interest on hedging swaps	262	262	262	97	96	287

#### Fair value hedges

At yearend there were no fair value hedges outstanding.

### Liquidity risks and credit risks

To limit liquidity and credit risks, investments and transactions in derivative instruments may be made only in instruments with high liquidity and with counterparties having high credit ratings. In addition to bank accounts, Swedish Match invests surplus funds mainly in bank deposits and bank certificates. At December 31, 2014, the average interest maturity for the Group's current investments was less than 1 month.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least category A from Standard & Poor's or equivalent from Moody's.

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. These agreements grant rights to net market valuations on assets and liabilities if the counterparty is in an event of default, as with suspended payments. The following table shows the netted exposures per December 31, 2014. No collateral has been received or pledged.

## NOTE 25 Continued

At December 31, 2014, credit exposure in derivative instruments amounted to 95 MSEK, and credit exposure in cash and deposits at banks amounted to 2,312 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 1,557 MSEK (1,440). For more information see Note 17 Trade receivables.

## Credit ratings

At December 31, 2014, 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, 2014. Items carried at fair value via the income statement consists of derivatives, for which

hedge accounting is not applied. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loan and borrowings differ from their fair value as a consequence of changes in the market interest rates.

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

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

All items valued at fair value in the balance sheet are considered to be included in level 2 within the fair value hierarchy. To determine the fair value of those financial assets and liabilities, current official market quotations for similar instruments have been used for discounting future cash flows. The values presented are indicative and may not necessarily be realized.

	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non-financial instruments	Total carrying value	Estimated fair value
<b>2014</b>							
Trade receivables	–	1,557	–	–	–	1,557	1,557
Non-current receivables	–	–	–	305	388	693	693
Other receivables	–	–	–	–	115	115	115
Prepaid expenses and accrued income	–	–	–	–	92	92	92
Cash and cash equivalents	–	2,312	–	–	–	2,312	2,312
<b>Total assets</b>	<b>–</b>	<b>3,869</b>	<b>–</b>	<b>305</b>	<b>595</b>	<b>4,769</b>	<b>4,769</b>
Loans and borrowings	–	–	8,944	–	–	8,944	9,606 <sup>1)</sup>
Other liabilities	0	–	–	234	2,382	2,617	2,617
Accrued expenses and deferred income	–	–	117	19	595	730	730
Trade payables	–	–	957	–	–	957	957
<b>Total liabilities</b>	<b>0</b>	<b>–</b>	<b>10,018</b>	<b>253</b>	<b>2,977</b>	<b>13,248</b>	<b>13,910</b>
<b>2013</b>							
Trade receivables	–	1,440	–	–	–	1,440	1,440
Non-current receivables	2	–	–	54	386	442	442
Other receivables	8	–	–	–	131	139	139
Prepaid expenses and accrued income	14	–	–	–	75	89	89
Cash and cash equivalents	–	3,164	–	–	–	3,164	3,164
<b>Total assets</b>	<b>24</b>	<b>4,604</b>	<b>–</b>	<b>54</b>	<b>592</b>	<b>5,274</b>	<b>5,274</b>
Loans and borrowings	–	–	10,340	–	–	10,340	10,927 <sup>1)</sup>
Other liabilities	17	–	–	326	1,428	1,771	1,771
Accrued expenses and deferred income	–	–	173	28	481	682	682
Trade payables	–	–	559	–	–	559	559
<b>Total liabilities</b>	<b>17</b>	<b>–</b>	<b>11,072</b>	<b>354</b>	<b>1,909</b>	<b>13,352</b>	<b>13,939</b>

<sup>1)</sup> The estimated fair value, which is classified as level 2 in the fair value hierarchy, is the revaluation of the loans and borrowings based on the market rates from banks for December 31, 2014 and 2013.

## 26. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2014 amounted to 58 MSEK (46).

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

Minimum lease payments	2014	2013
Within one year	54	46
Between 1–5 years	177	82
Later than 5 years	54	34
<b>Total</b>	<b>284</b>	<b>162</b>

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

## 27. Pledged assets

### Pledged assets

As per December 31, 2014 the Group had 54 MSEK (50) in assets pledged, pertaining to endowment insurance policies pledged as security for certain defined contribution obligations. In accordance with IAS19, endowment insurance policies pledged as security for certain defined contribution obligations of 54 MSEK have been netted against the deferred compensation obligations in non-current provisions as of December 31, 2014.

## 28. Commitments and contingent liabilities and assets

### Contingent liabilities

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

Contingent liabilities	2014	2013
Guarantees on behalf of subsidiaries	48	46
Guarantees to associated companies	50	47
Other guarantees and contingent liabilities	152	143
<b>Total</b>	<b>250</b>	<b>235</b>

### Legal disputes

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

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

### Contingent assets

Swedish Match sold two parcels of land adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. For one of these parcels of land the approval was received in January 2013, and Swedish Match received an additional payment of 161 MSEK in the first half of 2013. There is a contingent additional purchase price also for the second parcel of land. At this time it is not possible to provide a meaningful estimate of what this amount could be.

## 29. Group companies

Subsidiary holdings <sup>1)</sup>	Subsidiary's domicile, country	Ownership share, %	
		2014	2013
SM Treasury SEK 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	99.7	99.7
SM Dominicana, S.A.	Dominican Republic	100	100
SM Deutschland GmbH	Germany	100	100
SM Treasury Lux S.à r.l.	Luxembourg	100	100
SM Group BV	Netherlands	100	100
SM Lighters BV	Netherlands	100	100
SM Overseas BV	Netherlands	100	100
SM Distribution A/S	Norway	100	100
SM Norge A/S	Norway	100	100
SM Philippines Inc.	Philippines	100	100
SMINT Holdings Corp	Philippines	100	100
Swedmat Corp	Philippines	100	100
Swedish Match Fósforos Portugal, SA	Portugal	100	–
SMD Logistics AB <sup>2)</sup>	Sweden	100	100
SM Industries AB	Sweden	100	100
SM Intellectual Property AB	Sweden	100	100
SM North Europe AB	Sweden	100	100
Svenska Tändsticks AB	Sweden	100	100
Svenska Tändsticksbolaget Försäljningsaktiebolag	Sweden	100	100
SM Cigars Holding AB	Sweden	100	100
Swedish Match US AB	Sweden	100	100
Svenska Tobaks AB	Sweden	100	100
Svenskt Snus AB	Sweden	100	100
SMD Logistics Holding AB	Sweden	100	–
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100

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

<sup>2)</sup> The company changed name during the year from Swedish Match Distribution AB to SMD Logistics AB.

## 30. Supplementary information to cash flow statement

The definition and composition of cash and cash equivalents is cash and bank.

Interest paid and interest received	2014	2013
Interest received	38	26
Interest paid	-537	-530
<b>Total</b>	<b>-499</b>	<b>-504</b>

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

Adjustments for non cash items and other	2014	2013
Depreciation, amortization and write down	303	275
Change in provisions	-6	20
Capital gain on divested company	-	-161
Change in defined benefit plans	2	107
Change in accrued interest	-50	-20
Change in market value revaluations and unrealized exchange rate differences	20	-4
Realized exchange rate differences moved to financing	-4	-2
Other	-11	-21
<b>Total</b>	<b>253</b>	<b>194</b>

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

Investments in joint ventures during 2014 pertain to investment of 35 MSEK in SMPM International AB and investments in associated companies of 10 MSEK in Road Cargo Sweden Holding AB. During 2013 investments in joint ventures pertain to investments of 57 MSEK in SMPM International AB. For further information see *Note 14 Investments in associated companies and joint ventures*.

Swedish Match Fosforos Portugal SA was acquired during 2014 at a price of 49 MSEK, with acquired net assets of 48 MSEK of which cash and bank represented 47 MSEK. Net cash flow effect for the Group was -2 MSEK. No acquisitions of subsidiaries were made during 2013.

### Divestment of subsidiaries

No divestments of subsidiaries have been made during 2014. The cash flow proceeds from sale of subsidiaries during 2013 is related to additional payment from the sale of land in 2007 of 161 MSEK, additional payment for Swedish Match UK sold in 2008 of 4 MSEK, additional payment for Swedish Match Bulgaria DA during 2011 of 3 MSEK. Additional outlay of 10 MSEK relating to guarantees in the purchase agreement of STG has been made during 2013.

During 2013 the subsidiary Svenska Tobaks AB was divested. The name Svenska Tobaks AB was retained by Swedish Match. The purchase price paid in cash amounted to 757 MSEK. Divested net assets amounted to 651 MSEK, whereof cash 834 MSEK and a current tax liability of 183 MSEK. The cash flow impact of this transaction is reported as taxes paid.

## 31. Related parties

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

## 32. Information about the Parent Company

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

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

The consolidated financial statements for 2014 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	2014	2013
Sales	1	48	44
Administrative expenses	2, 3, 8, 9, 26	-203	-213
Other operating income and expenses	4	0	0
<b>Operating loss</b>		<b>-154</b>	<b>-169</b>
Result from participation in Group companies	5	705	2,463
Interest income and similar items	5	0	1
Interest expenses and similar items	5	-1,059	-1,176
<b>Profit/loss after financial items</b>		<b>-508</b>	<b>1,118</b>
Appropriations	6	1,583	1,530
<b>Profit before income tax</b>		<b>1,075</b>	<b>2,648</b>
Income tax expense	7	-86	-41
<b>Profit for the year</b>		<b>989</b>	<b>2,607</b>

## Parent Company statement of comprehensive income

MSEK	Note	2014	2013
<b>Profit for the year</b>		<b>989</b>	<b>2,607</b>
<i>Other comprehensive income that may be reclassified to the income statement</i>			
Effective portion of changes in fair value of cash flow hedges		-57	-28
Income tax relating to components of other comprehensive income	7	13	6
<b>Subtotal, net of tax for the year</b>		<b>-45</b>	<b>-22</b>
<b>Total comprehensive income for the year</b>		<b>944</b>	<b>2,585</b>

## Parent Company balance sheet

MSEK	Note	December 31, 2014	December 31, 2013
<b>Assets</b>			
Intangible assets	8	-	0
Tangible assets	9	2	1
<b>Non-current financial assets</b>			
Participations in Group companies	10	50,954	50,954
Other non-current receivables	11	305	56
Deferred income tax assets	7	51	38
<b>Total non-current financial assets</b>		<b>51,311</b>	<b>51,048</b>
<b>Total non-current assets</b>		<b>51,313</b>	<b>51,049</b>
<b>Current assets</b>			
Receivables on Group companies		1,961	2,087
Receivables on associated companies		1	1
Receivables on joint venture		-	0
Current income tax receivables	7	5	13
Other receivables	12	4	13
Prepaid expenses and accrued income	13	6	25
<b>Total current assets</b>		<b>1,977</b>	<b>2,138</b>
<b>TOTAL ASSETS</b>		<b>53,290</b>	<b>53,187</b>
<b>Equity</b>			
Restricted equity	14		
Share capital, 200 500 000 shares at 1.9427 and 202 000 000 at 1.9283 respectively		390	390
Unrestricted equity			
Reserve for fair value		-132	-87
Retained earnings		19,600	19,283
Profit for the year		989	2,607
<b>TOTAL EQUITY</b>		<b>20,846</b>	<b>22,192</b>
<b>Untaxed reserves</b>	15	<b>415</b>	<b>290</b>
Other provisions	16	35	31
<b>Total provisions</b>		<b>35</b>	<b>31</b>
<b>Non-current liabilities</b>			
Bond loans	17	7,803	9,420
Liabilities to Group companies	18	18,100	18,100
Other liabilities	19	234	300
<b>Total non-current liabilities</b>		<b>26,137</b>	<b>27,820</b>
<b>Current liabilities</b>			
Bond loans		1,137	919
Trade payables		11	7
Liabilities to Group companies		4,536	1,665
Other liabilities		4	47
Accrued expenses and deferred income	20	168	216
<b>Total current liabilities</b>		<b>5,855</b>	<b>2,853</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>53,290</b>	<b>53,187</b>
<b>Memorandum items</b>			
Pledged assets	21	50	46
Contingent liabilities	21	98	92

During 2014, a reclassification of other receivables pertaining to endowment insurance policies has been made to reflect the defined contribution pension provision net of the endowment insurance policies in accordance with IAS 19. Previous year's receivable has been restated in accordance with this change.

## Statement of changes in Parent Company equity

2013	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	14	<b>390</b>	<b>-65</b>	<b>16,319</b>	<b>4,586</b>	<b>21,230</b>
Profit for the year		-	-	-	2,607	2,607
Other comprehensive income, net of tax for the year		-	-22	-	-	-22
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-22</b>	<b>-</b>	<b>2,607</b>	<b>2,585</b>
Allocation of profit		-	-	4,586	-4,586	-
Dividend		-	-	-1,459	-	-1,459
Repurchase of own shares		-	-	-352	-	-352
Stock options exercised		-	-	187	-	187
Cancellation of shares		-8	-	8	-	-
Bonus issue		8	-	-8	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-87</b>	<b>19,283</b>	<b>2,607</b>	<b>22,192</b>

2014	Note	Restricted equity	Unrestricted equity			Total equity
		Share capital	Reserve for fair value <sup>1)</sup>	Retained earnings	Profit for the year	
<b>Equity at beginning of year</b>	14	<b>390</b>	<b>-87</b>	<b>19,283</b>	<b>2,607</b>	<b>22,192</b>
Profit for the year		-	-	-	989	989
Other comprehensive income, net of tax for the year		-	-45	-	-	-45
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-45</b>	<b>-</b>	<b>989</b>	<b>944</b>
Allocation of profit		-	-	2,607	-2,607	-
Dividend		-	-	-1,453	-	-1,453
Repurchase of own shares		-	-	-890	-	-890
Stock options exercised		-	-	53	-	53
Cancellation of shares		-3	-	3	-	-
Bonus issue		3	-	-3	-	-
<b>Equity at end of year</b>		<b>390</b>	<b>-132</b>	<b>19,600</b>	<b>989</b>	<b>20,846</b>

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

## Cash flow statement for the Parent Company

MSEK	Note	2014	2013
<b>Operating activities</b>	22		
Profit after financial items		-508	1,118
Adjustments for non-cash items and other		-38	-550
Income tax paid		-79	-61
<b>Cash flow from operating activities before changes in working capital</b>		<b>-625</b>	<b>507</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in operating receivables		1	14
Increase (+)/Decrease (-) in operating liabilities		-6	-48
<b>Net cash generated from operating activities</b>		<b>-629</b>	<b>473</b>
<b>Investing activities</b>			
Purchase of tangible assets		-1	0
Proceeds from sale of intangible assets		-	95
Proceeds from sale of subsidiaries, net of cash disposed of		-	1,603
Shareholders contribution		-	-770
<b>Net cash from investing activities</b>		<b>-1</b>	<b>928</b>
<b>Financing activities</b>			
Proceeds from non-current borrowings		-	1,225
Repayment of borrowings		-1,805	-1,491
Repurchase of own shares		-890	-352
Stock options exercised		53	187
Dividend		-1,453	-1,459
Changes in financial receivables/liabilities Group companies		4,726	503
Other		0	-14
<b>Net cash used in financing activities</b>		<b>631</b>	<b>-1,400</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at end of year</b>		<b>-</b>	<b>-</b>

# Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2013.

For remuneration and other benefits to Parent Company President and other members of Group management, see *Note 5 Personnel* for the Group on page 62.

## 1. Sales

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

## 2. Audit fees

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

Audit fees	2014	2013
<b>KPMG</b>		
Audit services	4	3
Audit related services	0	0
Tax services	0	0
Other services	1	1
<b>Total</b>	<b>5</b>	<b>4</b>

Other services include assisting with testing of IT-controls.

## 3. Operating lease agreements

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

Minimum lease payments	2014	2013
Within one year	12	6
Between 1–5 years	56	4
Later than 5 years	18	–
<b>Total</b>	<b>86</b>	<b>10</b>

The operating lease agreements are mainly attributable to the rental of real estate. During 2014 a new leasing agreement was entered relating to rental of new office premises. The contract will run for six years and the agreement includes indexation clause.

Expensed payments operating lease agreements	2014	2013
Minimum lease payments	6	6
<b>Total</b>	<b>6</b>	<b>6</b>

## 4. Other operating income and expense

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

## 5. Financial items

Result from participation in Group companies	2014	2013
Dividends received	705	2,627
Impairment losses	–	–1,072
Gain on sale of Group companies	–	918
Loss on sale of Group companies	–	–10
<b>Total</b>	<b>705</b>	<b>2,463</b>

The impairment loss of 1,072 MSEK in 2013 was recognized following dividends paid from subsidiaries.

Interest income and similar items	2014	2013
Interest income relating to Group companies	0	1
Interest income relating to other financial instruments held for trading	0	0
<b>Total</b>	<b>0</b>	<b>1</b>

Interest expenses and similar items	2014	2013
Interest expense relating to Group companies	–580	–655
Interest expense relating to financial liabilities measured at amortized cost	–471	–515
Net gain on financial liabilities revalued to fair value	0	1
Other financial expenses	–8	–6
Net foreign exchange losses	0	0
<b>Total</b>	<b>–1,059</b>	<b>–1,176</b>

## 6. Appropriations

Appropriations	2014	2013
<b>Difference between reported amortization/depreciation and according to plan</b>		
Software and licenses	0	30
Equipment, tools and fixtures	0	0
<b>Tax allocation reserve</b>		
Appropriation current year	–125	–60
<b>Group contributions</b>		
Group contributions received	1,944	2,074
Group contributions granted	–236	–513
<b>Total</b>	<b>1,583</b>	<b>1,530</b>

## 7. Income tax

Income tax reported in income statement	2014	2013
Current tax expense for the period	-87	-43
Deferred tax due to temporary differences	1	2
<b>Total</b>	<b>-86</b>	<b>-41</b>

Income tax reported in other comprehensive income	2014	2013
Revaluation of cash flow hedges net gain/loss	13	6
<b>Total</b>	<b>13</b>	<b>6</b>

Reconciliation of effective tax rate	2014		2013	
	(%)		(%)	
<b>Income before tax</b>	<b>1,075</b>		<b>2,648</b>	
<b>Swedish statutory tax rate</b>	<b>22.0</b>	<b>-237</b>	<b>22.0</b>	<b>-583</b>
Non-taxable dividends	-14.4	155	-21.8	578
Tax exempt items	-0.0	0	-7.6	202
Non-deductible impairment losses	-	-	8.9	-236
Other non-deductible items	0.3	-4	0.1	-2
Taxes related to prior years	0.0	0	0.0	0
Deemed interest income, tax allocation reserve	0.1	-1	0.0	-1
<b>Reported effective tax</b>	<b>8.0</b>	<b>-86</b>	<b>1.6</b>	<b>-41</b>

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

	Current income tax assets		Current income tax liabilities	
	2014	2013	2014	2013
<b>Opening balance at beginning of year</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>5</b>
Current tax expense	-87	-43	-	0
Paid/received tax	79	56	-	-4
<b>Closing balance at end of year</b>	<b>5</b>	<b>13</b>	<b>-</b>	<b>-</b>

Tax receivable amounts to 5 MSEK (13) and consists of taxes to be received on income for the year.

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

Deferred income tax assets	2014	2013
Hedge reserve	37	25
Provision	14	13
Other	0	0
<b>Total</b>	<b>51</b>	<b>38</b>

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

2014	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	25	-	13	37
Provision	13	1	-	14
Other	0	0	-	0
<b>Total</b>	<b>38</b>	<b>1</b>	<b>13</b>	<b>51</b>

2013	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	18	-	6	25
Provision	11	2	-	13
Other	1	0	-	0
<b>Total</b>	<b>30</b>	<b>2</b>	<b>6</b>	<b>38</b>

## 8. Intangible assets

Software and licenses	2014	2013
<b>Cost at beginning of year</b>	<b>4</b>	<b>111</b>
Sales/disposals	-	-107
<b>Cost at end of year</b>	<b>4</b>	<b>4</b>
<b>Accumulated amortization at beginning of year</b>	<b>-4</b>	<b>-17</b>
Amortization for the year	0	0
Sales/disposals	-	13
<b>Accumulated amortization at end of year</b>	<b>-4</b>	<b>-4</b>
<b>Net carrying value at end of year</b>	<b>-</b>	<b>0</b>

Amortization is included in administrative expenses in the income statement in the amount of 0 MSEK (0).

All intangible assets are acquired.

Software and licenses are amortized over five years.

No borrowing costs have been capitalized during 2014 nor during 2013.

## 9. Tangible assets

	Equipment, tools and fixtures		Advances relating to tangible assets	
	2014	2013	2014	2013
<b>Cost at beginning of year</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>-</b>
Purchases/investments	-	0	1	-
Sales/disposals	-	0	-	-
<b>Cost at end of year</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>-</b>
<b>Accumulated depreciation at beginning of year</b>	<b>-2</b>	<b>-2</b>	<b>-</b>	<b>-</b>
Depreciation for the year	0	0	-	-
Sales/disposals	-	0	-	-
<b>Accumulated depreciation at end of year</b>	<b>-2</b>	<b>-2</b>	<b>-</b>	<b>-</b>
<b>Net carrying value at end of year</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>-</b>

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

No borrowing costs have been capitalized during 2014 nor during 2013.

## 10. Group companies

2014	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Reduction in capital	Impairments	Divestments	Balance 31 Dec.
Cost	57,448	18,875	-	-18,875	-	-	57,448
Impairments	-6,494	-	-	-	-	-	-6,494
<b>Carrying value</b>	<b>50,954</b>	<b>18,875</b>	<b>-</b>	<b>-18,875</b>	<b>-</b>	<b>-</b>	<b>50,954</b>

2013	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Reduction in capital	Impairments	Divestments	Balance 31 Dec.
Cost	56,680	694	7,860	-	-	-7,785	57,448
Impairments	-5,422	-	-	-	-1,072	-	-6,494
<b>Carrying value</b>	<b>51,258</b>	<b>694</b>	<b>7,860</b>	<b>-</b>	<b>-1,072</b>	<b>-7,785</b>	<b>50,954</b>

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, %	2014	Ownership, %	2013
Svenskt Snus AB	556367-1261	Stockholm	1,000	100	18,875	-	-
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	100	15,750
SMD Logistics AB <sup>1)</sup>	556571-7039	Stockholm	1,000	100	2,350	100	2,350
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm	34,403,000	100	1,006	100	1,006
Swedish Match Cigars Holding AB	556367-1253	Stockholm	2,000	100	500	100	500
Swedish Match Industries AB	556005-0253	Tidaholm	30,853	100	95	100	95
Swedish Match US AB	556013-4412	Stockholm	96,000	100	9	100	9
Svenska Tändsticks AB	556105-2506	Stockholm	1,000	100	0	100	0
Svenska Tobaks AB	556680-3028	Stockholm	100,000	100	0	100	0
Swedish Match Treasury Lux S.à.r.l.	B175024	Luxembourg	20,000	100	7,090	100	7,090
Swedish Match Treasury SEK SA <sup>2)</sup>	0890.171.968	Belgium	9,999,999	99.99	4,242	99.99	23,117
Swedish Match North America Inc	62-1257378	USA	100	100	849	100	849
Swedish Match Dominicana S.A.	05338-2007-ST1	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	17	100	17
Swedish Match Distribution A/S	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille <sup>3)</sup>		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd <sup>4)</sup>		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd <sup>5)</sup>		Burma	4,000	100	0	100	0
<b>Carrying value at end of year</b>					<b>50,954</b>		<b>50,954</b>

<sup>1)</sup> Change of company name from Swedish Match Distribution AB.

<sup>2)</sup> Remaining shares owned by subsidiary.

<sup>3)</sup> Nationalized in 1963.

<sup>4)</sup> Nationalized in 1968.

<sup>5)</sup> Nationalized in 1969.

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

## 11. Other non-current receivables

Other non-current receivables consists of derivatives including exchange rate differences and fair values of cross currency and interest rate swaps 305 MSEK (56).

## 12. Other receivables

Other receivables	2014	2013
Derivatives	-	8
VAT receivables	0	4
Other current receivables	3	1
<b>Carrying value at end of year</b>	<b>4</b>	<b>13</b>

## 13. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2014	2013
Accrued interest income	-	14
Prepaid bank charge	-	4
Prepaid rent	2	2
Other prepaid expenses	4	5
<b>Carrying value at end of year</b>	<b>6</b>	<b>25</b>

## 14. 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	2014	2013
Issued at beginning of year	202,000,000	206,000,000
Cancellation	-1,500,000	-4,000,000
<b>Total shares outstanding at end of year</b>	<b>200,500,000</b>	<b>202,000,000</b>
Of which held by Swedish Match AB	-4,822,933	-2,954,479
<b>Total shares outstanding, net of shares held by Swedish Match AB</b>	<b>195,677,067</b>	<b>199,045,521</b>

### Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2014, the Parent Company's holding of treasury shares amounted to 4,822,933 shares (2,954,479).

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)	
	2014	2013	2014	2013
<b>Balance at beginning of year</b>	<b>2,954</b>	<b>6,592</b>	<b>-22,398</b>	<b>-22,234</b>
Repurchase of own shares during the year	3,745	1,579	-890	-352
Stock options exercised during the year	-376	-1,216	53	187
Allocated to retained earnings by cancellation of shares	-1,500	-4,000	3	8
Bonus issue	-	-	-3	-8
<b>Balance at end of year</b>	<b>4,823</b>	<b>2,954</b>	<b>-23,235</b>	<b>-22,398</b>

The Annual General Meeting on May 7, 2014 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 1.5 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 2.9 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 200.5 million shares with a quotient value of 1.9427 SEK.

During the year 3.7 million shares were repurchased for 890 MSEK at an average price of 237.59 SEK. Total shares bought back since the buyback program started have been repurchased at an average price of 108.43 SEK.

During 2014, the Company sold 0.4 million treasury shares at an average price of 141.52 SEK, totaling 53 MSEK, as a result of option holders exercising options.

As per December 31, 2014 Swedish Match held 4.8 million shares in its treasury, corresponding to 2.41 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2014, amounted to 195.7 million.

As of December 31, 2014, the Company has outstanding call options corresponding to 0.7 million shares that expire in February 2015.

### Dividend

After the balance sheet date, the Board proposed a dividend for 2014 of 7.50 SEK (7.30) per share. The dividend then amounts to 1,468 MSEK based on the number of shares outstanding at the end of 2014. Prior year total dividend amounted to 1,453 MSEK and corresponded to 199,088,729 number of shares.

### Reserve for fair value

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

Hedge reserve	2014	2013
<b>Carrying value at beginning of year</b>	<b>-87</b>	<b>-65</b>
Effective portion of changes in fair value of cash flow hedges	-57	-28
Income tax	13	6
<b>Carrying value at end of year</b>	<b>-132</b>	<b>-87</b>

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

## 15. Untaxed reserves

Untaxed reserves	2014	2013
<b>Excess amortization/depreciation:</b>		
<b>Intangible assets</b>		
Carrying value at beginning of year	0	30
Excess amortization for the year	0	-30
<b>Total</b>	<b>-</b>	<b>0</b>
<b>Tangible assets</b>		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>Tax allocation reserve:</b>		
Carrying value at beginning of year	290	230
Appropriation current year	125	60
<b>Total</b>	<b>415</b>	<b>290</b>
<b>Carrying value at end of year</b>	<b>415</b>	<b>290</b>

## 16. Other provisions

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

Other provisions	2014	2013
Pension obligation	26	11
Long term incentive	9	20
<b>Carrying value at end of year</b>	<b>35</b>	<b>31</b>
Where of total non-current	34	21
Where of total current	1	10

Movements in provisions during the year were as follows:

2014	Pension obligation	Long term incentive	Total
<b>Carrying value at beginning of year</b>	<b>11</b>	<b>20</b>	<b>31</b>
Provisions made during the year	16	6	22
Provisions used during the year	-1	-9	-10
Provisions reversed during the year and changes in estimates	-	-2	-2
Reclassifications	-	-6	-6
<b>Carrying value at end of year</b>	<b>26</b>	<b>9</b>	<b>35</b>

2013	Pension obligation	Long term incentive	Total
<b>Carrying value at beginning of year</b>	<b>9</b>	<b>44</b>	<b>54</b>
Provisions made during the year	1	3	4
Provisions used during the year	0	-14	-15
Provisions reversed during the year and changes in estimates	1	-13	-12
<b>Carrying value at end of year</b>	<b>11</b>	<b>20</b>	<b>31</b>

### Pension obligation

Pension obligation pertains to provision recognized for special income taxes on pension obligations secured in endowment insurances and a pension obligation for a pension trust for ex-employees in the divested Swedish Match UK. Payments relating to the pension obligations later than five years after balance sheet date are calculated to 11 MSEK.

### Long term incentive

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

## 17. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 1,444 MSEK (2,394).

## 18. Liabilities to Group companies

Liabilities due for payment later than five years after the balance sheet date amount to 0 MSEK (0).

## 19. Other liabilities

Other liabilities mainly consists of the change in fair value of the derivatives, due to increase or decrease of interest rates and currencies. Derivatives with maturity over five years after the balance sheet date amount to 77 MSEK (110).

## 20. Accrued expenses and deferred income

Accrued expenses and deferred income	2014	2013
Accrued interest expenses	135	201
Accrued incentives incl. social security charges	23	6
Accrued social security charges	4	4
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	3	3
<b>Carrying value at end of year</b>	<b>168</b>	<b>216</b>

## 21. Pledged assets and contingent liabilities/assets

### Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 50 MSEK (46).

Contingent liabilities	2014	2013
Guarantees on behalf of subsidiaries	48	46
Guarantees on behalf of associated companies	50	47
<b>Total</b>	<b>98</b>	<b>92</b>

### Contingent assets

As per December 31, 2014, the Parent company has a contingent asset relating to the sale of two parcel of lands adjacent to the old headquarter building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. For one of these parcels of land the approval was received in January 2013, and the Parent Company received an additional payment of 161 MSEK in the first half of 2013. There is a contingent additional purchase price also for the second parcel of land. At this time it is not possible to provide a meaningful estimate of what this amount could be.

## 22. Supplementary information to cash flow statement

Interest paid and received and dividend received	2014	2013
Dividend received <sup>1)</sup>	705	1,933
Interest received, non-Group companies	-	0
Interest paid, non-Group companies	-523	-535
Interest received, Group companies	0	1
Interest paid, Group companies	-580	-655
<b>Total</b>	<b>-398</b>	<b>744</b>

<sup>1)</sup> Amount for 2013 excludes 694 MSEK which refers to dividends in kind.

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

Adjustments for non cash items and other	2014	2013
Depreciation and amortization	0	0
Impairment losses	-	1,072
Gain on sale of subsidiaries	-	-908
Dividend	-	-694
Change in accrued interest	-52	-20
Change in pension provision	14	-
Change in fair value revaluations	0	-1
Exchange rate differences	0	0
<b>Total</b>	<b>-38</b>	<b>-550</b>

## 23. Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies		Joint venture	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Dividends	705	2,627	-	-	-	-
Group contribution	1,944	2,074	-	-	-	-
Interest income	0	1	-	-	-	-
Sale of goods/services	47	41	2	1	-	1
<b>Expenses</b>						
Group contribution	-236	-513	-	-	-	-
Interest expenses	-580	-655	-	-	-	-
Purchase of goods/services	-19	-74	-	-	-	-
<b>Receivables</b>	<b>1,961</b>	<b>2,087</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>0</b>
<b>Liabilities</b>	<b>22,636</b>	<b>19,765</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent liabilities</b>	<b>48</b>	<b>46</b>	<b>50</b>	<b>47</b>	<b>-</b>	<b>-</b>

Transactions with related parties are determined at an arms-length basis. For remunerations to key management personnel, see *Note 5 Personnel* for the Group. In the normal course of business, the Parent company conducts various transactions with subsidiaries. For information about directly owned subsidiaries, see *Note 10 Group companies*.

## 24. Carrying value and fair value of financial instruments

The following table shows carrying value (including accrued interest) and fair value for each category of financial instruments at December 31, 2014. Items carried at fair value via the income statement consists of derivatives, for which hedge accounting is not applied. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. All other items, except loans and borrowings, have a short duration and are considered non-interest bearing, and therefore, the total carrying value of the financial instruments corresponds to the estimated fair value. The carrying amount for loans and borrowings differ from their fair value as a consequence of changes in the market interest rates. Swedish Match applies to IFRS 7 for financial instruments measured at fair value on the balance sheet whereby an entity

shall classify fair value measurement using a fair value hierarchy that reflects the significance of input used according to the following levels:

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

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

2014	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	-	-	-	305	-	305	305
Receivables on Group companies	-	1,961	-	-	-	1,961	1,961
Receivables on associated companies	-	1	-	-	-	1	1
Other receivables	-	-	-	-	4	4	4
Prepaid expenses and accrued income	-	-	-	-	6	6	6
<b>Total assets</b>	<b>-</b>	<b>1,962</b>	<b>-</b>	<b>305</b>	<b>10</b>	<b>2,277</b>	<b>2,277</b>
Loans and borrowings	-	-	8,940	-	-	8,940	9,601 <sup>1)</sup>
Liabilities to Group companies (non-current)	-	-	18,100	-	-	18,100	18,100
Other liabilities	-	-	-	234	4	238	238
Liabilities to Group companies (current)	-	-	4,536	-	-	4,536	4,536
Accrued expenses and deferred income	-	-	117	19	32	168	168
Trade payables	-	-	11	-	-	11	11
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>31,704</b>	<b>253</b>	<b>36</b>	<b>31,993</b>	<b>32,654</b>
2013	Items carried at fair value via the income statement	Loans and receivables	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	2	-	-	54	44	100	100
Receivables on Group companies	-	2,087	-	-	-	2,087	2,087
Receivables on associated companies	-	1	-	-	-	1	1
Other receivables	8	-	-	-	7	15	15
Prepaid expenses and accrued income	14	-	-	-	11	25	25
<b>Total assets</b>	<b>24</b>	<b>2,088</b>	<b>-</b>	<b>54</b>	<b>62</b>	<b>2,228</b>	<b>2,228</b>
Loans and borrowings	-	-	10,339	-	-	10,339	10,926 <sup>1)</sup>
Liabilities to Group companies (non-current)	-	-	18,100	-	-	18,100	18,100
Other liabilities	-	-	-	326	4	347	347
Liabilities to Group companies (current)	17	-	1,665	-	-	1,665	1,665
Accrued expenses and deferred income	-	-	173	28	15	216	216
Trade payables	-	-	7	-	-	7	7
<b>Total liabilities</b>	<b>17</b>	<b>-</b>	<b>30,284</b>	<b>354</b>	<b>19</b>	<b>30,674</b>	<b>31,261</b>

<sup>1)</sup> The estimated fair value, which is classified as level 2 according to the fair value hierarchy, is the revaluation of the loans and borrowings based on the market rates from banks for December 31, 2014 and 2013.

## 25. Derivatives under netting agreements

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

### Financial instruments under master netting agreements

2014	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	283	0	283	-188	95
Derivatives – Liabilities	188	0	188	-188	0

2013	Gross amount for financial instruments	Amount netted in the balance sheet	Net amount in the balance sheet	Amounts of financial instruments not netted in the balance sheet, but subject to netting agreement	Net
Derivatives – Assets	59	0	59	-44	15
Derivatives – Liabilities	307	0	307	-44	263

## 26. Employee benefits

### Post-employment employee benefits

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

As per December 31, 2014 the Swedish pension trust arrangement show a net surplus while the pension plan for employees in the UK shows a deficit.

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

Defined benefit pension plans	2014	2013
Present value of funded obligations	883	731
Fair value of separately held assets	-947	-821
<b>Surplus, net</b>	<b>-63</b>	<b>-90</b>
Net surplus in pension trust not recognized in balance sheet	78	90
<b>Net pension liability recognized in the balance sheet</b>	<b>14</b>	<b>-</b>

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

Net pension liability	2014	2013
<b>Balance at beginning of year</b>	<b>-</b>	<b>-</b>
Benefits paid	10	10
Contribution received from pension trust	-10	-10
Change in pension provision	14	-
<b>Balance at end of year</b>	<b>14</b>	<b>-</b>

78 MSEK (80) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Defined benefit pension plans	2014	2013
Difference between contribution received from pension trust and benefits paid	-1	0
Interest cost on obligation	-31	-25
Actual return on separately held assets	78	63
Change in pension provision	-14	-
<b>Net income/expense for pension</b>	<b>33</b>	<b>38</b>
<b>Pensions covered by insurance premiums:</b>		
Costs for pension insurance premiums recognized in income statement	-13	-13
Increase in surplus in pension trust	-48	-38
<b>Net pension costs recognized in income statement attributable to pension</b>	<b>-28</b>	<b>-13</b>

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

The actual return on separately held assets expressed in percentage is 9.5 percent (8 percent).

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

Separately held assets	2014	2013
Debt instruments	110	153
Equity securities	22	36
Other <sup>1)</sup>	815	632
<b>Total</b>	<b>947</b>	<b>821</b>

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

### Significant actuarial assumptions at the balance sheet date

The obligations are calculated based on a weighted average discount rate of 3.2 percent (4.1 percent).

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

## Proposed distribution of earnings

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

Retained earnings including Hedge reserve	SEK	19,468,024,075
Profit for the year	SEK	988,772,833
	<b>SEK</b>	<b>20,456,796,908</b>

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

To the shareholders, a dividend of 7.50 SEK per share based on 195,677,067 shares outstanding at the end of 2014	SEK	1,467,578,003
Retained earnings to be carried forward	SEK	18,989,218,906
	<b>SEK</b>	<b>20,456,796,908</b>

The income statements and balance sheets will be presented to the Annual General Meeting on April 23, 2015 for adoption. The Board of Directors also proposes April 27, 2015 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 17, 2015

Conny Karlsson  
Chairman of the Board

Andrew Cripps  
Deputy Chairman

Kenneth Ek  
Board member

Patrik Engelbrektsson  
Board member

Karen Guerra  
Board member

Eva Larsson  
Board member

Wenche Rolfsen  
Board member

Robert Sharpe  
Board member

Meg Tivéus  
Board member

Joakim Westh  
Board member

Lars Dahlgren  
President and CEO

Our auditor's report was submitted on March 6, 2015

KPMG AB

Cronie Wallquist  
Authorized Public Accountant

# Auditor's report

To the annual meeting of the shareholders of Swedish Match AB (publ)  
Corporate identity number 556015-0756

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Swedish Match AB (publ) for the year 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 45–93.

### *Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts*

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with Annual Accounts Act.

The consolidated accounts have been prepared in accordance with the Annual Account Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard, as adopted by the EU, and the Annual Accounts Act. The Board of Directors' report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Swedish Match AB (publ) for the year 2014.

### *Responsibilities of the Board of Directors and the President*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

### *Auditor's responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### *Opinions*

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the Board of Directors' report and that the members of the Board of Directors and the President are discharged from liability for the financial year.

Stockholm, March 6, 2015

KPMG AB

Cronie Wallquist  
Authorized Public Accountant

## CORPORATE GOVERNANCE

# Governance report

**Swedish Match AB (publ) is a public Swedish limited liability company listed on 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.**

Swedish Match is subject to a variety of rules that affect its governance, including the Company's Articles of Association, the Swedish Companies Act, the Rule Book for Issuers on NASDAQ OMX Stockholm, the Swedish Code of Corporate Governance, and other applicable laws and regulations.

Internal regulations and standards that affect Swedish Match's corporate governance include the Company's Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO, the Group's Code of Conduct, and other policy documents issued within the Group. The Articles of Association are adopted by the General Meeting of shareholders.<sup>1)</sup> They do not contain any limitations on the number of votes that a shareholder may cast at a General Meeting or any specific provisions concerning the appointment and dismissal of directors or regarding amendments of the Articles of Association.

Swedish Match applies the Swedish Code of Corporate Governance (the "Code").<sup>2)</sup> The Code is based on the "comply or explain" principle, meaning that a company that applies the Code may deviate from regulations of the Code, but must provide explanations for each deviation. The Company is not reporting any deviations from the Code for 2014, except with regard to the Code's regulation that auditors are to review

the Company's half year or nine month report. The reason for this deviation is that the Board of Directors, with reference to the Company's stable operations, is of the opinion that the extra cost that would be incurred by such a review is not warranted and that sufficient control is achieved through the Company's internal reporting and control systems. This Corporate Governance report has been examined by the Company's auditors but does not represent part of the formal annual report.

## Shareholding

The share capital of Swedish Match was 389,515,417.20 SEK distributed on 200,500,000 shares at the end of 2014. Each share carries one vote. The Swedish Match share is listed on NASDAQ OMX Stockholm. No shareholder has a shareholding in the Company representing one tenth or more of the votes of all shares of the Company. Further information concerning Swedish Match's ownership structure and share performance is presented on pages 36–39.

## Annual General Meeting 2015

Swedish Match's 2015 Annual General Meeting will be held on April 23, in Stockholm. All shareholders who have been entered in the share register and have informed the Company of their attendance within the correct time limit stated in the notice are entitled to participate personally or by proxy at the General Meeting and to vote according to the number of shares held. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the Company's website. Information that notice to a General Meeting has been issued, is published in Svenska Dagbladet, a daily national newspaper.

Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the meeting.<sup>3)</sup>

Shareholders may submit proposals to the Company's Nominating Committee at any time, however, no later than two months prior to the Annual General Meeting, so that the Committee can consider proposals received with due care.

## Nominating Committee for the Annual General Meeting 2015

The Nominating Committee for the Annual General Meeting in 2015 was announced on the Company's website on October 24, 2014 in connection with publishing the interim report for the third quarter. In addition to the Chairman of the Board of Swedish Match, Conny Karlsson, the Nominating Committee consists of the following members: Mark Husson (Cedar Rock Capital), Karim Ladha (Independent Franchise Partners), Adam Nyström (Didner & Gerge Funds), and William von Mueffling (Cantilion Capital Management). Adam Nyström serves as Chairman of the Nominating Committee.

## Proposals to the Nominating Committee are to be submitted to:

Swedish Match AB  
The Nominating Committee  
c/o General Counsel Marie-Louise Heiman  
SE-118 85 Stockholm, Sweden  
E-mail:  
nominating.committee@swedishmatch.com

<sup>1)</sup> Available on the Swedish Match's website [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

<sup>2)</sup> Available on the Swedish Corporate Governance Board's website [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

<sup>3)</sup> More information is available on Swedish Match's website [www.swedishmatch.com/agma](http://www.swedishmatch.com/agma).

# GOVERNANCE OF THE SWEDISH MATCH GROUP

## External auditors

The auditors are elected by the Annual General Meeting (AGM) for a term of one year. According to the Articles of Association, the number of authorized public auditors must be one or two with a maximum of one or two deputy auditors or one or two auditing firms.

The duties of the external auditors include auditing the management of the Board and the President as well as the Company's annual accounts and accounting records. The external auditors report continuously to the Board's Audit Committee and, in conjunction with preparation of the annual accounts, they also report their observations from the audit to the Board.

## General Meeting

The General Meeting constitutes the highest governing body in a limited liability company, and shareholders' rights to participate in resolutions regarding the Company's affairs are exercised at General Meetings. The Company's shareholders are informed of their legal rights to have issues addressed at General Meetings through the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm). There are no special provisions on how the General Meeting works in the Articles of Association or, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved by a qualified majority.

## Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The Committee is also to review and monitor the impartiality and independence of the auditors and to assist the Nominating Committee in preparing proposals underlying the General Meeting's resolution regarding election of auditors and auditors' fees. It also keeps itself informed regarding the audit of the annual report and consolidated accounts. In conjunction with the Audit Committee's review of the financial reporting, the members of the Committee also discuss accounting issues relating to the Company's financial reporting. The Committee also establishes guidelines by which services other than auditing may be secured from the Company's auditors. The Audit Committee also discusses other important issues relating to the Company's financial reporting and reports its observations to the Board.

In consultation with committee members, the Chairman of the Audit Committee is to decide where and how frequently the Committee is to meet.\*

## The Board of Directors

The Board of Directors is the Company's highest administrative body under the General Meeting. The Board of Directors is responsible for ensuring that the Group's organization is appropriate for its purpose and conducts ongoing evaluations of the financial position of the Company, of management guidelines and of the investment of company funds. The Board also safeguards the Company's financial accounting, internal controls and the quality of its financial reporting through the internal control system described in detail in the section entitled Risk management and internal control over financial reporting. The Board is primarily responsible for establishing Swedish Match's strategic and financial Long Range Plan, monitoring the performance of the operations on an ongoing basis, reviewing and approving the financial accounts, and taking decisions regarding investments and divestments.

## Disclosure Committee

The President has appointed a Disclosure Committee whose primary responsibility is to ensure that all external reporting, including interim reports, annual reports, and press releases, whose content could have an impact on the share price or that contains financial information, is prepared in accordance with the Group's prevailing procedures routines.

## President and CEO

The President is appointed by the Board of Directors and manages the Company's operations within the framework of rules established by the Board.

With regard to the Board of directors, the President's duties include responsibility for ensuring that the Board of Directors receives objective, comprehensive, and relevant information prior to Board meetings, thus enabling the Board to

SCANDINAVIA  
DIVISION

US DIVISION

LIGHTS  
LATIN AMERICA

The AGM must be held within six months of the close of the fiscal year. At the AGM, resolutions are adopted concerning such matters as dividend, approval of the annual report, discharge of the Board of Directors and the President from personal liability, election and compensation of the Chairman and members of the Board of Directors and, auditors, guidelines for determination of compensation payable to senior executives, and other matters of importance to the Company.

### Nominating Committee

The Nominating Committee is established according to the principles resolved by the AGM. The AGM also resolves on instructions for the Nominating Committee and according to the instructions the Nominating Committee shall submit to the AGM proposals regarding any changes to these instructions. The Nominating Committee's duties are to prepare and submit proposals to the AGM concerning the election of the Chairman of the AGM, the election of the Chairman and other members of the Board, the amount of Board fees and their apportionment between the Chairman of the Board and other Board members and any fees for committee work, as well as the election of and fees to be paid to the auditors.

In the autumn of each year, the Board of Directors commissions an external consultant to evaluate the performance and functioning of the Board's work. The Chairman of the Board informs the Nominating Committee about the outcome of the evaluation. This evaluation gives the Nominating Committee a basis from which to assess the competence and experience of the Board members and requirements for the future. The Nominating Committee is to meet as often as necessary to discharge its duties, but at least once per year.

The Board of Directors appoints and issues instructions for the President and monitors the President's work.

The working procedures for the Board of Directors are established annually at the statutory Board meeting. The working procedures include instructions relating to the role of the Chairman of the Board, the division of responsibilities between the Board of Directors and the President and the guidelines for financial reporting to the Board.

The Chairman of the Board is responsible for organizing and directing the Board's work and ensuring that the Board fulfills its obligations. The Chairman's other responsibilities include forwarding the owners' opinions to the Board of Directors.

### Compensation Committee

The Compensation Committee is appointed annually by the Board of Directors and is a body within the Board. The Committee's duties are to prepare and submit to the Board proposals for resolutions relating to remuneration and other terms of employment for the Company's President, principles regarding remuneration to senior executives, which the Board will present to the AGM for a resolution and other remuneration and employment term matters which by law or other regulations, the Swedish Code of Corporate Governance or established practice shall be resolved by the General Meeting or the Board of Directors.

The Board of Directors has delegated decision-making authority to the Compensation Committee in certain issues such as calculation and payment of variable salary to the Company's President, salary and other compensation that, within the framework of the guidelines resolved by the AGM, is to be paid to members of the Group Management Team other than the President, including performance criteria, and targets in any long term incentive plan and approval of significant engagements outside the Company with respect to members of the Group Management Team other than the President.

The Committee is to meet as often as necessary but at least twice annually.\*

reach well-founded decisions. The President also submits proposals for decisions by the Board. On a monthly basis, the President provides Board members with the information required to monitor the position, liquidity and development of the Group, while also providing the Chairman with ongoing information regarding the operations of the Group.

\* Further information regarding for example the committee's respective responsibilities and authorizations, the Company's system of variable remuneration to senior executives as well as minutes from shareholders' meetings, is to be found on the Company's website, [www.swedishmatch.com/governance](http://www.swedishmatch.com/governance).

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# GOVERNANCE OF THE SWEDISH MATCH GROUP 2014

## ANNUAL GENERAL MEETING 2014

In 2014 the Annual General Meeting was held on May 7. The minutes of the meeting are available on the Company's website [www.swedishmatch.com/agm](http://www.swedishmatch.com/agm).

The Annual General Meeting 2014 passed the following resolution, amongst others:

- Payment of cash dividend of 7.30 SEK per share for the 2013 fiscal year.
- Re-election of Andrew Cripps, Karen Guerra, Wenche Rolfsen, Conny Karlsson, Robert Sharpe, Meg Tivéus, and Joakim Westh as Board members. Re-election of Conny Karlsson and Andrew Cripps as Chairman of the Board and deputy Chairman of the Board, respectively.
- The Chairman shall receive 1,750,000 SEK, the deputy Chairman shall receive 830,000 SEK and the other Board Members elected by the Meeting shall each receive 700,000 SEK. Furthermore, as compensation for committee work carried out, it was decided to allocate 250,000 SEK to the Chairmen of the Compensation Committee and the Audit Committee respectively and 125,000 SEK respectively to the other members of these committees.
- Withdrawal of 1,500,000 shares in the Company.
- Authorization of the Board of Directors to acquire, on one or more occasions prior to the next Annual General Meeting, a maximum of as many shares as may be acquired without the Company's holding at any time exceeding 10 percent of all shares in the Company.
- Principles for determining the salary and other remuneration of the President and other members of the Company's management.
- Adoption of income statements and balance sheets for 2013 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.

For information on the utilization of the authorization granted by the General Meeting to the Board of Directors to acquire treasury shares, see the *Report of the Board of Directors*, page 45.

## Nominating Committee

Pursuant to instructions established by the Annual General Meeting 2011, the Nominating Committee is, until further notice, to include the Chairman of the Board of Directors and one representative of each of the four largest shareholders who wish to appoint a representative to the Nominating Committee. The four largest shareholders are to be identified on the basis of the known numbers of votes on August 31, the year before the forthcoming Annual General Meeting.

### *Nominating Committee for the Annual General Meeting 2014*

The Nominating Committee for the Annual General Meeting in 2014 comprised the following five members: Andy Brown (Cedar Rock Capital), William Lock (Morgan Stanley Investment Management), Björn Lind (AMF & AMF Funds), William von Muefling (Cantillon Capital Management) as well as the Chairman of the Board of Swedish Match Conny Karlsson. Andy Brown served as Chairman of the Nominating Committee. The Nominating Committee held three meetings during the period between the 2013 and 2014 Annual General Meetings combined with informal contacts and discussions among the members. A report on the work of the Nominating Committee was presented to the Annual General Meeting 2014.

## Board of Directors

### *Composition*

According to the Articles of Association, the Company's Board of Directors shall consist of at least five and at most ten directors, apart from those persons who, pursuant to law, may be appointed according to other arrangements. At the end of 2014, the Swedish Match Board of Directors comprised seven members elected by the General Meeting plus three employee representatives and their three deputies in accordance with the Trade Union Representatives (Status at the Workplace) Act.

During the year, the Board of Directors consisted of the following directors elected by the General Meeting 2014: Conny Karlsson, Andrew Cripps, Karen Guerra, Wenche Rolfsen, Robert Sharpe, Meg Tivéus, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were Kenneth Ek, Eva Larsson, and Patrik Engelbrektsson with Eva Norlén-Moritz, Gert-Inge Rang, and Joakim Andersson as deputies. Detailed information about individual Board members and deputies is provided on pages 102–103.

### *Independence of Board members*

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

## Meetings

The Board of Directors convenes for six scheduled meetings and one statutory meeting per year. In addition to the scheduled Board meetings, the Board is summoned to additional meetings convened at the discretion of any director or of the President. The auditors participate in the Board meeting at which the annual accounts for the fiscal year are presented in order to communicate their observations from the audit. The auditors also meet with the Board without the presence of the President or any other member of the Group Management Team.

### *Evaluation of the work of the Board of Directors*

During autumn 2014, 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.

### *Compensation to the Board of Directors*

Compensation to the Board for the period from the 2014 Annual General Meeting up to and including the 2015 Annual General Meeting was paid in accordance with the resolution adopted by the 2014 Annual General Meeting. No compensation for directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2014, see *Note 5 Personnel*, page 62.

### Activities of the Board of Directors during 2014

During the period from January 1, 2014, until December 31, 2014, the Board held six scheduled meetings and one statutory meeting.

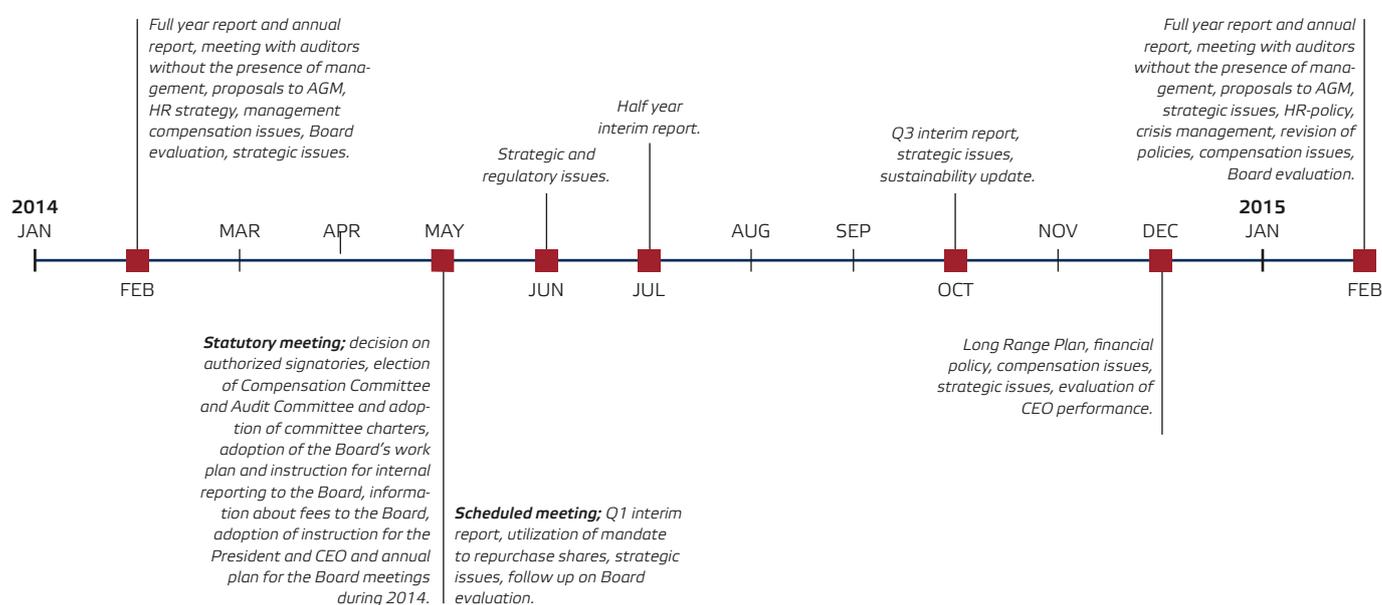
So far 2015, one scheduled Board meeting has been held.

At all the board meetings, with the exception of the statutory Board meeting, the Board received a general report from the CEO and discussed the activities and financial results of the company and the associated companies and joint ventures, as well as other pertinent projects and matters.

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 2014 to present the audit report and observations from the audit. At the Board meeting in June, which was held in Washington DC, the US, the Board focused on strategic and regulatory issues on the US market and on the Modified Risk Tobacco Product application to the US Food and Drug Administration for certain of the Company's *General snus* products.

### Audit Committee

In 2014, the members were Meg Tivéus, (Chairman), Andrew Cripps, Wenche Rolfsen, and Joakim Westh. Throughout the year, the Chairman of the Audit Committee kept the Board of Directors regularly informed of the committee's work and decisions. The number of meetings in 2014 was five. The Company's auditor, as well as the head of the Internal Audit, participated in all of the meetings of the Audit Committee in 2014 and, at two of these meetings, also met with the Committee without the presence of the management of the Company.



Composition of the Board and attendance 2014	Board of Directors	Audit Committee	Compensation Committee	Independent <sup>1)</sup>	Compensation, SEK
<b>Total number of meetings</b>	<b>7</b>	<b>5</b>	<b>3</b>		
<b>Members elected by the General Meeting</b>					
Conny Karlsson (Chairman)	7		3	Yes	2,000,000
Andrew Cripps (Deputy Chairman)	7	5		Yes	955,000
Karen Guerra	6		2	Yes	825,000
Wenche Rolfsen	7	5		Yes	825,000
Robert Sharpe	7		3	Yes	825,000
Meg Tivéus	7	5		Yes	950,000
Joakim Westh	7	5		Yes	825,000
<b>Employee representatives</b>					
Kenneth Ek	5				
Eva Larsson	6				
Patrik Engelbrektsson	7				
<b>Employee representatives (deputies)</b>					
Joakim Andersson	7				
Eva Norlén-Moritz	6				
Gert-Inge Rang	7				

<sup>1)</sup> As defined in the Swedish Code of Corporate Governance.

### **Compensation Committee**

Members in 2014 were Conny Karlsson, (Chairman), Karen Guerra, and Robert Sharpe. The Company's President presents reports on certain issues, but is not a member of the Committee and is not present when the Committee prepares decisions regarding compensation to the President.

During the year, the Compensation Committee's Chairman kept the Board of Directors regularly informed about the Committee's work and decisions. The Committee is to meet as often as necessary but at least twice annually. Three meetings were held in 2014.

During 2014, the committee devoted special attention to determination of variable compensation for 2013 to be paid in 2014 and on targets relevant to variable compensation, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2015 and determination of salaries and variable compensation for other members of the Group Management Team for 2015. In addition, the Committee submitted a proposal to the Board concerning guidelines for the determination of salary and other remuneration paid to the President and other members of the Group Management Team.

### **Group Management Team**

In 2014, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Richard Flaherty, President US Division; Marlene Forsell, Senior Vice President and Chief Financial Officer; Fredrik Lagercrantz, Senior Vice President Business Control; Lars Olof Löfman, Chief Innovation Officer Scandinavia Division; Fredrik Peyron, Senior Vice President Corporate and Legal Affairs; and Joakim Tilly, President Scandinavia Division. Marie-Louise Heiman, Senior Vice President Legal Affairs, assumed this position as per January 1, 2015, replacing Fredrik Peyron, who left the Company on December 31, 2014.

Detailed information about the President and Chief Executive Officer Lars Dahlgren is provided on page 104. Lars Dahlgren has no major shareholdings, nor is he a part owner in companies having significant business relations with Swedish Match.

### **Compensation to the Group Management Team**

The 2014 Annual General Meeting established certain guidelines for determining salary and other compensation to the President and other members of the Group

Management Team. For information on the guidelines established at the Annual General Meeting, see *Note 5 Personnel*, page 62. For information concerning compensation and other benefits to the Group Management Team and the Company's option programs, see *Note 5 Personnel*, page 62.

### **Audit and auditors**

The accounting firm KPMG AB was elected by the General Meeting as the Company's external auditors for the period from 2014 up to and including the Annual General Meeting in 2015. During 2014, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax advice and testing of IT controls.

Cronie Wallquist, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2014, see *Note 6 Audit fees*, page 66.

### **Disclosure Committee**

Members of the Disclosure Committee during 2014 were the heads of Business Control, Investor Relations and Corporate Sustainability, Group Reporting and Tax, as well as Corporate and Legal Affairs.



*Swedish Match Annual General Meeting 2014.*

## 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 controls regarding financial reporting.

### **Control environment**

The foundation for internal control over financial reporting is the control environment that has been documented and communicated in governing documents. These include internal policies on business ethics, delegation of authority, related party transactions and fraud response. In addition, a set of policies and instructions for accounting and reporting, as well as for internal control and IT security, has been established. All policies are regularly updated and distributed through a system whereby 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 during which the Group values are reinforced.

### **Risk assessment**

The Group applies a risk assessment and a risk management method to ensure that the risks to which the Group is exposed are managed within the estab-

lished framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

### **Control activities**

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

### **Information and communication**

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow relating to business conditions and changes affecting financial reporting.

### **Monitoring**

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls. Internal Audit's work is based on risk-focused plans that are triggered by specific changes and events. The head of Internal Audit reports directly to the Chairman of the Audit Committee and to the CFO.

Financial accounts are provided on a monthly, quarterly and annual basis to the Group and operating unit management through a common reporting and consolidation system. Financial and operating management review the financial information to validate completeness and accuracy. The Board receives monthly reports, and the financial status of the Group is discussed at every scheduled Board meeting. The Disclosure Committee monitors the sufficiency of financial accounts with regard to disclosure requirements.

Stockholm, February 17, 2015

The Board of Directors of  
Swedish Match AB

## Auditors' report on 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 2014 on pages 95–101 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

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, March 6, 2015

KPMG AB  
Cronie Wallquist  
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 Cederroth AB, Euroflorist AB and Zeres Capital AB.

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

*Own and related parties' shares:* 30,000

Andrew Cripps



**ANDREW CRIPPS**

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

*Other board assignments:* Non Executive Director and Chairman of the Audit Committees of the Booker Group Plc, Stock Spirits Group Plc, and 2 Sisters Food Group.

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

*Own and related parties' shares:* 19,200

Wenche Rolfsen



**KAREN GUERRA**

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

*Other board assignments:* Non Executive Director of Amcor Ltd., of Davide Campari-Milano S.p.A and of Electrocomponents plc.

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

*Own and related parties' shares:* 5,250

Karen Guerra



**WENCHE ROLFSEN**

Born 1952. M.Sc. in Pharmacy and Ph.D. in Pharmacology Uppsala University. Board member since 2013. Member of the Audit Committee.

*Other board assignments:* Chairman of the Board of Index Pharmaceuticals; Vice Chairman of Moberg Pharma; Board member of Stiftelsen Industrifonden, Apotek Produktion & Laboratorier AB (APL), and Sarsia Seed.

*Previous positions:* Vice President; Director of Quintiles Phase I, Europe; CEO, Quintiles, Scandinavia; Director, Quintiles, Sweden; Managing Director of Pharmacology, Pharmacia Upjohn; Head of Pharmacology, Pharmacia Ophthalmics; Head of Pharmacology, Pharmacia Läkemedel.

*Own and related parties' shares:* 3,180

Robert Sharpe



**ROBERT SHARPE**

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

*Other board assignments:* Presiding Director of Ameriprise Financial Inc.

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

*Own and related parties' shares:* 11,200

[www.swedishmatch.com](http://www.swedishmatch.com) 

For updated information on Board members and their shareholdings and options, please refer to the Company's website.

Holdings of own and related parties shares as of December 31, 2014. For a detailed report of remuneration and benefits for the Board of Directors, refer to Note 5 Personnel.



Meg Tivéus

**MEG TIVÉUS**

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

*Other board assignments:* Chairman of Folk tandvården Stockholm AB, Arkitektkopia AB, Björn Axén AB and Solhagagruppen AB. Board member of Endomines AB.

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

*Own and related parties' shares:* 5,200



Joakim Westh

**JOAKIM WESTH**

Born 1961. M.Sc. Royal Institute of Technology and M.Sc. Aeronautics and Astronautics MIT. Board member since 2011. Member of the Audit Committee.

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

*Own and related parties' shares:* 2,500



Cronie Wallquist

**AUDITORS**

**KPMG AB** Lead Auditor: Cronie Wallquist. Born 1958. Authorized Public Accountant. Swedish Match auditor since 2012. Cronie Wallquist's other auditing assignments include Pream, CDON Group, AstraZeneca and Svenska Petroleum Exploration.

**Independence of Board members**

According to the Nominating Committee, all of the Board members elected by the Annual General Meeting are considered to be independent, under the rules of the Swedish Code of Corporate Governance, in relation to the Company's major shareholders and in relation to management and the Company.

**Changes in the Board of Directors**

There were no changes in the Board of Directors during 2014.

**Secretary to the Board of Directors**

Marie-Louise Heiman, Senior Vice President Legal Affairs and General Counsel, assumed this position as per January 1, 2015, replacing Fredrik Peyron, who left the Company on December 31, 2014.

**EMPLOYEE REPRESENTATIVES**

Eva Larsson

Patrik Engelbrektsson

Kenneth Ek

**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 factories in Gothenburg and Kungälv, Sweden. Works with strategic technical projects at Swedish Match's snus factories in Gothenburg and Kungälv.

*Previous positions:* Technical Manager, Electrical Manager, and Electrician, at Swedish Match's snus factory in Gothenburg.

*Own and related parties' shares:* 0

**PATRIK ENGELBREKTSSON**

Born 1965. Board member since 2013 (deputy during 2012). Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Trade Union at the snus factory in Gothenburg, Sweden. Forklift driver at the Gothenburg factory.

*Previous positions:* Mill worker, Machine Operator, Forklift driver at the Gothenburg snus factory.

*Own and related parties' shares:* 0

**EVA LARSSON**

Born 1958. Board member since 1999. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match Industries. Chairman of the Trade Union Association at the match factory in Tidaholm, Sweden. Insurance Manager for insurance policies of persons employed under collective agreements at the Swedish Match's match factory in Tidaholm, Sweden.

*Previous positions:* Line Operator at Swedish Match's match factory in Tidaholm.

*Own and related parties' shares:* 0

**EMPLOYEE REPRESENTATIVES (DEPUTIES)**

Eva Norlén-Moritz

Gert-Inge Rang

Joakim Andersson

**JOAKIM ANDERSSON**

Born 1970. Deputy member since 2013. Appointed by the Swedish Trade Union Confederation (LO) within Swedish Match. Chairman of the Swedish Food Workers' Trade Union Association (Livs) at SMD Logistics in Solna, Sweden. Module technician at the SMD Logistics in Solna.

*Previous positions:* Module Technician, Swedish Match Distribution in Solna, Sweden.

*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 Scandinavia Division in Stockholm, Sweden.

*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 Industries. Production Supervisor at Swedish Match's match factory in Vetlanda, Sweden.

*Previous positions:* Supervisor, Swedish Match's match factory in Vetlanda.

*Own and related parties' shares:* 1,000

# Group Management



Lars Dahlgren

## LARS DAHLGREN

President and Chief Executive Officer, Swedish Match since 2008. Joined Swedish Match in 1996. Member of the Group Management Team since 2004. Born 1970. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden. *Previous positions:* Senior Vice President and Chief Financial Officer, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Finance Director, Swedish Match Philippines; Financial analyst, SBC Warburg. *Own and related parties' shares:* 36,900 *Call options:* 0



Marie-Louise Heiman

## MARIE-LOUISE HEIMAN

Senior Vice President, Legal Affairs and General Counsel, Swedish Match since 2015. Joined Swedish Match in 1996. Member of the Group Management Team and Secretary to the Board since 2015. Born 1965. Master of Laws, LL M, Uppsala University, Sweden. *Previous positions:* Vice President Legal Affairs, Swedish Match AB; General Counsel Swedish Match North Europe AB; Legal Counsel, AB Fortos, BCP Branded Consumer Products AB and Procordia AB. *Own and related parties' shares:* 1,165 *Call options:* 5,403



Richard Flaherty

## RICHARD FLAHERTY

President, US Division, Swedish Match since 2009. Joined Swedish Match in 2000. Member of the Group Management Team since 2008. Born 1958. B.A. Economics, J.D. Law Rutgers University, and LL.M. Taxation New York University, USA. *Previous positions:* Chief Operating Officer, Swedish Match North America Division OTP; Chief Financial Officer, Swedish Match North America Division; Chief Financial Officer, Bumble Bee Seafoods; Commercial Director, Unilever. *Own and related parties' shares:* 18,125 *Call options:* 0



Marlene Forsell

## MARLENE FORSELL

Senior Vice President and Chief Financial Officer, Swedish Match since 2013. Joined Swedish Match in 2004. Member of the Group Management Team since 2013. Born 1976. M.Sc. in Business and Economics from the Stockholm School of Economics, Sweden. *Previous positions:* Vice President Group Reporting, Swedish Match AB; Vice President Business Control, Swedish Match Smokefree Division; Vice President Corporate Control, Swedish Match AB; Analyst, Ernst & Young. *Own and related parties' shares:* 1,300 *Call options:* 0



Fredrik Lagercrantz

**FREDRIK LAGERCRANTZ**

Senior Vice President, Business Control, Swedish Match since 2013. Joined Swedish Match in 2009. Member of the Group Management Team since 2013. Born 1977. M. Sc. in Business and Economics from the Stockholm School of Economics, Sweden.

*Previous positions:* Vice President Group Business Control, Swedish Match; Management Consultant, McKinsey & Co.

*Own and related parties' shares:* 1,595

*Call options:* 0



Lars Olof Löfman

**LARS OLOF LÖFMAN**

Chief Innovation Officer, Scandinavia Division, Swedish Match since 2013. Joined Swedish Match in 1987. Member of the Group Management Team since 2004. Born 1956. M.Sc. in Engineering and Controller DIHM, Sweden.

*Previous positions:* Senior Vice President Product Supply and Marketing, Swedish Match Scandinavia Division; President, Swedish Match Smokefree Products Division; President, Swedish Match Distribution AB; President, Swedish Match North Europe Division; Vice President Production & Development, Swedish Match North Europe Division; Vice President Operations, Swedish Match Snuff Division; Plant and Production Manager, Swedish Match North Europe Division.

*Own and related parties' shares:* 10,689

*Call options:* 0



Joakim Tilly

**JOAKIM TILLY**

President, Scandinavia Division, Swedish Match since 2013. 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, Sweden.

*Previous positions:* Senior Vice President, Group Finance and IT, and Chief Financial Officer, Swedish Match AB; Senior Vice President Group Finance, Swedish Match AB; Vice President Group Finance, Swedish Match AB; Chief Executive Officer and Chief Financial Officer, Netgiro International; Chief Financial Officer, Swedish Match Lighter Division.

*Own and related parties' shares:* 8,240

*Call options:* 0

**Changes in the Group Management Team**

Marie-Louise Heiman was appointed Senior Vice President Legal Affairs and General Counsel as of January 1, 2015, succeeding Fredrik Peyron who left the Company.

Holdings of own and related parties shares and call options as of December 31, 2014. For a detailed report of remuneration and benefits for senior executives, refer to Note 5 Personnel.

[www.swedishmatch.com](http://www.swedishmatch.com)



For updated information on members of the Group Management Team and their shareholdings and call options, refer to the Company's website.

# Swedish Match's vision is a world without cigarettes.

*We create shareholder value  
by offering tobacco consumers enjoyable products  
of superior quality in a responsible way.  
By providing products that are recognized as safer  
alternatives to cigarettes, we can contribute  
significantly to improved public health.*



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