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SWEDISH MATCH®

2013 Annual Report

Innovation
and tradition



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The formal audited part of this document is on the pages 44–94.

HIGHLIGHTS 2013

SALES

12,610 MSEK

OPERATING PROFIT¹⁾

3,375 MSEK

¹⁾ By product area, excluding share of net profit in STG and larger one-time items.

EARNINGS PER SHARE, BASIC

13.63 SEK

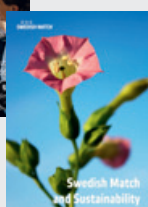
EMPLOYEES

4,382

FOR MORE INFORMATION



Swedish Match Annual Report 2013 is also available as downloadable pdf file at www.swedishmatch.com/annual-reports



Swedish Match will also publish the Sustainability Report 2013, available on the website from mid 2014. 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

SWEDISH MATCH IN BRIEF

THE COMPANY

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

Well known brands include *General* snus, *Longhorn* moist snuff, *White Owl* cigars, *Red Man* chewing tobacco, *Fiat Lux* matches, and *Cricket* lighters.

The Group sells products across the globe, with production units in six countries. The largest markets are in Scandinavia, the US, and Brazil. 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 2013 amounted to 12,610 MSEK and the average number of employees was 4,382.

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

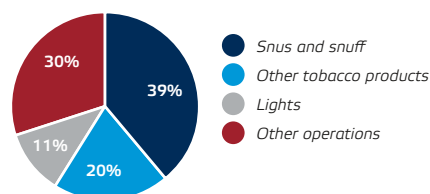
Key data, MSEK	2013	2012	2011
Sales	12,610	12,486	11,666
Operating profit from product areas ¹⁾	3,375	3,666	3,365
Operating profit ²⁾	3,855	4,062	3,702
Operating margin from product areas, % ¹⁾	26.8	29.4	28.8
Operating margin, % ²⁾	29.3	32.3	31.7
EBITDA from product areas ¹⁾	3,650	3,962	3,655
EBITDA ²⁾	3,968	4,328	3,992
Profit for the year	2,711	2,907	2,538
Earnings per share, basic, excluding larger one-time items, SEK	12.82	14.18	12.14
Earnings per share, basic, SEK	13.63	14.33	12.14
Dividend per share, SEK	7.30 ³⁾	7.30	6.50

¹⁾ Excluding share of net profit in STG and larger one-time items.

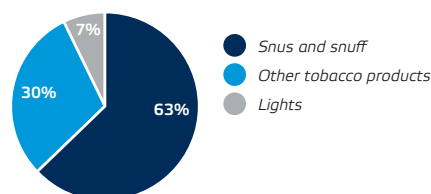
²⁾ Including share of net profit in STG and larger one-time items.

³⁾ Board proposal.

SALES BY PRODUCT AREA



OPERATING PROFIT BY PRODUCT AREA¹⁾



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

Swedish Match organization

PRESIDENT & CEO

CORPORATE FUNCTIONS

Group Finance

Group Business Control

Corporate & Legal Affairs

Investor Relations & Corporate Sustainability

OPERATING UNITS

Strategic partnerships / associated companies

SCANDINAVIA DIVISION

US DIVISION

LIGHTS LATIN AMERICA

LIGHTS INTERNATIONAL

SWEDISH MATCH DISTRIBUTION AB

SMPM INTERNATIONAL 50%

STG 49%

OPERATING LOCATIONS

Swedish Match has operations in nine countries, six of which have manufacturing facilities.

The Swedish Match head office, where the CEO and Corporate functions are based, is located in Stockholm, Sweden. The average number of employees during the year was 4,382.

4,382 employees

USA

Production units
Sales offices
~ 1,100 employees

The Dominican Republic

Production unit
~ 900 employees

Brazil

Production units
Sales offices
~ 700 employees

Belgium

Treasury and Public
Affairs offices
~ 5 employees

The Netherlands

Production unit
~ 100 employees

Norway

Sales offices
~ 50 employees

Sweden

Head office
Production units
Sales offices
~ 1,000 employees

Turkey

Sales offices
~ 20 employees

The Philippines

Production unit
Sales offices
~ 300 employees



12 factories worldwide

GROUP VISION AND STRATEGY

Swedish Match's vision is to be the global smokefree leader.

The Company will continue to leverage the strengths of its operations and product areas to help to achieve that vision. With its strong platforms in Snus and snuff, Other tobacco products, and Lights, the Company is able to pool its talent and resources to explore new market opportunities, develop new product concepts, and expand its geographic footprint. Further support in achieving the vision comes from the Company's partnerships, such as the joint venture, SMPM International, and resources generated from the 49 percent ownership of Scandinavian Tobacco Group (STG).



>> Read more about Swedish Match's vision and strategy on page 8.

PRODUCT AREAS

Swedish Match operations include the product areas Snus and snuff, Other tobacco products (cigars and chewing tobacco) and Lights (matches and lighters). More than a third of total company sales and more than half of the operating profit come from the product area Snus and snuff.



SNUS AND SNUFF

OPERATING PROFIT

2,195 MSEK

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 develop 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.

OTHER TOBACCO PRODUCTS

OPERATING PROFIT

1,029 MSEK



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

>> Read more on page 15.

LIGHTS

OPERATING PROFIT

230 MSEK



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 a large number of countries. Production of matches takes place in Sweden and Brazil. Lighters are produced in the Philippines, the Netherlands, and Brazil.

>> Read more on page 18.

Product area	Main markets	Main brands
Snus and snuff	Sweden	<i>General, Göteborgs Rapé, Ettan, Grov, Catch, Kaliber, Kronan</i>
	Norway	<i>General, Nick and Johnny, The Lab</i>
	The US	<i>Longhorn, Timber Wolf, General</i>
Other tobacco products (cigars and chewing tobacco)	The US	Cigars: <i>White Owl, Garcia y Vega, Game by Garcia y Vega</i> Chewing tobacco: <i>Red Man, Southern Pride</i>
	Brazil	Matches: <i>Fiat Lux</i> Lighters: <i>Cricket</i>
Lights (matches and lighters)	Globally	Matches: <i>Solstickan</i> (Sweden), <i>Swan</i> (The UK), <i>Tres Estrellas</i> (Spain), <i>Feudor</i> (France), <i>Redheads</i> (Australia) Lighters: <i>Cricket</i>

Challenges and opportunities

Swedish Match is dedicated to providing outstanding service to our customers, high quality products to consumers, and as a market leader, continuously innovating and working to remain at the forefront of our industry.

Swedish Match continuously works to strengthen its competitive position and move forward, through innovation, competitive product offerings, and the highest levels of quality and customer service. During 2013 we addressed some challenges, and have the means to thrive in a continuously changing marketplace.

We have a clear and consistent vision and strategy enabling the company not only to be successful, but to strengthen and grow. Our company vision is to be the global smokefree leader, with a mission to responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits for our shareholders.

With regard to the competitive environment, there has been continued intense competition in the Scandinavian market, particularly in the low priced segment in Sweden. Snus takes up a large and growing share of the Swedish tobacco market, and makes up close to 60 percent of industry net sales of tobacco in Sweden (excluding tobacco tax). It is natural that big international cigarette companies see their businesses under threat and want to copy our success. It is more important than ever that we meet this challenge with determination and hard, consumer focused work and product quality as our motto. Competition remains intense in the US moist snuff market, and increased during the year for US cigars. While increased competition has

affected our financials, it triggers us to want to do things even better in the future, and we have taken several initiatives during the year that I firmly believe will create a stronger company longer term.

With regard to the regulatory environment, there were a number of notable events. The EU worked to complete a revision of the European tobacco products directive, and it appears that the ban on the sale of snus products within the EU will remain in place for the foreseeable future. We firmly believe that this was a wrong decision on the part of the EU from a public health standpoint. We believe that snus has an important role to play as a reduced harm alternative to cigarettes, and look forward to the day when this is officially recognized by governments and regulators. The FDA takes into account relative risk, and we look forward to submitting an application during 2014 for Swedish snus to be classified as a reduced harm alternative to cigarettes.

In Sweden, there was continued growth in the lowest price segment of the market in both overall volumes and as a share of the total market. The full priced segment demonstrated more stability in 2013 than in 2012, and, while its share of the total market declined, overall volumes declined only modestly. This stability was due to many factors, including the introduction of several new products as well as improved packaging. Examples of launches are General Tailored and Göteborgs Rapé Slim with NATU-FIBE[®], a natural fiber that enhances the snus experience, and that we are able to offer to consumers at an attractive price. We maintained our strong position in the full priced segment of the Swedish market, with a 95 percent volume share, and were also very active in the value segment.¹⁾ Over the past couple of years, market growth on the Swed-

ish market has been led by lower priced products. We will work hard to defend our overall market position, which also includes striving to increase our market share in the value segment.

In Norway, market growth remained strong. While the traditional loose snus segment has declined slightly, the growth has come from the pouch segment, driven by innovative offerings and new brand platforms. Norway has gone further than any other country in addressing the needs of both men and women with products that appeal to all adults. We will continue our focus in developing high quality products that enhance the snusing experience. Swedish Match shipment volumes were somewhat below the prior year, as a result of timing effects. Sales and operating profits for snus shipments to Norway were adversely affected by the weaker Norwegian krona versus the Swedish krona.

In the US, the *General* snus brand doubled its distribution during the course of the year, and was available in more than 21,000 retail outlets by year end. Already, with about one fourth of the distribution level of the largest competitor, we estimate that *General* snus has captured some 9 percent of total US snus category consumption volumes, triple the 2012 level. Substantial investments behind placement and awareness building activities will continue, and we look forward to the day when US snus becomes an important contributor to company profits. For our US moist snuff business, we saw continued growth for our *Longhorn* brand. The growth comes from our large container format, *Longhorn* tubs, which offer excellent consumer value, along with pouch products. Our pouch products under the *Timber Wolf* brand also grew over the year. The pouch

¹⁾ Swedish Match segments the Swedish snus markets into two price segments: the full price segment and the value segment. It then subsegments the value segment into the mid priced segment and the low priced segment.

segment is the fastest growing segment in the US moist snuff market, and our ambition is to further strengthen our position in this market segment. The movement toward pouch products mirrors the trend we have seen in Scandinavia with smokers more attracted by pouches along with existing users looking for more modern and convenient alternatives.

We also continued our test activities for 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, continued to deliver strong volumes, and for the second year, we shipped more than 1 billion cigars, under such well known brands as *White Owl* and *Garcia y Vega*. We also launched a new cigar value brand, *Jackpot*, to compete in the deep discount segment. During 2013 the US mass market category became much more price promotional, and Swedish Match adapted to this change. This affected both sales and profitability negatively, but we are now even better positioned in the ever changing marketplace. For chewing tobacco, despite continuing and long-standing market declines, we saw solid growth in operating profits. Swedish Match not only has the market leading brand *Red Man* at the premium end of the chewing tobacco market, but has also made significant inroads in a number of other areas, including its offering of larger size bags, which give consumers great value for their money.

Our Lights product area performed well, with further growth of our lighter business, offsetting weakness for our match business – in part due to currency fluctuations, but also due to somewhat higher production costs.

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. We look forward to good cash flows from our ownership of this company. While 2013 was a difficult year, STG has taken a number of actions, including important investments, to better position itself for growth in the years ahead.

At the establishment of STG the shareholders of the company entered into a shareholders agreement which includes a standstill agreement expiring on October 1, 2014. The shareholders have therefore now

retained an investment bank to evaluate the options in terms of future ownership structure for the company.

Swedish Match is committed to being a responsible tobacco company, and works continuously to improve on its social, environmental, and economic endeavors. One particular area where we devoted a great deal of attention in 2013 was 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.

Our financial performance during 2013 recorded growth in sales in local currencies, but decline in operating profits and earnings per share. Total company sales increased by

3 percent in local currencies, and by 1 percent in Swedish krona. Basic earnings per share for the year amounted to 13.63 SEK, versus 14.33 SEK in the previous year. For 2013 the proposed dividend is 7.30 SEK per share.

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

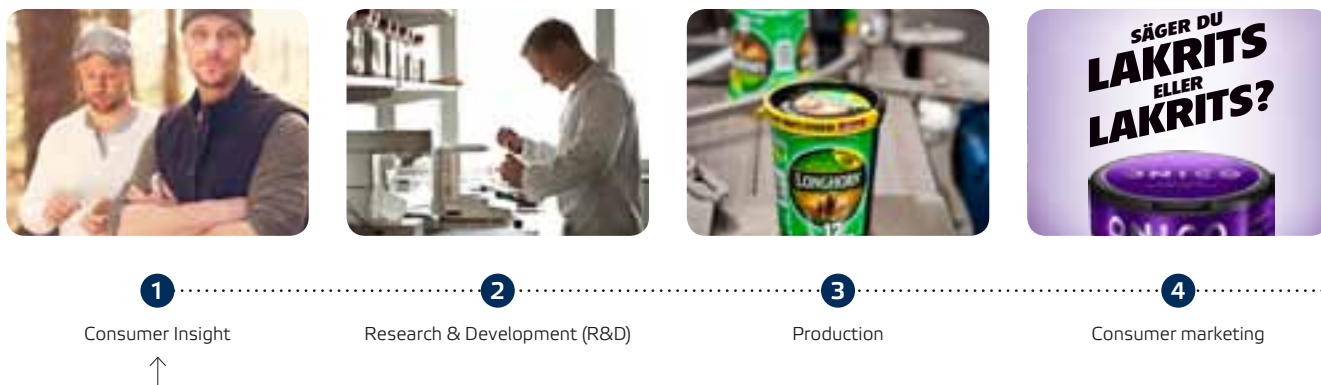
Stockholm, March, 2014

Lars Dahlgren, President and CEO



Delivering quality

THE VALUE CHAIN



1. Consumer Insight

As a branded consumer products company, Swedish Match must always listen to the consumers and work to address consumer needs. Consumers seek high quality with brands they trust, clear labeling, convenient packaging, and a price that fits the product. In order to strengthen Swedish Match as a consumer and knowledge driven company, the Company uses a structured consumer insight approach that leads to an increased understanding of brands, consumers, customers, trends, and competitors. With ongoing consumer engagement, Swedish Match better understands consumer desires and can work to deliver products that meet those desires. Consumer insight comes from many sources, but is most often generated by the various operating units by marketing departments, business development departments, and from customer and consumer engagement.

2. Research & Development (R&D)

When considering new or improved products, Swedish Match evaluates consumer needs while also considering a host of other factors. As part of the product development and innovation processes, it is essential to consider such factors as cost, ingredients and packaging, regulatory issues, time to market, the life cycle of the product, poten-

tial level of demand and volume, technological feasibility, and environmental impact. Both 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 in Sweden that not only work to develop new products, but also helps in monitoring and improving existing products in the ongoing effort to improve within the **GOTHIATEK®** standard¹⁾. R&D for smokeless tobacco products is handled by the Scandinavia Division, in facilities in both Sweden and the US. For lights products and cigars, R&D generally is conducted at the factory level.

3. Production

Production of snus takes place in Gothenburg and Kungälv, Sweden. Both loose and original portion-packed (pouch) snus products are manufactured in the Gothenburg factory. The Kungälv facility opened in 2003 and was expanded in 2009 and 2010. This state of the art unit specializes in portion-packed products utilizing the Swedish Match proprietary white-portion technology. Production of moist snuff and chewing tobacco takes place in Owensboro, Kentucky, the US. The Owensboro factory has a flexible production setup which

enables the Group to efficiently adapt to production changes. In addition to producing its own products, Swedish Match produces chewing tobacco for a third party (National Tobacco). Cigars for the US 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 Pirai 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 consumers, and has procedures to ensure that the Company meets requirements of all local laws, rules, and regulations with regard to marketing practices. Swedish Match products are marketed to adult consumers. The marketing departments 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/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.

¹⁾ For more information about **GOTHIATEK®**, see www.swedishmatch.com/GOTHIATEK/.

Organization

Swedish Match continuously works to have the right people, strategy, and structure in place in order to rapidly meet changing market conditions, with flexibility and innovation. The organization maintains an ongoing dialogue with customers, consumers, and the supply chain, in order to quickly and efficiently develop, produce, and deliver the products adult consumers can enjoy.

During 2013, a reorganization took place to integrate the former Smokefree Products Division into a new Scandinavia Division, bringing together production, product development, marketing and sales for snus in the Scandinavian market. For all smokeless tobacco products (snus, moist snuff, and chewing tobacco), supply chain management (including production and product development) is managed by the Scandinavia Division, with the US Division focused on local marketing and collaboration

with customers for its smokeless products. Snus products outside Scandinavia and the US are marketed and sold through SMPM International, a 50/50 joint venture between Swedish Match and Philip Morris International.

Marketing and supply chain management for cigars is handled by the US Division.

For matches and lighters, marketing and supply chain management is handled by the operating units Lights International and Lights Latin America.



5

Sales & Trade marketing



6

Distribution



7

Customer/Retailer



8

Consumer

5. Sales & Trade marketing

Sales & Trade marketing allows customers/retailers the opportunity to better understand the products offered by Swedish Match, which in turn allows customers/retailers to properly merchandise and sell the product to consumers. Through dialogue with Swedish Match employees, the customers/retailers are able to take advantage of the Company's category management tools in order to get the most appropriate product mix for their merchandising needs. Sales & Trade marketing is usually carried out at the local/national level.

6. Distribution

For the Swedish and Norwegian markets, Swedish Match's products are shipped through Swedish Match Distribution AB, the Group's distribution company's facilities in Stockholm and Gothenburg, Sweden. Swedish Match Distribution 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 facility 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 network where appropriate.

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, a company of which Swedish Match has a 49 percent holding.

7. Customer/Retailer

The primary sales channels for Swedish Match products are supermarkets, convenience stores, tobacconists, and gasoline stations. Other important channels include bars and restaurants, as well as Scandinavian Travel Retail outlets, such as airports and ferries. Since retail prices are set by retailers, prices can vary. The Scandinavia Division, US Division, and the two Lights operating units strive to work in true partnership with their customers to build the customers' businesses. Sales representatives work closely with customers/retailers to optimize their business in selling Swedish Match's products to consumers. Through in-depth discussions and active dialogue, customers/retailers can work together with Swedish Match to evaluate product assortment and display, along with shelf and floor plans, with the aim of improving their total non-cigarette tobacco and lights businesses. This partnership approach is very valuable to both parties, since it reinforces and deepens the commitment to the Company's customers. Snus is merchandised from coolers

to help ensure longer lasting freshness and quality. US moist snuff, cigars, and chewing tobacco, which do not require refrigeration, have attributes and packaging that provide long lasting freshness. 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" principle¹⁾.

8. Consumer

When all parts of the value chain work together, the ultimate consumer has the opportunity to choose to purchase a Swedish Match product. Consumers can be confident that their purchase, and their views on the product, will further influence the value chain and the product development cycle.

¹⁾ For more information about the "Under 18, No Tobacco" principle, see page 29.

Swedish Match

– niche player, strong in snus

Swedish Match participates in the smokeless tobacco markets in Scandinavia and the US, with its snus, moist snuff, and chewing tobacco products, and is exploring opportunities for snus products in other markets through SMPM International (a joint venture with Philip Morris International). The Company participates in the US market for mass market 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 can therefore be considered a niche player in the global tobacco market, as the Company does not participate in the largest segment, cigarettes.

The global tobacco market

The largest single segment of the global tobacco market is cigarettes, which account for roughly 90 percent of all tobacco consumed.¹⁾ A small number of 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.¹⁾

The global tobacco market's other smoking products include fine-cut and roll-your-own tobaccos, cigars, and pipe tobacco. Smokeless tobacco products primarily include various forms of chewing tobacco, snus, moist snuff, and nasal tobacco, as well as non-traditional products, such as dissolvables. Recently, there has been the rapid emergence of the e-cigarette category in certain markets.

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.

Consolidation within the global tobacco market among industry manufacturers has been limited in 2013, with very little M&A activity among leading industry players. Among publicly traded tobacco companies, Swedish Match is a small player, active primarily in the Scandinavian and US tobacco markets.

The global smokeless tobacco market

Smokeless tobacco is a relatively small tobacco category compared to the much larger cigarette category, 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 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 the European Union and certain other countries, snus and other oral tobacco products not intended to be chewed

are prohibited, while chewing tobacco products are allowed to be sold.

Swedish Match's markets

Snus and snuff

Swedish Match's primary tobacco markets are in Scandinavia and the US. Both the Scandinavian snus market and the US moist snuff/snus markets are growing in volume terms, and the combined Scandinavian/US snus and moist snuff markets are approximately 1.7 billion cans per year, with the Scandinavian snus market at more than 325 million cans, and the US moist snuff market at approximately 1.4 billion cans.²⁾ Both the Norwegian and Swedish markets experienced growth in volume terms during 2013.²⁾ Swedish Match holds the leading position in the Scandinavian snus market, with approximately 71 percent volume share in Sweden, and 62 percent volume share in Norway during the final three months of 2013.²⁾

The smokeless tobacco markets in the US and Scandinavia have experienced increased product innovation and increased activity among large cigarette manufacturers in recent years, with the introduction of new varieties and formats.

In nearly all countries outside of Scandinavia and the US, the knowledge of snus is limited. Outside of Scandinavia and the US, Swedish Match is exploring, through SMPM International, other potential markets for snus. Markets currently being explored include Canada, Russia, Israel, and Malaysia.

Other tobacco products (cigars and chewing tobacco)

The market for mass market cigars in the US excluding the little cigars segment (where Swedish Match does not participate) is estimated by Swedish Match to amount to slightly more than 5 billion cigars. The US mass market cigar market (excluding little cigars) is estimated to have grown in volume terms in 2013.²⁾ Swedish Match is the third largest player in the US mass market cigar

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 relatively small but growing category, accounting for approximately two percent of all tobacco consumed globally.

¹⁾ Source: Euromonitor.

²⁾ Source: Nielsen and Swedish Match estimates.

market (excluding little cigars), with a growing market presence.

Swedish Match estimates that the US chewing tobacco market is a 275 million US dollar market (manufacturers' sales). Volumes have typically declined by 4–7 percent annually. Swedish Match is the market leader in this category, with approximately 40 percent share of market in pounds, up slightly from prior year.¹⁾ The Company also has a contract manufacturing agreement, and produces close to two thirds of all chewing tobacco sold in the US.

Lights (matches and lighters)

In addition to tobacco products, Swedish Match also participates in the global match and lighter markets. Swedish Match's largest match markets in Europe include the UK, the Nordic countries, France, and Spain. Swedish Match is also the market leader for matches in Australia and Brazil.

For lighters, Swedish Match holds market leading positions within the premium disposable category in for example Malaysia and Russia. The Group also has solid positions for lighters in Brazil, the Nordic countries, the UK, and France. In several markets in Asia, Swedish Match's lighters continued to demonstrate strong volume development, reflecting efforts to build business in this part of the world.

Swedish Match also has match sales in a number of African and Asian markets.

Market outlook 2014

The Company expects both the Scandinavian snus market and the US market for moist snuff and snus to continue to grow in volume terms in 2014.

In Sweden as well as in the US moist snuff market, the Company expects 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 is likely to imply some negative mix effects.

During the year Swedish Match will continue to invest in growth for snus internationally, particularly in the US, and also continue to invest for share growth in the fast growing pouch segment of the US moist snuff market.

For cigars in the US, Swedish Match expects the market to remain highly competitive during 2014.

Markets for matches and lighters will continue recent trends, with matches generally declining while lighter markets in total are expected to be relatively stable, with growth in certain geographies offsetting declines in others.

¹⁾ Source: Swedish Match estimates.

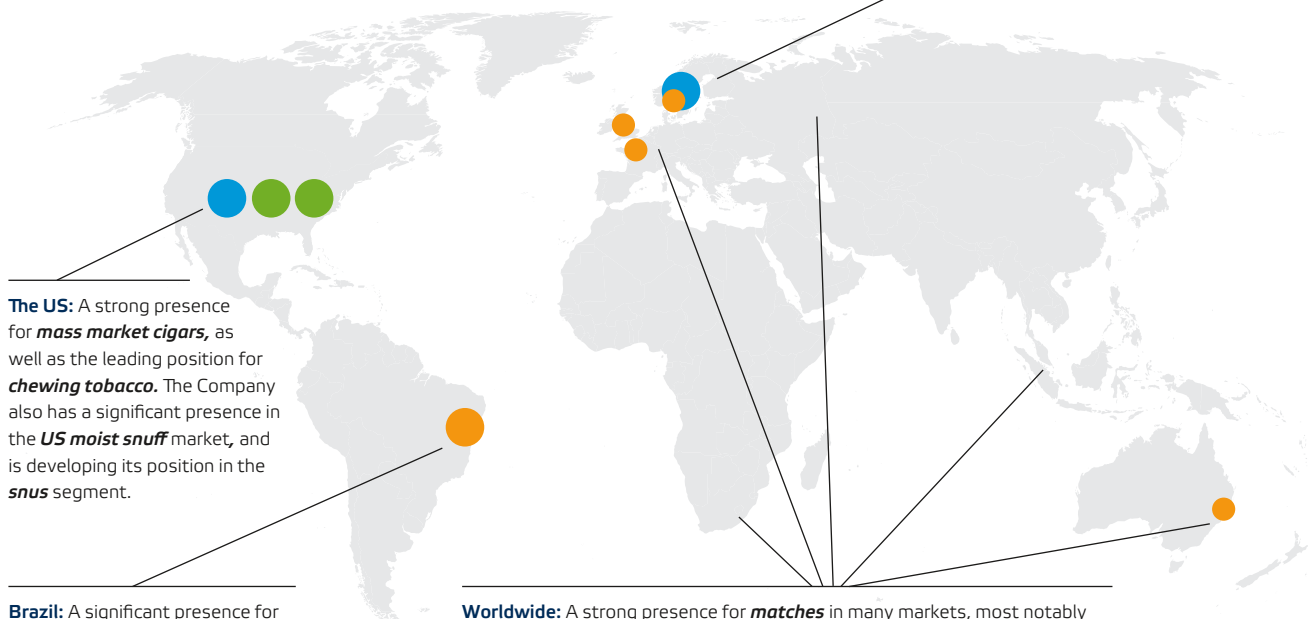
SWEDISH MATCH'S MARKETS

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, the US, and Brazil, which together generate 98 percent of Company sales, and 98 percent of operating profit from product areas.

Swedish Match market positions

Snus	No 1 in Scandinavia No 3 in the US
Other tobacco products	No 3 in US mass market cigars No 1 in US chewing tobacco
Lights	No 1 in matches in Brazil Strong presence in Australia, the UK, France, and the Nordic countries

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



The US: A strong presence for *mass market cigars*, as well as the leading position for *chewing tobacco*. The Company also has a significant presence in the *US moist snuff* market, and is developing its position in the *snus* segment.

Brazil: A significant presence for both *matches and lighters* as well as a business for *complementary products*.

Worldwide: A strong presence for *matches* in many markets, most notably within Europe, Africa, Australia, and New Zealand. The Company has a strong position with the *Cricket* lighter brand in parts of Europe, especially in Russia, and a strong and growing presence in parts of Asia.

Leveraging strengths to create value

Swedish Match's vision is to be the global smokefree leader. The Company will continue to leverage the strengths of its operations and product areas to help to achieve the vision and create value for its stakeholders. With its strong platforms, not only in Snus and snuff, but also in Other tobacco products, and Lights, the Company is able to pool its talent and

resources to explore new market opportunities, develop new product concepts, and expand its geographic footprint. Further support in achieving the vision comes from the Company's partnerships, such as the joint venture, SMPM International, and resources generated from the 49 percent ownership of Scandinavian Tobacco Group (STG).

Vision

TO BE THE GLOBAL SMOKEFREE LEADER

Goals

Snus and snuff product area

- Be the preferred choice by the consumer
- Be the most valued partner to the trade
- Be the industry authority for regulators

Other product areas

- Maximize long term value
- Realize synergies in distribution, skills, and scale to support the Company's vision

Strategy

Leverage our unique Snus and snuff platform to build global smokefree leadership

- Drive category growth and maintain a leading position in Scandinavia
- Develop the snus category in the US and establish a strong presence in the market
- Strengthen our position in the US moist snuff market
- Explore global opportunities for Swedish snus through SMPM International

Leverage strong market positions and brands

- Leverage strong platforms to maximize long term profitability in Other tobacco products
- Continue to focus on operational excellence and profitability in Lights
- Realize the potential of STG through active ownership

Mission

To responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits to our shareholders

Core values



Communication



Teamwork



Trust



Innovation



Recognition



Growth

DEVELOPMENT

	2009	2013
Sales from product areas	10,678 MSEK	12,610 MSEK
Operating profit	3,417 MSEK	3,855 MSEK
Transfer of capital to shareholders ¹⁾		15,566 MSEK in 5 years

¹⁾ Including dividend and net share repurchases.

A FLEXIBLE AND NIMBLE ORGANIZATION

Swedish Match continuously works to have the right people, strategy, and structure in place in order to rapidly meet changing market conditions, with flexibility and innovation. The organization maintains an ongoing dialogue with consumers, customers, and the supply chain, in order to quickly and efficiently develop, produce, and deliver the products adult consumers can enjoy.

"Swedish Match snus delivers outstanding quality"

Joakim Tilly, President Scandinavia Division

"We saw continued healthy market growth in volume terms in both Norway and Sweden, driven by both increased consumption per consumer and new consumers entering the category. We took aggressive measures during the year to improve our attractiveness to consumers by upgrading products and packaging, and introducing new products, including new products using our patent pending fiber technology, NATUFIBE®. This new technology allows us to deliver product benefits, such as superior flavor release and softness, while still offering an attractive price. The recent reorganization of our former Smokefree Products Division into the Scandinavia Division allows us to be faster and more flexible in the Scandinavian market."



"More challenging for cigars, and strong opportunities for snus"

Richard Flaherty, President US Division

"Since 2009 we have helped to transform the mass market cigar category, and have experienced rapid volume growth. As the market matures in terms of packaging innovations, we would expect to see a more stable share and volume development. We maintain a strong position in the cigar category and now with the Jackpot brand we will be better able to compete in the discount segment. Our price reset for our pouch moist snuff products, and the launch of Longhorn mini tubs, will help to strengthen our position in these subsegments of the US moist snuff market. We ended the year with General snus distribution in over 21,000 stores, doubling store count from the prior year. We will continue to invest behind snus in 2014."



"A great year for lighters internationally"

Peter Hedlund, COO Lights Latin America
Håkan Söderberg, COO Lights International

"Cricket lighters continued to deliver excellent volumes in both Asia, Russia, and in parts of Europe. Our match position remains very strong, but currency effects from both a strong Swedish krona and a weaker Brazilian real have had negative impact on reported match profits. In Brazil, we are seeing solid performance for our complementary products, helping to offset declines in our match business. We will continue to explore and invest in selective new market opportunities for both matches and lighters."





SNUS AND SNUFF

Growing snus presence in the US

SNUS AND SNUFF OPERATIONAL HIGHLIGHTS

- Scandinavian snus sales declined by 3 percent.¹⁾
- US snus sales more than doubled with nearly 4 million cans shipped.
- Store distribution of General snus in the US grew to more than 21,000 stores by year end.
- SMPM International engaged in market testing for snus in Canada, Russia, Israel, and Malaysia.

¹⁾ Versus full year 2012.

GENERAL'S SHIPMENT VOLUME IN THE US

~ 4 million cans



In Sweden, the snus market grew by more than 5 percent in volume terms, led by continued rapid growth of the low price segment. The full price segment of the Swedish market experienced a slight volume decline, while in the mid price segment, volume declines were more pronounced. In Norway, snus consumption growth moderated from very rapid growth in previous years, but was still strong and increased by more than 8 percent. In the US, Swedish Match primarily sells moist snuff, but has expanded rapidly in the snus category.

Source: In this opening section, market and share information is from Swedish Match estimates, based on various sources, including Nielsen.

Strategy

Swedish Match endeavors to be the global smokefree leader.

Swedish Match's strength in smokefree products lies in its quality products and established brands in combination with deep consumer insight.

Swedish Match will leverage its unique Snus and snuff platform to build global smokefree leadership, and will continue to innovate and develop new and improved products while leveraging its brands' strengths in order to meet changing consumer needs. 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 strengthen the Company's position in the US moist snuff market, and to explore global opportunities for Swedish snus through SMPM International.

Swedish Match strives to be the preferred choice for consumers of smokefree products, the most valued partner to customers/retailers and distributors, and the industry authority for regulators and opinion makers.

Success will come from dedicated employees working closely together in building on the strong brand portfolio, maintaining and improving technological

leadership, leveraging the Company's unique Swedish heritage and market leadership in Scandinavia, and providing consumers with products they enjoy.

Financial development

Sales for the product area during the year declined by 4 percent to 4,868 MSEK (5,049). Operating profit for the year declined by 7 percent to 2,195 MSEK (2,349).

In the Scandinavian market, Swedish Match sales declined by 3 percent, negatively affected by a weaker Norwegian krona.

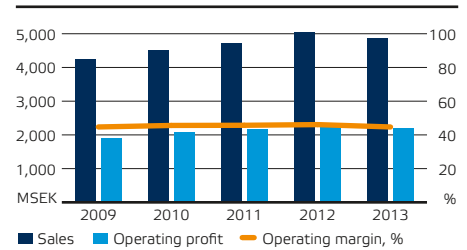
In the US, Swedish Match's snus and snuff sales declined by 3 percent versus prior year in part due to lower volumes for moist snuff which were not fully compensated by higher volumes for snus. Operating profit was lower, stemming from increased investments in order to further develop both the US snus presence, as well as pouch and tub products for moist snuff.

The operating margin was 45.1 percent (46.5) for the year, impacted by higher spending levels for Swedish snus expansion projects in both the US and through SMPM International.

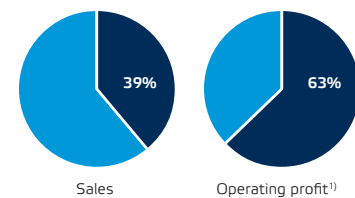
Key data, MSEK ¹⁾	2013	2012	2011
Sales	4,868	5,049	4,726
Operating profit	2,195	2,349	2,181
Operating margin, %	45.1	46.5	46.1
Investments in property, plant and equipment	169	110	123
Average operating capital	1,955	1,929	1,965
Average number of employees	1,091	1,038	1,007

¹⁾ Excluding larger one-time items.

Sales and operating profit



Share of Group total



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

SWEDISH MATCH'S SHIPMENT VOLUME – NUMBER OF CANS OF SNUS IN SCANDINAVIA AND THE US¹⁾

~ 235,000,000



Approximately 231 million cans of snus in Scandinavia and 4 million cans of snus in the US.

¹⁾ Excluding US moist snuff.

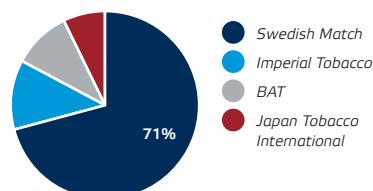
SNUS IN SCANDINAVIA

Main brands:

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

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

COMPETITORS – SWEDEN



Source: Swedish Match estimates.

Swedish Match snus brands are available in a broad range of varieties, with strong positions in both the full price and value price segments. In Sweden, *General* is the largest brand in the full price segment, *Kronan* in the mid price segment, and *Kaliber* in the low price pouch segment.¹⁾ In Norway, Swedish Match's fastest growing brand is *The Lab*. In addition to its traditional snus products, Swedish Match offers the number one brand in the non-tobacco smokefree segment, *Onico*, providing consumers with a high quality nicotine free alternative.

Market

The Scandinavian snus market is estimated to have amounted to more than 325 million cans in 2013, up by more than 5 percent from previous year.¹⁾ Over the past several years, consumption has been moving from traditional loose products to portion-packed products, which at the end of 2013 accounted for approximately 80 percent of volumes in Scandinavia.²⁾

Sweden is by far the largest snus market in Scandinavia, with approximately one million consumers.³⁾ The number of snus users has increased by approximately 5 percent during 2013 versus the previous year, which is an increase for the third year in a row.³⁾

The Swedish snus market in volume is estimated by Swedish Match to have grown by more than 5 percent in 2013 versus prior year.

The Norwegian market has grown by 10–15 percent per year in recent years and

have grown by more than 8 percent in 2013 versus prior year.¹⁾

In Norway, Swedish Match's volume share is estimated to be approximately 62 percent in the final three months of 2013.¹⁾ The number of men and women using snus on a regular basis has been increasing in Norway.³⁾

It is estimated that one in five Swedish men use snus on a regular basis, while in Norway the percentage of men using the product is lower, but growing.³⁾ The overall percentage of women using snus is lower than for men, and is similar in both Norway and Sweden. However, a higher proportion of both men and women between the ages of 18 and 29 use snus in Norway than in Sweden. For adults over the age of 30, a lower proportion of people in Norway use snus than in Sweden.³⁾

Competition in Sweden from low price products remained intense in 2013. This has contributed to market share erosion for Swedish Match, but with only slight volume declines for its full price products. Swedish Match had approximately 95 percent market share of the full price segment in volume terms for the final three months of 2013, according to Swedish Match estimates. For the same time period, the total market share for Swedish Match in volume terms was 71 percent compared to 75 percent for the same period previous year.¹⁾ Swedish Match estimates that the full price segment's share of the total market declined to 59 percent from 63 percent in the final three months of the year versus the prior year corresponding period.¹⁾ Swedish Match has maintained a strong position also in the low price segment of the market and estimates its market share to have been 29 percent in volume terms.

Highlights in Scandinavia

During 2013, Swedish Match upgraded its packaging for many of its full price products on the Scandinavian market, with more visible graphics and an improved disposal lid. The Company also launched a range of products employing a new patent-pending technology which delivers both improved product performance and a better mouth feel. *General Tailored*, with NATUFIBE[®] offers a softer pouch and an optimized fit, at an attractive price. This new fiber technology was employed for a number of new offerings during the latter part of the year, and is expected to support Swedish Match's market positions in both Sweden and

Norway under the *General*, *Göteborgs Rapé*, and *The Lab* brands.

The mid price segment continued to decline as a proportion of the overall market and *Kronan*, Swedish Match's brand in the mid price segment in Sweden, held its market position.

In the highly competitive low price segment, the *Kaliber* brand regained its leadership position for pouch products in the second half of the year, after having lost some share following a price increase at the beginning of the year which was not matched by the competition. A combination of price adjustments and successful line extensions during the first half of the year strengthened the brand's position in the following months.

In the Norwegian market, the Group has continued to grow overall volumes for its pouch products, led by its *Nick and Johnny* and *The Lab* offerings. Volumes for loose snus in Norway, a segment in which Swedish Match has an extremely strong position, declined (most notably in the first half of the year), contributing to overall share declines for Swedish Match.

In December 2012, Swedish Match opened a snus store, "Svenskt Snus", in the heart of Stockholm. This store has quickly become a popular destination for Swedes and tourists alike, offering the full range of Swedish Match snus products.

By logging on to: www.swedishmatch.com/konsument (for consumers) and kund.swedishmatch.com (for customers), Swedish consumers and customers can easily explore the Swedish Match product range.

Tobacco taxes

On January 1, 2013, Swedish excise taxes on snus were raised by 1 percent and on January 1, 2014, Swedish excise taxes on snus were virtually unchanged. In Norway, the excise tax on snus was raised by 2.2 percent on January 1, 2013 and on January 1, 2014 by 2.1 percent.

¹⁾ Source: Nielsen and Swedish Match estimates.

²⁾ Source: Swedish Match estimates.

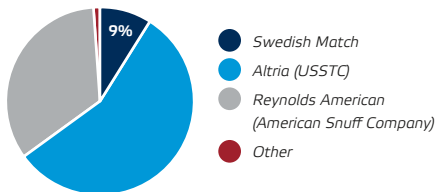
³⁾ Ipsos Sweden, Market Report, 2013.

SNUS AND SNUFF IN THE US

Main brands:

Longhorn, Timber Wolf, General

COMPETITORS – THE US



Source: Swedish Match and industry estimates.



Production of Longhorn tubs at the Owensboro factory, the US.

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

Swedish Match sells Swedish snus in the US under the *General* brand, priced in line with full price 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 extremely 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, and expanded product offerings by the industry, have broadened the appeal of moist snuff to a larger consumer base.

During the past five years, can consumption in the US moist snuff market has grown by more than 4 percent per year.¹⁾

In 2013, the US moist snuff market is estimated by Swedish Match to have grown by 4 percent, with continued intense pricing and promotional activity. For the full year 2013, Swedish Match estimates its market share by volume to have been approximately 9 percent, down slightly from 2012.

While the US snus market is still quite small, the potential for growth is strong, as snus may appeal to a wide segment of the

adult tobacco consuming population. Snus is a discrete, spitless alternative to cigarettes and other tobacco products, and the industry has increased the availability and range of product offerings for this tobacco variety.

Highlights in the US

The full price segment of the moist snuff market declined in 2013, while the value segment grew.¹⁾ There was continued intensive competitive activity among large competitors, especially in the value segment. Swedish Match declined in volume and market share for its higher priced brands in the value segment. Swedish Match has a solid position with its *Longhorn* brand, and during the year expanded its product assortment to include *Longhorn* mini tubs (equivalent to 6 cans) following the successful earlier launch of *Longhorn* tubs (equivalent to 12 cans). Both of these tub variations offer consumers more value for money.

More than 85 percent of moist snuff in the US is sold in the traditional loose format.¹⁾ However, over the past several years, the percentage of moist snuff sold in pouches has increased. Swedish Match estimates the growth in the pouch segment to have been approximately 12 percent in volume terms in 2013. During 2012, Swedish Match improved its product offering for moist snuff in pouches, with the introduction of a disposal lid – a first for moist snuff in the US. In 2013, to further support its position in the US pouch segment, Swedish

Match increased its investments by offering attractive everyday low prices.

Swedish Match continued its efforts behind Swedish snus in the US market and significant investments have been incurred during the year to support the expansion of snus. Consumption in 2013 is estimated by Swedish Match to be in the range of 50 million cans. In the US, the Company markets the *General* snus brand – an authentic Swedish snus, available in tobacconists, convenience stores, and other selected stores. The trends for *General* snus are encouraging and the brand expanded its distribution during the year. By the end of 2013, the brand was present in more than 21,000 stores, up from just over 10,000 stores at the end of 2012.

¹⁾ Source: Swedish Match estimates.

SNUS OUTSIDE SCANDINAVIA AND THE US

Through SMPM International, the joint venture company with Philip Morris International, Swedish Match is testing opportunities for snus to reach markets outside Scandinavia and the US. SMPM International, 50 percent owned by Swedish Match, sources its products from Swedish Match and sells them through Philip Morris International's sales and distribution network. SMPM International thereby has both state of the art products and outstanding distribution opportunities.

During 2013, 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 using the *Parliament* brand. 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 few decades a large number of scientific studies have been published on health effects of snus. Today, there is a large and reliable body of evidence from which to draw when dealing with these issues. This helps to explain why several internationally well reputed institutions, such as the WHO, have stated that the health risks associated with the types of smokeless tobacco products prevalent in the western world today, are associated with substantially less health risks compared to those with smoking cigarettes. Among smokeless products, Swedish snus is generally considered to be exceptional in that it has the documented lowest risk profile that best can be compared to that of commercially available pharmaceutical nicotine products.

Swedish Match is convinced that smokeless tobacco products manufactured according to Swedish Match's quality standards, such as snus with its **GOTHIA TEK**[®] standard, play an important role to achieve harm reduction, as has been demonstrated by several scientific reports, including that from the EU Commission's expert committee SCENHIR, and the Swedish National Board of Health and Welfare. Smokeless tobacco provides a better alternative to cigarettes and other smoking products, foremost because it does not deliver toxic compounds due to combustion. In addition, environmental tobacco smoke is not an issue with smokeless tobacco. If all tobacco in the world were consumed in the form of smokeless products that adhere to the **GOTHIA TEK**[®] standard, tobacco use would not be one of the a public health concern. The scientific community is today convinced that nicotine per se is not an important cause of disease, it is rather the combustion compounds in tobacco smoke that are relevant from a health point of view.

Swedish Match does not claim that the Company's smokeless products could not have any health effects. There is hardly any consumer product which can be claimed to completely lack potentially adverse effects, for instance in some situations or among some users. Swedish Match recognizes that tobacco use raises valid questions about nicotine dependence, and the role of nicotine in specific groups of the population such as during pregnancy and among patients with certain pre-existing medical conditions. In this context it is important to consider the observations in scientific studies that the tobacco dependence among smokers is substantially greater than that among snus users.

Clinical trials indicate that it is easier for snus users to quit their habit compared to cigarette smokers.

Substantial research conducted by independent (mostly university-based) research groups has been conducted with regard to Swedish snus and health.¹⁾

Some of the findings of this research indicate:

- Snus and oral cancer – there is no evidence of a link between snus and an increased risk of oral cancer.
- Snus and oral health – there is no evidence of a link between snus and an increased risk of gum disease, cavities, or tooth loss.
- Snus and lung cancer – there is no evidence of a link between snus and an increased risk of lung cancer.
- Snus and myocardial infarction – there is no evidence of a link between snus and an increased risk of myocardial infarction.
- Snus and stroke – there is no evidence of a link between snus and an increased risk of stroke.
- Smokers who quit smoking by switching to snus substantially reduce their risk of cancer and cardiovascular disease. The risk reduction is the same as that among smokers who quit tobacco altogether.
- Snus and gastrointestinal disorders – there is no evidence of a link between snus and an increased risk of gastrointestinal disorders.
- Snus and rheumatic disease – there is no evidence of a link between snus and an increased risk of rheumatic disease (in contrast to smokers).
- Snus and smoking cessation – both population surveys and controlled clinical trials show that availability of snus contributes to smoking cessation.
- The use of snus in reducing the prevalence of smoking has had positive effects on public health both in Sweden and in Norway.

¹⁾ More information and references on snus and health are available on the Company's website, www.swedishmatch.com/snus-and-health.



OTHER TOBACCO PRODUCTS: CIGARS AND CHEWING TOBACCO

Increased competition for US cigars

OTHER TOBACCO PRODUCTS OPERATIONAL HIGHLIGHTS

- Swedish Match cigar shipments surpass 1 billion stick threshold – for the second year in a row.
- Maintained market share leadership for chewing tobacco.¹⁾
- Sales flat and operating profit down by 8 percent in local currency.²⁾

¹⁾ Source: Swedish Match estimates.
²⁾ Versus full year 2012.

SWEDISH MATCH'S SHIPMENT VOLUME – NUMBER OF CIGARS IN THE US

One billion

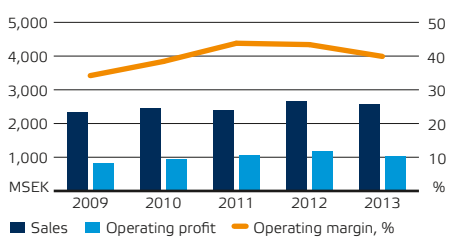
In 2013, Swedish Match delivered over one billion cigars, its second best year ever.



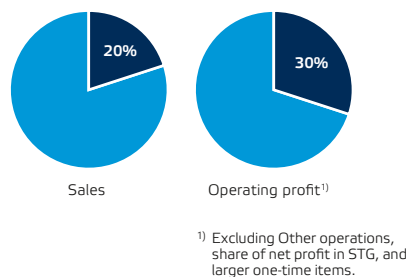
Key data, MSEK ¹⁾	2013	2012	2011
Sales	2,564	2,661	2,388
Operating profit	1,029	1,161	1,049
Operating margin, %	40.1	43.6	44.0
Investments in property, plant and equipment	62	54	61
Average operating capital	1,128	1,091	1,147
Average number of employees	1,737	1,661	1,764

¹⁾ Excluding larger one-time items.

Sales and operating profit



Share of Group total



Other tobacco products include cigars and chewing tobacco for the US market. Swedish Match has over the past several years experienced rapid growth in both volumes and sales for cigars. During 2013, there was a market shift toward more promotional and lower priced product sales for cigars. 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 production, well known and trusted brands, as well as category leadership, the Group has been able to leverage its strengths in a declining product category while enabling sustainable profits.

Financial development

Sales for the product area for the year declined by 4 percent to 2,564 MSEK (2,661), and operating profit declined by 11 percent to 1,029 MSEK (1,161). In local currency, sales for the year were flat for both cigars and chewing tobacco. Operating profit in local currency declined for cigars, while for chewing tobacco operating profit increased compared to the prior year. The operating margin for the product area was 40.1 percent (43.6).

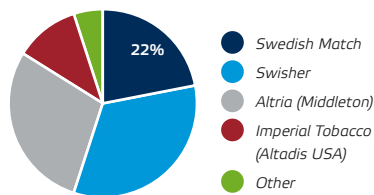
In 2013, certain pension accounting adjustments as well as some changes in supply setup negatively impacted reported operating margin by 1.6 percentage points.

CIGARS

Main brands:

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

COMPETITORS – US MASS MARKET CIGARS (EXCLUDING LITTLE CIGARS)



Source: Swedish Match estimates.

Swedish Match maintains a strong presence with mass market cigars in the US with such well known 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 3–4 percent in volume terms in 2013 and amounts to slightly more than 5 billion cigars excluding little cigars¹⁾ (where Swedish Match does not participate). The US market for mass market cigars experienced a shift in consumption and wholesaler order activity toward lower priced and more promotional products. This development had a negative effect on Swedish Match shipment volume and mix, and the

Company has taken actions to increase its competitiveness in the changing marketplace. The Company's consumption share of market was approximately 22 percent in 2013.²⁾

In the US, cigar manufacturers typically introduce several new products every year using well established brands. During 2013, Swedish Match launched a number of new cigar products under both the *Garcia y Vega* and *White Owl* brands using its FoilFresh[®] packaging concept. FoilFresh[®] cigars ensure that consumers get a softer, "fresher" cigar.

Toward the latter part of the year, in order to gain a presence in the rapidly growing deep discount segment, Swedish Match launched a new range of lower price cigars under the *Jackpot* brand.

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

²⁾ Source: Swedish Match estimates.



SWEDISH MATCH – THE LARGEST CHEWING TOBACCO MANUFACTURER IN THE US

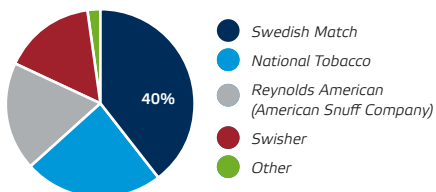
#1 in US chewing tobacco

CHEWING TOBACCO

Main brands:

Red Man, Southern Pride

COMPETITORS – CHEWING TOBACCO



Source: Swedish Match estimates.

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. Volumes have declined by 4–7 percent annually in recent years.¹⁾ This occurs as consumers leave the category, some moving to moist snuff. The US chewing tobacco market declined more modestly in 2013 in the range of 4 percent.¹⁾

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.¹⁾

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.

¹⁾ Source: Swedish Match estimates.



LIGHTS: MATCHES AND LIGHTERS

Higher volumes for lighters

Swedish Match's lighters and matches are known for quality and reliability and can be found in many markets across the globe. Match brands tend to be local, with one brand being iconic in its own country. For lighters, Swedish Match manufactures and sells *Cricket*, a well known brand of disposable lighters in many markets. *Cricket* lighters are marketed using the key selling points of quality, design, and safety.

LIGHTS OPERATIONAL HIGHLIGHTS

- Sales grew by 6 percent in local currencies.¹⁾
- *Cricket* lighter volumes grew in several Asian markets.
- Operating profit up by 10 percent in local currencies.¹⁾

¹⁾ Versus full year 2012.

LIGHTER VOLUMES HAVE GROWN BY MORE THAN

20% in Asia

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 strong market positions. This helps to drive solid levels of profitability, while providing consumers with the quality products they demand.

The lights business is organized in two operating units: Lights Latin America and Lights International (covering all markets outside Latin America).

Financial development

Sales for the product area for the year decreased by 1 percent to 1,332 MSEK (1,339). Operating profit increased by

4 percent to 230 MSEK (222). In local currencies, sales increased by 6 percent. The operating margin was 17.3 percent (16.6).

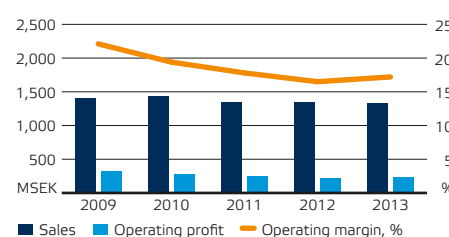
Market

Swedish Match estimates that consumption of matches in markets where the Company has a presence declined during the year, in line with previous years. During 2013, Swedish Match lighter volumes in many European countries were in line with 2012, while in Russia and several Asian markets lighter volumes grew. Swedish Match sells matches and lighters through its own and third party distribution networks, including the distribution network of Scandinavian Tobacco Group.

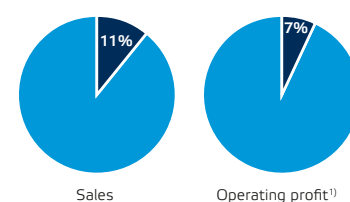
Key data, MSEK ¹⁾	2013	2012	2011
Sales	1,332	1,339	1,346
Operating profit	230	222	240
Operating margin, %	17.3	16.6	17.9
Investments in property, plant and equipment	64	61	56
Average operating capital	782	787	786
Average number of employees	1,320	1,269	1,287

¹⁾ Excluding larger one-time items.

Sales and operating profit



Share of Group total



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

LATIN AMERICA

Main brands:

Fiat Lux, Cricket

Highlights

In Brazil, the largest match market in Latin America, the Group holds a leading position with the *Fiat Lux* brand. Brazilian match consumption continued to decline in 2013 and Swedish Match estimates its market share to be stable in Brazil at approximately 45 percent, in terms of volume. On the Brazilian market, Swedish Match also offers a portfolio of complementary prod-



ucts, including disposable razors, energy efficient light bulbs, and batteries under the *Fiat Lux* brand.

Lighter volumes for the *Cricket* brand decreased during the year in the region.

EUROPE AND OTHER MARKETS

Main brands:

Solstickan (Sweden), Swan (UK), Tres Estrellas (Spain), Feudor (France), Redheads (Australia), Cricket (globally)

Highlights

During the year, Swedish Match maintained significant or leading market positions in its largest markets for matches, including Australia (*Redheads*), the UK (*Swan*), France (*Feudor*), Spain (*Tres Estrellas*) and

the Nordic countries (*Solstickan, Nitedals, and Tordenkjold*). Volumes generally declined in line with market trends, as increased deliveries to developing countries were not sufficiently offset by match volume declines in developed markets.

Cricket lighters volumes continued to grow in both Russia and Asia. In Asia, lighter volumes have grown by more than 80 percent in total over the past three years.

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

Focus on consolidation and increased efficiency

Scandinavian Tobacco Group, 49 percent owned by Swedish Match, is the world's leading manufacturer of cigars and pipe tobacco. It is the world's largest manufacturer of cigars, number one in US long filler cigars and number one in European machine made cigars.



Financial development

Reported sales for Scandinavian Tobacco Group declined by 1 percent to 5,925 MDKK (5,978) for the full year compared to the previous year. In local currencies, sales increased when adjusted for inventory fluctuations. Compared to the full year of 2012 sales increased in local currencies for all product areas, except for machine made cigars, with relatively flat volumes across the categories. Reported EBITDA amounted to 1,180 MDKK (1,313). Sales and EBITDA have been negatively affected by currency fluctuations and a planned one-off stock reduction at a major European distributor, which took place during the fourth quarter of 2013. The fourth quarter of 2013 also includes personnel related restructuring charges of approximately 20 MDKK. Net profit for Scandinavian Tobacco Group amounted to 564 MDKK (618), and was positively impacted by a tax gain following a restructuring of the legal structure of the Scandinavian Tobacco Group by the end of the year. The Swedish Match share of net profit in Scandinavian Tobacco Group for 2013 amounted, after adjustments, to 319 MSEK (366).

During the year, Scandinavian Tobacco Group has continued its integration efforts from the incorporation of the former Swedish Match units and the acquisition of Lane in 2011. The implementation of the

SCANDINAVIAN TOBACCO GROUP OPERATIONAL HIGHLIGHTS

- In local currencies sales increased for all product areas, except for machine made cigars, with relatively flat volumes across the categories.
- EBITDA for the full year declined mainly as a result of a planned stock reduction and higher operating expenses negatively affected by a restructuring charge incurred in fourth quarter of 2013.
- Swedish Match share of net profit from Scandinavian Tobacco Group during the year amounted to 319 MSEK.

NET PROFIT FOR SCANDINAVIAN TOBACCO GROUP IN 2013

564
MDKK

new ERP system that started in 2012 is now fully in place and has already generated efficiencies in the production and supply chain with faster time to market. During 2013, the expansion of the US operations continued as planned, with a larger sales force and increased marketing activities expected to facilitate further growth in the US. Throughout 2014, Scandinavian Tobacco Group will continue its focus on consolidation and efficiency, with additional rationalization efforts expected to generate synergies in the supply chain area. At the same time the expanded sales and marketing organization will continue its focus on top line growth.

At the establishment of Scandinavian Tobacco Group the shareholders of the company entered into a shareholders agreement which includes a standstill agreement expiring on October 1, 2014. The shareholders have therefore now retained an

investment bank to evaluate their options in terms of future ownership structure for the company.

Market

The US long filler cigar market is estimated to have been flat during 2013 versus 2012.¹⁾ The European machine made cigar market is estimated to have been lower in volume terms in 2013 and was close to 5.5 billion cigars.¹⁾ 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. For its own brands the company has a strong number two position in the global cigar market.

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 3,000 tons per year. Scandinavian Tobacco Group has either the number one position or strong positions in most markets in these regions, as well as sales through the Travel Retail class of trade and contract manufacturing and private label manufacturing for third parties. In March 2011, Scandinavian Tobacco Group purchased Lane Ltd., a US pipe tobacco and fine cut tobacco manufacturer, from Reynolds American, helping to expand its footprint in the US market.

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.

¹⁾ Source: Scandinavian Tobacco Group estimates.

Main brands:

US long filler premium cigars:

CAO, Cohiba, Excalibur, Hoyo de Monterey, La Gloria Cubana, Macanudo, Partagas, Punch

Machine made cigars:

Café Crème, La Paz, Mercator, Colts, Petit, Salsa, Captain Black

Pipe tobacco:

Erinmore, Borkum Riff, Captain Black, Clan, Colts, WØ Larsen, Sweet Dublin, Orlik, Half & Half, Skandinavik

Fine-cut tobacco:

Tiedemanns, Bugler, Escort, Kite, Bali, Crossroad

FACTS AND FIGURES – SCANDINAVIAN TOBACCO GROUP

- The world's largest manufacturer of cigars, number one in US long filler cigars and number one in European machine made cigars.
- Global number one in pipe tobacco.
- Strong market positions in fine-cut tobacco, primarily in Scandinavia and the US.
- Approximately 9,200 employees in 21 countries.
- Has 17 sales offices in North America, Europe, Australia and New Zealand and has exports to more than 100 countries around the globe.
- The production units are located in the Dominican Republic, Honduras, Nicaragua, Indonesia, Belgium, Denmark, the Netherlands, and the US.
- Roughly three fourths of Scandinavian Tobacco Group sales and gross profit come from cigars.
- The company manufactured approximately 2.8 billion machine made cigars and 60 million hand made cigars in 2013.
- 2,200 tons of pipe tobacco and 2,600 tons of fine-cut tobacco manufactured in 2013.
- The largest competitor is Imperial Tobacco.

Our approach to Corporate Sustainability

Corporate Sustainability is embedded in Swedish Match's corporate culture and way of doing business. For Swedish Match, Corporate Sustainability entails generating value for the Company and its stakeholders while addressing environmental impacts – in order to assure long term and sustainable growth.

A sustainable and responsible business

In order to achieve its vision to be the global smokefree leader, Swedish Match continues to work toward the Company's mission: to responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits to our shareholders. This mission statement demonstrates that for Swedish Match, a sustainable and responsible business goes hand in hand. 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.**

Consistent with the Swedish Match mission, the Company works systematically with Corporate Sustainability across the organization. This work 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'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 MODEL¹⁾



Sustainability reporting

Successful sustainability activities require a methodical approach to reporting. Swedish Match publishes a sustainability report annually which is available as a soft copy 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.

The Company reports at a self-declared 'B' level, and third party Application Level Check provider Tofuture Oy has confirmed that the Sustainability Report 2012 meets the GRI G3 'B' level reporting requirements. The Sustainability Report 2013 will be available from mid 2014.



¹⁾ 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 2013 (available from mid 2014).

Sustainability and tobacco

Some people may question whether a tobacco company can be sustainable in the long term. For Swedish Match, sustainability and tobacco are not incompatible, and 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 four years, 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 (and to reaffirm that) 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 six strategic sustainability focus areas deemed to be material to the Company (see Swedish Match's sustainability model on page 22). The Company has set overall ambitions within each area, and going forward the focus will be to set clear objectives and targets.

STRATEGIC SUSTAINABILITY FOCUS AREAS

	Overall ambition	Key achievements 2013
Economic responsibility 	To deliver growing and sustainable long term profits to shareholders, while maintaining strong cash flows, thus helping to create economic prosperity among the Company's stakeholder groups. This implies working to achieve long term shareholder/stakeholder buy-in of the business model through high levels of transparency and corporate governance, as well as efficient operations.	<ul style="list-style-type: none"> Economic value generated in 2013 amounted to 13,092 MSEK, up 2 percent from 2012.¹⁾ Economic value distributed amounted to 11,841 MSEK in 2013, up 5 percent from 2012.¹⁾ Economic value retained amounted to 1,251 MSEK in 2013, down 20 percent from 2012.¹⁾
Employee responsibility 	To attract, develop, and retain highly competent employees, to promote a culture of openness and trust, and a sound workplace environment. This implies addressing issues such as ethical business practices, workforce diversity, talent management, training and development, as well as workplace health and safety.	<ul style="list-style-type: none"> The Company's employee focus and the prioritized work with performance, talent, and employee processes were strengthened even further during the year. The employer branding prize "New thinker of the year" was received from Universum, recognizing the Swedish operations' employer branding efforts.
Supplier responsibility 	To work closely with the Company's suppliers in order to maintain adherence to Swedish Match's high standards of conduct and to support efforts to ensure that suppliers work responsibly in terms of economic, environmental, and social issues. This implies working closely with major suppliers, addressing issues related to human rights and working conditions, child labor and tobacco farming, as well as making sure honest and ethical business practices are conducted in the supply chain.	<ul style="list-style-type: none"> A Supplier Code of Conduct was developed. The document is included in all new and renegotiated supplier contracts. Swedish Match entered into an agreement to engage the services of LeafTc, an independent consultant, in order to further monitor its leaf supplier performance going forward. All significant suppliers of tobacco signed and returned the <i>Social commitment for Swedish Match suppliers</i> document, including certain requirements and recommendations on business ethics, basic human rights as well as on health and safety.²⁾
Consumer and marketplace responsibility 	To bring high-quality tobacco and lights products to consumers as well as take a lead in keeping high standards of corporate conduct within the Company's marketplace. This implies labeling and marketing all products in a responsible manner, and working closely with customers/retailers in order to promote high standards of conduct in the tobacco marketplace.	<ul style="list-style-type: none"> To decrease the flow of illicit trade of snus on the Baltic Sea, Swedish Match continued its efforts employed during recent years by extending the special label on cans and rolls to include the entire product portfolio. This effort assist retailers and the authorities to easily spot irregularities.
Societal responsibility 	To build and strengthen relationships with society at large, such as with the regulatory and scientific community as well as in local communities where the Company operates. In addition to addressing societal issues such as human rights and child labor, this implies continuous dialogue and engagement as well as contributing to local communities through projects and activities that are relevant to local business operations.	<ul style="list-style-type: none"> In November 2013, the Philippines was hit by the devastating typhoon Haiyan. Following the typhoon, Swedish Match donated disaster relief to a local aid organization with funds dedicated to rebuilding houses for affected families. The Company has also been involved in voluntary work, donated lighters to different aid organizations, and given monetary support to employees with affected relatives.
Environmental responsibility 	To consciously and actively reduce the negative impacts the Company has on the environment. This implies working efficiently with resource management, reducing waste and energy consumption, as well as maintaining sound environmental management processes.	<ul style="list-style-type: none"> In January 2013, the Manaus lighter factory in Brazil was certified for ISO 14001. Improved disclosure score in Carbon Disclosure Project's (CDP) global annual review mapping companies' CO₂ emissions. Approximately 300 employees within Swedish Match successfully completed the internal online environmental training program, first introduced in 2012 via the Company's intranet.

¹⁾ 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 2013 (available from mid 2014).

²⁾ A significant supplier is defined as a supplier from which Swedish Match purchases tobacco for more than 100,000 USD per year.

SWEDISH MATCH'S CODE OF CONDUCT

The Swedish Match Code of Conduct, established in 2004, is the foundation for the Company's position in areas related to Corporate Sustainability. The Group's commitment to Corporate Sustainability and responsibility ties directly to its core values: communication, teamwork, trust, innovation, recognition, and growth.

The Swedish Match Code of Conduct 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 comply with international conventions and guidelines on human rights and labor conditions.¹⁾ The Code of Conduct is available on the Company website.

Compliance with the Code of Conduct

The Swedish Match Code of Conduct is applicable to all employees within the Group, regardless of position or geographical location. 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. Such suspicions can be submitted – anonymously – to an appropriate manager, or to the Chairman of the Audit Committee. The whistleblower function can easily be accessed through the Swedish Match intranet. In 2013, there was one reported infringement of Group policies using the whistleblower function.

Reviews of the Code of Conduct

Various procedures are in place for monitoring and reviewing the policies stated in 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 annually by the Swedish Match Board of Directors. In addition, reviews are conducted by the external part-

ner AON (an international risk management company) who examines the Group's operating units at least once every two years at the factory level. These reviews include implementation of the Code of Conduct as such, with evaluations within the areas of social responsibility, workplace practices, business ethics, communication, and the environment. Topics include human rights, child labor, forced labor, supplier contracts, as well as health and safety matters. AON identifies improvement areas (which are re-evaluated the following year) and reports conclusions to operating units' management teams and to the Investor Relations and Corporate Sustainability function.

The operating units' management teams have operational responsibility for ensuring compliance with the Code of Conduct while the SVP Investor Relations and Corporate Sustainability is responsible for proposing further development and revision of the Code of Conduct.

¹⁾ 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.



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

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's employee focus and the prioritized work with performance, talent, and employee processes were strengthened even further in 2013. 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 2013, Swedish Match employed an average of 4,382 people, of whom 38 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. During 2013, efforts to recruit talented individuals, both internally and externally, continued 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 across all markets.

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 gain an overall profile of the requirements and of the potential available within the Company as well as to identify management capabilities, potential future internal careers, and successors.

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.

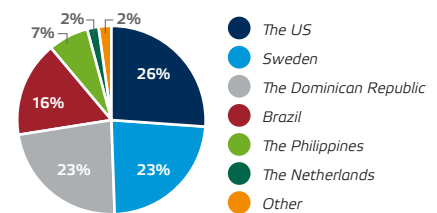
Managers and employees have ongoing open discussions regarding individual targets and plans as well as the overall objectives of the Company. Managers must demonstrate good leadership by setting clear targets, providing ongoing coaching and counseling, conducting reviews, and delegating tasks and assignments.

EMPLOYEE RESPONSIBILITY

Ambition: To attract, develop, and retain highly competent employees, to promote a culture of openness and trust, and a sound workplace environment. This implies addressing issues such as ethical business practices, workforce diversity, talent management, training and development, as well as workplace health and safety.



EMPLOYEES PER COUNTRY



Source: Swedish Match.



Employee at the Dothan cigar factory, the US.

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 have been recruited internally and during this past year, most management vacancies were recruited internally as well. External recruitment is mainly carried out when a particular competence cannot be found 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.

One example of a current employee program is the “Sons and Daughters” scholarship program in the US, whereby the Company has contracted Scholarship America, a non-profit organization, to administer this program. Scholarships are awarded annually to 12 eligible dependents of current Swedish Match employees.

In Brazil, the “Digital Space” project continued with the aim of familiarizing factory workers with the digital world (see case highlighted below).

In the Dominican Republic, small emergency loans are provided to employees for medical, educational, and/or relocation purposes.

Donations to employees and their families are also made for reasons such as natural disasters, terminal illness, or other traumatic occasions.

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 identified through regular factory audits conducted by AON, an international risk management company.

Meeting forums

In order to create a strong leadership culture in the organization and to implement the Company’s strategies, leadership conferences are arranged regularly for key managers.

Within the Company, cross-organizational cooperation also takes place through teams that transcend the operating units. Such teams may involve a number of functional areas. These various groups meet regularly to plan, coordinate, and evaluate company-wide activities within each area,

thereby ensuring efficient cross-functional communication and serving as aids in training and development efforts.

Employee surveys

The HR organization regularly 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 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 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.

THE “DIGITAL SPACE” PROJECT IN BRAZIL

Digital Space is a project that promotes the digital inclusion of employees at the Curitiba, Pirai do Sul, and Manaus factories in Brazil. The project started in 2008 with the introduction of open computer areas where employees are given the opportunity to use computers.

The computers give internet access and are used to conduct research and send e-mails. Employees are obtaining and disseminating knowledge as well as getting access to recreation and culture. For Swedish Match, this is important as digital inclusion is a way to also achieve social inclusion.



Social responsibility

Social responsibility comprises three areas in the Swedish Match sustainability model: supplier responsibility, consumer and marketplace responsibility, and societal responsibility.

Swedish Match and social responsibility

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

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 three stakeholder groups/areas external to the Company: supplier responsibility, consumer and marketplace responsibility, and societal responsibility (responsibility towards regulators, the scientific community, and local communities)¹⁾.

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 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

Ambition: *To work closely with the Company's suppliers in order to maintain adherence to Swedish Match's high standards of conduct and to support efforts to ensure that suppliers work responsibly in terms of economic, environmental, and social issues. This implies working closely with major suppliers, addressing issues related to human rights and working conditions, child labor and tobacco farming, as well as making sure honest and ethical business practices are conducted in the supply chain.*



SUPPLIER RESPONSIBILITY

Swedish Match seeks to treat its suppliers and business contacts fairly and impartially. In accordance with the Group Procurement Policy, the Company strives to work with suppliers who have a healthy long term financial situation. Swedish Match seeks stable long term relations with suppliers with whom the Company can develop goods and services through collaboration. During 2013, supplier contracts have been revised to incorporate standards of conduct.

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.

According to the Group Procurement Policy, when making the choice of supplier, all negotiations shall be carried out on a competitive basis, involving collection of at least three offers from selected qualified suppliers. The procurement department primarily chooses suppliers who support Swedish Match's long term requirements regarding quality, service, economy, ethics, and environmental approach.

Supplier commitment and ethics

Swedish Match endeavors to support and promote ongoing efforts with regard to ethical, social, and environmental issues within its tobacco supply chain. The Company's tobacco purchasers visit suppliers and each tobacco market on a yearly basis to proactively discuss social issues. In addition to promoting the respect of human rights and other important matters, Swedish Match partners with suppliers to eliminate child labor in the supply chain. Among tobacco farmers, there is a known risk for incidents of child labor. The Company therefore continuously works with its tobacco suppliers and through industry collaboration to ensure that the issue of child labor is addressed.

These tobacco suppliers are informed of Swedish Match's Code of Conduct and significant tobacco suppliers, defined as suppliers from which Swedish Match purchases tobacco for more than 100,000 USD per year, are required to sign and return a "social commitment document" with certain requirements and recommendations on business ethics, basic human rights as well as

¹⁾ Regulatory engagement is a critical part of Swedish Match's societal responsibility and is presented separately on pages 34–35.

on health and safety. Significant tobacco suppliers are also required to complete an agronomy questionnaire regarding the way that the tobacco has been grown (including sourcing of seeds, use of fertilizers and agrochemicals on the tobacco crops). This process enables Swedish Match to keep track of and evaluate how these suppliers deal with ethical, social, and environmental issues.

In accordance with the Swedish Match Code of Conduct, the Group shall encourage its suppliers to establish and fulfill their own Codes of Conduct regulating the basic rights of their employees, occupational health and safety, the prevention of child labor, ethical business conduct, and environmental issues.

During 2013, a Supplier Code of Conduct was developed specifying what Swedish Match expects and requires from the Company's suppliers in terms of Corporate Sustainability issues. The document is included in all new and renegotiated supplier contracts. In addition, suppliers operating in higher risk geographies¹⁾ are also provided with a self-assessment questionnaire for improved follow-up and tracking of supplier performance with regard to issues related to the Supplier Code of Conduct.

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.

Swedish Match does not perform social audits at the tobacco farm level. 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. During 2013, Swedish Match has entered into an agreement to engage the services of LeafTc, an independent consultant, in order to further monitor its leaf supplier performance.

At least once every two years, the Company's business units are evaluated on the basis of supplier contracts and other areas such as human rights, child labor, forced labor, as well as health and safety matters. The reviews are conducted by the external partner AON (an international risk management company).

¹⁾ Higher risk geographies are defined based on Transparency International's Corruption Perceptions Index.

CONSUMER AND MARKET-PLACE RESPONSIBILITY

Ambition: *To bring high quality tobacco and lights products to consumers as well as keeping high standards of corporate conduct within the Company's marketplace. This implies the labeling and marketing of all products in a responsible manner, and working closely with customers/retailers in order to promote high standards of conduct in the tobacco marketplace.*



CONSUMER AND MARKET-PLACE RESPONSIBILITY

Swedish Match's portfolio of tobacco and lights products is intended to be used by adults. Consumer and marketplace responsibility implies working closely with customers/retailers to maintain high standards of corporate conduct in the marketplace – to prevent the underage sale of tobacco as well as to market both tobacco and lights products to adults only. It also implies to continuously work to reduce or eliminate undesired components 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**[®], 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 contributed to fewer people taking up smoking, 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**[®]

Swedish Match's production of snus is aligned with the World Health Organization's (WHO) scientific recommendations about permitted acceptable limits of undesired elements in smokeless tobacco. The Swedish Match **GOTHIA TEK**[®] quality standard provides a guarantee assuring consumers that Swedish Match snus undergoes controls while maintaining the highest quality, from tobacco plant to the end consumers. This includes requirements on maximum permitted levels of undesired elements that occur naturally in tobacco, as well as requirements on raw material, the manufacturing process, and high quality product information to consumers.

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. The most important properties of safety matches are that they strike easily, do not split or drop burning debris, do not easily break, do not continue to glow after the flame is extinguished, do not contain toxic heavy metals, and are environmentally sound. Matches do not self-ignite during normal handling.

Regarding lighter safety, Swedish Match's largest lighter brand *Cricket* is one of the world's safest lighters. It is manufactured in self-extinguishing nylon, which cannot burn when the ignition source is removed. With *Cricket*, the "fixed flame technology" was invented to provide the best safety for consumers; a proprietary patented system where the flame is fixed and creates a uniform and reliable flame during the entire lifetime of the product. Innovative, advanced technology and quality ensure that *Cricket*'s child-resistant lighters comply with very high demands and with the ISO 13869 European directive. All *Cricket* pocket lighters are manufactured according to the quality standard ISO 9994:2006 and undergo more than 60 tests prior to being released on the market.

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 these 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 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.

SOCIETAL RESPONSIBILITY

Ambition: *To build and strengthen relationships with society at large, such as with the regulatory and scientific community as well as in local communities where the Company operates. In addition to addressing societal issues such as human rights and child labor, this implies continuous dialogue and engagement as well as contributing to local communities through projects and activities that are relevant to local business operations.*



SOCIETAL RESPONSIBILITY

For Swedish Match, societal responsibility implies contributing to society by promoting an active and transparent dialogue with regulators and the scientific community as well as by supporting the local communities connected with the Company's business interests.

Human rights

The Company's policy on human rights, included in Swedish Match's Code of Conduct, is based on international laws and accepted practices and guidelines.¹⁾ Swedish Match does not accept any form of slavery, torture, or forced labor nor tolerates any kind of harassment or discrimination based on race, color, nationality, ethnic origin, age, religion, gender, sexual orientation, marital status, disability, or other status.

The Company promotes freedom of opinion and expression and believes that every employee should be free to join or form (non-violent) assembly or associations.

Child labor

Swedish Match 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. The Company's own factories are not considered by Swedish Match to have significant risk for incidents of child labor.

Swedish Match is represented on the Board of the ECLT Foundation, Eliminating Child Labour in Tobacco Growing (see case highlighted below).

Community involvement

Swedish Match has a long history of social investments and community involvement. 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.

In Sweden, The Solstickan Foundation, established in 1936, primarily works to promote the interests of children and the elderly by granting project funds and scholarships

¹⁾ 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.

SWEDISH MATCH'S COMMITMENT AGAINST CHILD LABOR

The ECLT (Eliminating Child Labour in Tobacco Growing) Foundation, established in 2001, is an international alliance of several parties active in different parts of the tobacco industry (trade unions, growers, and companies) with the ILO as advisor. The strength of ECLT is that members represent different parts of the tobacco industry and work together toward a common goal. ECLT has funded projects in seven countries: Kyrgyzstan, Malawi, Mozambique,

the Philippines, Tanzania, Uganda, and Zambia. These projects have helped to remove more than 20,000 children from work in the tobacco industry and prevented even more from entering into child labor. Swedish Match has for several years been a member of ECLT.

Child labor is a symptom of a complex problem that derives from poverty, traditions, and lack of education. To permanently solve the problem of child labor, efforts must be focused

directly on the causes. From an international perspective, Swedish Match is a small purchaser of tobacco and cannot resolve these issues on its own. ECLT is a unique opportunity for the tobacco industry with initiatives that can be supported by many partners and that can provide lasting results.

More information about ECLT can be found on ECLT's website, www.eclt.org.

DISASTER RELIEF IN THE PHILIPPINES

In November 2013, the Philippines was hit by the devastating typhoon Haiyan and thousands of people were reported dead or injured. The humanitarian consequences were enormous with thousands of people in urgent need of food, clean water, and shelter. Following the typhoon, Swedish Match donated disaster relief to a local aid organization with funds dedicated to rebuilding houses for affected families.

The Company has also been involved in voluntary work and donated lighters to different aid organizations. Monetary support from local funds was also given to employees with affected relatives. In addition, in Sweden, Swedish Match employees had the opportunity to refrain from their Christmas gifts and instead donate the corresponding amount to an aid organization.



as well as giving out an annual Solstickan Award. For every product sold under the *Solstickan* brand, a portion of sales goes to the foundation.

The Tobacco and Match Museum in Stockholm, Sweden, established in 1938, is the custodian of an important part of Swedish industrial culture, with its extensive collections cared for by Swedish Match.

In Sweden, many of the Company's employees support the Chiredzi Orphanage in Zimbabwe by donating an amount of their salary each month. The orphanage was built by a former business partner in Zimbabwe and takes care of and provides education for children whose parents have died of AIDS. The Company encourages active participation and each year, Swedish Match employees visit the orphanage and report internally upon its progress.

In Brazil, Swedish Match is involved in the "Bom Menino" project, a skill building program that enables youths aged 14 to 18 from low income families to develop educational, employment, and social skills.

In the US, charitable contributions are made to organizations primarily in those geographical areas where employees live and work. Community involvement is strongly encouraged and nearly all employees participate through donations, volunteer work, and other activities. One example is Wiregrass United Way in Dothan, Alabama (see case highlighted to the right).

In addition, during 2013, Swedish Match has been involved in various other social community projects, for example:

- Developing talents from marginalized students in the Philippines. During an 18 months in-plant training program, scholars complete an electro mechanics technology training program. After completing the program, scholars are qualified for and have the opportunity to be employed as technicians at Swedish Match.
- Following the devastating typhoon Haiyan in the Philippines, Swedish Match donated disaster relief to a local aid organization (see case highlighted above).
- "Städa Sverige", an anti-littering campaign for a cleaner and safer Sweden.

CHARITABLE CONTRIBUTIONS IN THE US – "WIREGRASS UNITED WAY"

In the US, Swedish Match has made corporate charitable donations to Wiregrass United Way (WUW) since 1999. In addition, many of the employees in the US have supported the organization.

WUW is a local chapter of United Way of America, a leadership and support organization for a network of nearly 1,800 community-based United Ways. WUW raises money to fund 37 local non-profit partnering agencies in southeast Alabama. The goal of the organization is to create positive change in the areas of education, income and health, working with four focus areas: helping youth succeed, meeting basic needs, strengthening families and individuals, and serving people with special needs.

In 2013, 2.6 MUSD was raised through the commitment of the citizens and businesses in the local area.



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

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.

ENVIRONMENTAL RESPONSIBILITY

Ambition: *To consciously and actively reduce the negative impacts the Company has on the environment. This implies working efficiently with resource management, reducing waste and energy consumption, as well as maintaining sound environmental management processes.*



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 SVP Investor Relations and Corporate Sustainability, who reports to the CEO, is

responsible for the Corporate Sustainability function and for communicating environmental issues. The SVP 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 2013, the majority of Swedish Match's production facilities, with products accounting for more than 90 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. In January 2013, the Manaus lighter factory in Brazil was certified for ISO 14001 bringing the total to the ten most significant of the Company's twelve manufacturing facilities with both ISO 14001 certification and ISO 9001 certification.

Basic environmental education is a requirement according to the environmental management standard ISO 14001 in those facilities that are certified according to the

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. Due to the diversity of Swedish Match activities, subordinated environmental policies are formulated for each operating unit.

The main purpose of the policy is to ensure that:

- The Company operates an Environmental Management System (EMS), applicable on a corporate, operating unit, and factory level, which will safeguard that commitment is continuously maintained. Through the EMS, the Group has the tools to identify, track, and target its environmental objectives and targets.
- The Company commits to comply with all relevant environmental legislation, regulations, and other requirements to which it subscribes.
- The Company develops and communicates prioritized Key Performance Indicators (KPIs) for environmental factors, which are deemed to be of high importance by both Swedish Match and its stakeholders.

- The Company commits to continual documentation and communication of any changes of environmental impact due to its activities, products, and services.
- The Company undertakes appropriate remedial actions and improvements based on financial and environmental criteria.

Swedish Match's environmental policy also includes the topics of biodiversity and eco-efficiency, thus helping to broaden the scope from the forest, through the factory, to the office. To review the Group Environmental Policy, visit the sustainability section of the Swedish Match website, www.swedishmatch.com/sustainability.

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. During 2013, the new online environmental training program that was initialized during 2012 within the organization was implemented via the Swedish Match intranet. Approximately 300 employees successfully completed the training program.

Environmental KPIs and targets

Swedish Match is monitoring and reporting on the following six environmental KPIs: total energy consumption, electricity, greenhouse gas emissions (CO₂), total waste, hazardous waste, and water use. During 2011, the Environmental Council set long term targets at the factory level (five year horizon to 2016) within each KPI.

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 2013¹⁾, 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. Measures taken include the installation of low energy lighting, insulation, heat recovery systems, and energy consumption controls. 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 in specific. 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 (CO₂)

Swedish Match works persistently on improvement activities and projects in order to limit its emissions of greenhouse gas, specifically with regards to CO₂ emissions, and each factory has its own target and/or activities in order to limit its CO₂ emissions per unit of output. On an aggregate factory level, the Company's target is to stay at or below baseline for CDP Scope 1 (direct emissions) and Scope 2 (indirect emissions).

Swedish Match is participating in an annual review administrated by the Carbon Disclosure Project (CDP), an independent organization, which maps companies' CO₂ emissions. During 2013, the Company reported an improved disclosure score which covers the 2012 calendar year.

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. Water from a river is pumped to the poplar forest through channels. After use, most of the water volume falls in the drainage system and returns to the river. In addition, the water quality frequently improves as poplar is a phytoremediation specie used as a bio filter to decontaminate polluted water areas.

Other environmental topics

Environmentally adapted products and packaging

Swedish Match strives to deliver the best possible product with a minimum of waste. The Company works to minimize packaging while introducing continuous improvements that not only deliver high consumer value, but also reduce the negative environmental footprint, and adhere to standards of quality. For snus, that means adhering to quality standards such as those set forth by **GOTHIA TEK**[®], as well as the ISO 14001 and ISO 9001 standards.

Swedish Match also strives to use environmentally adapted materials in its packaging. For both Swedish snus and US moist snuff, the plastic cans and lids are made from polypropylene. Rolls of cans are mostly shrink-wrapped in polyethylene. At complete combustion, only carbon dioxide and water remain from these plastics.

¹⁾ Available from mid 2014.

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 90 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.

All coloring agents in the plastic are approved for food packaging.

For cigars, the usage of FoilFresh® packaging has provided longer shelf life of products, reducing the need for returns of old or stale product, which in turn can reduce waste to the landfill. Also, the use of 100 percent recycled paperboard within certain packaging formats has increased significantly. All byproduct paper from the production of packaging material used in the Company's factory in Dothan (Alabama, the US) is returned to the supplier, who converts it to an energy source.

For matches, 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.

For lighters, packaging for utility lighters has been developed which helps to minimize the use of material used and maximize the amount of units that can be loaded on freight containers when distributing the products.

Sustainable agriculture

For its production of smokefree products and cigars, Swedish Match does not source tobacco directly from tobacco farms. Instead, the Company relies on large, reputable international leaf tobacco suppliers. 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. This implies producing a quality tobacco crop while protecting, sustaining or enhancing the environment with regard to soil, water, and air as well as animal and plant life.

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.



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

Regulatory engagement

Swedish Match expects that hundreds of millions of people around the world will continue to consume tobacco, the vast majority by smoking cigarettes. This is a prediction that few are likely to dispute. Swedish Match believes that smokers should have access to a traditional, viable, non-combustible tobacco alternative, such as snus, which is scientifically documented to have significantly lower negative health effects.

Swedish Match also believes that tobacco regulation will continuously globalize, steadily increasing in scope. It is Swedish Match's aspiration to see a move from "one-size-fits-all" 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. The possibility for consumers to choose snus products of the highest quality is one of the greatest explanations as to why cigarette smoking is at record low levels in Sweden compared to other countries. Swedes have for decades preferred snus over cigarettes and there are few who question the public health benefits offered by this migration. This consumption pattern, once upon a time unique to Sweden, is now also becoming clearly visible in neighboring Norway.

Global awareness of the public health impact of smoking has grown at a steady pace since the 1960s. Very few smokers in the western world continue to smoke today as a result of ignorance of the dangers of smoking. While all nicotine-containing products pose a risk for the development of addiction, it is not the nicotine itself which carries the threat of tobacco-related diseases. There are great differences in the risks

associated with different nicotine containing products with nicotine pharmaceuticals and Swedish snus at the lower end of the risk spectrum. This calls for differentiated regulation of products based on risk profile.

It is a given that 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 and producers. This is why Swedish Match is actively engaged with stakeholders in various ways, while recognizing that regulatory decisions will ultimately always be at the discretion of the lawmaker.

Beyond current tobacco regulations, one of the most important longstanding commitments Swedish Match has made is the far-reaching, self-imposed product quality standard for its snus – **GOTHIA TEK®**. The **GOTHIA TEK®** standard provides for continuous work towards reducing or entirely eliminating undesired compounds that are found naturally in tobacco. Today, **GOTHIA TEK®** is adopted by the industry as a standard in the process of manufacturing Swedish snus. Swedish Match subscribes to the belief that the key regulatory objective for all products consumed orally, be they food or smokefree tobacco, ought to be to strive for high product quality and, ultimately, for product safety and consumer protection.

Swedish Match 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.

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 accordance with the Act, in April of 2012, CTP issued its guidance in consultation with the Institute of Medicine (IOM), setting forth the scientific studies and other elements necessary to submit a modified risk products application. Among other things, the guidance contemplates that a party wishing to seek a modified risk product status for one or more of its products will have meetings with CTP in order to agree upon specific elements of a modified risk product application to meet

CTP's requirements. During 2013, Swedish Match has held such meetings with CTP and in 2014 it expects to file an application for some of its snus products being classified as modified risk products.

The Act also empowers the FDA to regulate other tobacco products, such as cigars and pipe tobacco. The FDA has indicated that it intends to assert jurisdiction over cigars, but has not yet issued proposed regulations. Initial guidance and draft regulations could be issued in the first half of 2014, which would then be followed by a period of public comment before final guidance is issued.

The EU

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 three parties involved in the revision – the Commission, the European Parliament and the Council – reached a final agreement in December 2013. The sales ban on snus will remain in the EU, while the EU has agreed that flavors and ingredients in snus will be regulated in Sweden. This is important as snus is by tradition flavored. The availability of flavors has made the development of **GOTHIA TEK**[®], among other things possible, Swedish Match can now maintain the current low levels of unwanted substances and can continue the work of reducing them further.

Other changes that the revised legislation will bring are increased and amended warning labels on snus cans, and restrictions on product presentation. For instance, Swedish Match may no longer disclose product information such as taste or flavorings. Swedish Match regrets that the coming Tobacco Products Directive does not take into account the consumer's right to information.

The final Tobacco Products Directive is expected to be published during the first half of 2014, where after the EU member states are allowed 24 months to bring into force the laws, regulations and administrative provisions necessary to comply with the directive.



Patrik Hildingsson, Vice President Communications and Public Affairs

Swedish Match is of the opinion that:

- The EU ban on Swedish snus is unmotivated, discriminatory and disproportionate.
- The current EU ban on Swedish snus is a violation of the free trade principle and distorts the function of the internal market.
- The ban on snus denies adult European smokers access to a traditional and viable non-combustible tobacco alternative, such as snus, that is scientifically well documented to have significantly lower negative health effects.
- All smoke free tobacco products should be subject to consistent and competition neutral product regulation based on product quality and consumer protection.

Shareholder communication



WWW.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 and improved to easily make available 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.

As of May, 2013, the Swedish Match company website has an updated look. The site embodies the Company's brand identity and 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 Wednesday, May 7, 2014, at 4.30 p.m. CET at Hotel Rival, Mariatorget 3, in Stockholm, Sweden. Doors to the AGM will open at 3.30 p.m.

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

DIVIDEND

The Board of Directors proposes that a dividend of 7.30 SEK per share be paid to the shareholders. The proposed record date for entitlement to receive a cash dividend is May 12, 2014. If the AGM approves the Board's proposal, dividend will be paid through Euroclear Sweden AB on May 15, 2014.

AGM 2014 CALENDAR

30 April, 2014

Record date for AGM

7 May, 2014

AGM

8 May, 2014

Ex-dividend date

12 May, 2014

Proposed record date for dividend

15 May, 2014

Proposed date for dividend payment



CONTACTS

Investor Relations and Corporate Sustainability

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 investorrelations@swedishmatch.com

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

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



FINANCIAL INFORMATION

Annual reports are distributed to shareholders who have requested a printed copy.

New shareholders automatically receive an interim report from Swedish Match by regular mail with an option to request further mailings.

Swedish Match's financial publications are issued in English and Swedish and are available as downloadable PDF files from the Company's website. 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 in a more easily accessible manner. In addition, printed versions of all financial publications are available on request.

Swedish Match provides additional information services through its subscription

service, which can be accessed on the website. The subscription service enables any interested party to monitor the Company's share closing price for the week and receive reminders of calendar activities, press releases, interim reports, and annual reports.

New shareholders automatically receive log in credentials to access a personal user account. Other interested parties can create a user account to receive information. Modifications to the user account can be made through the subscription service www.swedishmatch.com/subscribe, or by e-mailing: investorrelations@swedishmatch.com.

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

PUBLICATION CALENDAR

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

Interim report January–March	May 9, 2014
Half year report January–June	July 18, 2014
Interim report January–September	October 24, 2014
Full year report 2014	February 18, 2015
Annual report for 2014	April, 2015

The share

The Swedish Match share is listed on NASDAQ OMX Stockholm. Total share capital on December 31, 2013 amounted to 390 MSEK, distributed among 202 million shares with a quotient value of 1.9283 SEK each. Each share carries one vote.

Turnover¹⁾

Total turnover in 2013 amounted to 205,394,374 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 99 percent during the year, compared with the average turnover velocity of 67 percent for the NASDAQ OMX Stockholm.

Trading platforms²⁾

Approximately 60 percent of total trading volume of Swedish Match was handled through the NASDAQ OMX Stockholm trading platform. BATS Chi-X was the second most traded platform during 2013.

Share price development and market capitalization¹⁾

The Company's market capitalization at year-end 2013 amounted to 41.1 billion SEK, a decrease of 2.4 billion compared with December 31, 2012.³⁾ The share price fell by 5 percent during the year, while the OMXS30 Index increased by 23 percent. The lowest price paid during the year was 191.60 SEK on December 16, and the highest price paid was 255.60 SEK on July 12.

Ownership structure⁴⁾

At year-end, ownership outside of Sweden corresponded to 72.6 percent of total share capital, a decrease of 3.8 percentage points compared with 2012.³⁾ Swedish ownership interests, totaling 27.4 percent, were distributed among institutions, with 8.7 percent of the share capital, mutual funds, with 9.0 percent, and private individuals, with 9.8 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 2013 of 7.30 SEK (7.30) per share, for a total of 1,453 MSEK (1,459), based on the 199.0 million of shares outstanding at the end of the year (excluding shares held in treasury by Swedish Match). The dividend corresponds to 57 percent (51) of EPS for the year.

Repurchase of own shares

Repurchase of own shares is in principle a reverse new share issue, and provides the opportunity to continuously work to optimize the capital structure in the balance sheet. The size and scope of the share buy-backs depend on Swedish Match's financial position, net profit, anticipated future profitability, cash flow, investments, and expansion plans. Other factors that influence buy-backs are efficient availability of credit, the share price, the Group's interest and tax expenses 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.

¹⁾ Source: NASDAQ OMX Stockholm.

²⁾ Source: SIX Financial Information.

³⁾ Excluding shares held in treasury by Swedish Match AB, which corresponded to 1.46 percent of the total number of shares as per December 31, 2013.

⁴⁾ Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB. Totals may be affected by rounding.

Largest shareholders

Largest shareholders ¹⁾	Number of shares	Holding in percent	Votes in percent
Morgan Stanley Investment Management	10,099,580	5.0	5.1
AMF Insurance & Funds	5,089,702	2.5	2.6
Fidelity Funds	3,910,102	1.9	2.0
Standard Life Investment Funds	3,572,859	1.8	1.8
Nordea Funds	3,250,937	1.6	1.6
Fourth Swedish National Pension Fund	2,703,702	1.3	1.4
Swedbank Robur Funds	2,570,379	1.3	1.3
Second Swedish National Pension Fund	2,522,149	1.2	1.3
SHB Funds	2,457,824	1.2	1.2
SEB Funds	2,353,801	1.2	1.2
Subtotal 10 largest shareholders	38,531,035	19.1	19.4
Other	160,514,486	79.5	80.6
Sub total	199,045,521	98.5	100.0
Shares held by Swedish Match	2,954,479	1.5	0.0
Total	202,000,000	100.0	100.0

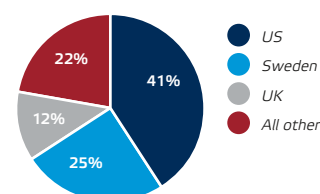
¹⁾ Registered direct ownership and ownership through trustees. Certain shareholders may, through custodial accounts, have had different holdings than are apparent from the shareholders' register.

Source: SIS Ågarservice AB, data derived from Euroclear Sweden AB, as of December 31, 2013. Totals may be affected by rounding.

www.swedishmatch.com

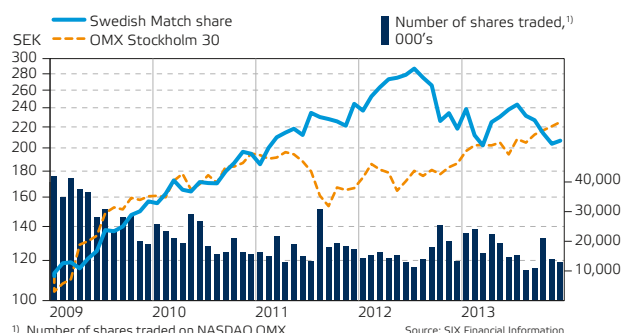
More information is available on the Company website www.swedishmatch.com/investors.

OWNERSHIP STRUCTURE – SHARE CAPITAL BY COUNTRY

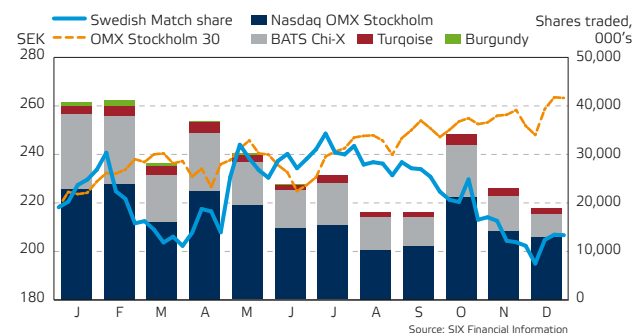


Source: SIS Ågarservice AB, according to Euroclear Sweden AB and data known by Swedish Match, as of December 31, 2013. "All other" also includes shareholders with 500 shares or less in the US, UK, and Sweden. Note that shares held by Swedish Match in treasury are excluded.

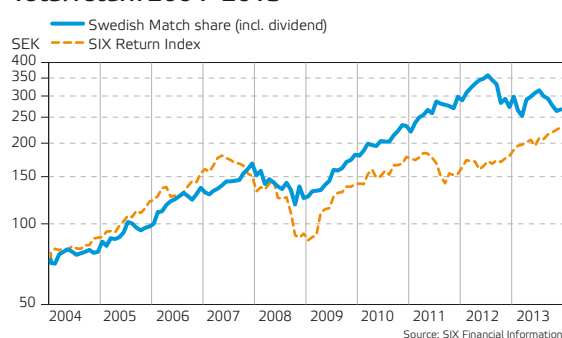
Share price and turnover 2009–2013



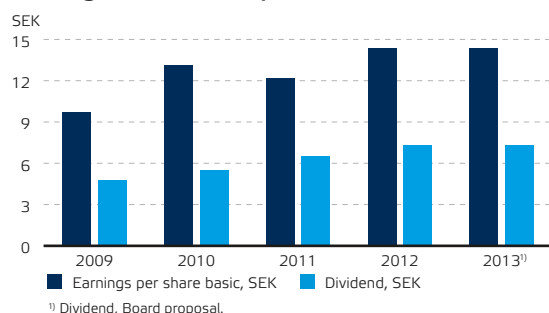
Share price and turnover 2013



Total return 2004–2013



Earnings and dividend per share 2009–2013



Transfer of capital to Swedish Match's shareholders

MSEK	2013	2012	2011	2010	2009	Total
Dividend paid	1,459	1,334	1,152	1,089	1,024	6,058
Repurchase of own shares, net	164	1,532	2,304	2,961	2,547	9,508
Total	1,623	2,866	3,456	4,050	3,571	15,566

Dividend proposed for calendar year 2013 to be paid in 2014 is 1,453 MSEK.

Share distribution¹⁾

Size of holding	No. of owners	No. of owners, %	No. of shares	Holding, %	Votes, %
1–1,000	44,673	90.4	9,258,410	4.6	4.7
1,001–5,000	3,703	7.5	7,437,393	3.7	3.7
5,001–20,000	555	1.1	5,169,562	2.6	2.6
20,001–50,000	155	0.3	4,997,759	2.5	2.5
50,001–100,000	93	0.2	6,685,610	3.3	3.4
100,001–1,000,000	177	0.4	57,569,400	28.5	28.9
1,000,001–	49	0.1	110,881,866	54.9	54.2
Total at December 31, 2013	49,405	100	202,000,000	100	100

¹⁾ Including shares held by Swedish Match as well as custodial ownership.

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

Share data

	2013	2012	2011	2010	2009
Earnings per share, basic, SEK					
From continuing operations, including larger one-time items	13.63	14.33	12.14	13.12	9.67
From continuing operations, excluding larger one-time items	12.82	14.18	12.14	9.92	9.67
Including discontinued operations	–	–	–	–	12.88
Earnings per share, diluted, SEK					
From continuing operations, including larger one-time items	13.61	14.25	12.07	13.09	9.66
From continuing operations, excluding larger one-time items	12.80	14.10	12.07	9.89	9.66
Including discontinued operations	–	–	–	–	12.87
Dividend per share, SEK	7.30 ¹⁾	7.30	6.50	5.50	4.75
Dividend yield at year-end, %	3.53 ¹⁾	3.35	2.66	2.82	3.03
Dividend pay-out ratio, excluding larger one-time items, %	57 ¹⁾	51	54	55	49
Market price at year-end, SEK	206.70	218.20	244.30	194.70	156.90
Market capitalization at year-end, billion SEK ²⁾	41.1	43.5	49.9	41.8	36.3
P/E ratio ³⁾	15.2	15.3	20.2	14.9	12.2
EBIT multiple ³⁾	12.8	13.0	15.9	12.6	13.6
Total return, %	–2.3	–8.5	28.8	27.7	45.1
Average number of shares outstanding, basic	198,930,422	202,888,955	209,001,190	225,331,835	244,259,880
Average number of shares outstanding, diluted	199,274,054	203,995,039	210,296,918	225,969,047	244,440,057
Number of shareholders	49,405	51,244	51,646	53,238	55,127

¹⁾ Board proposal.

²⁾ Excluding shares held by Swedish Match.

³⁾ Including discontinued operations in 2009.

Five year summary 2009–2013

Condensed consolidated income statement, MSEK	2013	2012	2011	2010	2009
Sales	12,610	12,486	11,666	13,606	14,204
Gross profit	5,963	6,349	5,892	6,944	7,089
Larger one-time items	161	30	-	644	-
Operating profit	3,855	4,062	3,702	4,169	3,417
Net finance cost	-544	-551	-523	-562	-443
Profit before income tax	3,310	3,511	3,180	3,607	2,974
Profit for the year from continuing operations	2,711	2,907	2,538	2,958	2,361
Profit from discontinued operations, net of tax	-	-	-	-	785
Profit for the year	2,711	2,907	2,538	2,958	3,146
EBITDA excluding profit from discontinued operations	3,968	4,328	3,992	3,813	3,885

Condensed consolidated balance sheet, MSEK	2013	2012	2011	2010	2009
Assets					
Intangible assets	973	962	992	1,027	3,792
Property, plant and equipment	2,027	2,010	2,076	2,097	2,525
Investments in associated companies and joint ventures	4,506	4,354	4,481	4,085	132
Other non-current financial receivables ¹⁾	1,165	1,140	1,395	1,368	2,061
Current operating assets	3,038	3,080	3,031	2,886	5,286
Other current investments and current financial assets ²⁾	8	-	0	1	10
Cash and cash equivalents	3,164	2,824	2,533	3,275	2,530
Total assets	14,881	14,371	14,507	14,739	16,337
Equity and liabilities					
Equity attributable to equity holders of the Parent	-786	-2,053	-1,602	-482	903
Non-controlling interest	1	2	2	2	4
Non-current provisions	1,031	1,009	1,070	1,050	1,301
Non-current loans	9,420	9,238	8,535	9,209	8,252
Other non-current financial liabilities ¹⁾	1,440	1,870	1,787	1,478	1,440
Current provisions	103	102	84	98	125
Current loans	920	1,119	1,283	525	1,002
Other current liabilities ²⁾	2,751	3,084	3,347	2,861	3,313
Total equity and liabilities	14,881	14,371	14,507	14,739	16,337

¹⁾ Includes pension obligations and derivatives financial instruments.

²⁾ Includes short term derivatives financial instruments.

Condensed consolidated cash flow, MSEK	2013	2012	2011	2010	2009
Net cash from operating activities	2,500	2,805	2,608	2,616	2,911
Net cash used in/from investing activities	-240	-323	-151	959	1,043
Net cash transferred to shareholders	-1,623	-2,866	-3,456	-4,050	-3,571
Net cash used in/from other financing activities	-289	754	237	1,403	-1,135
Net increase/decrease in cash and cash equivalents	348	371	-763	928	-753
<i>Cash flow from discontinued operations</i>					
Net cash from operating activities	-	-	-	-	219
Net cash used in/from investing activities	-	-	-	-	-6
Net cash used in/from financing activities	-	-	-	-	-51
Net increase in cash and cash equivalents	-	-	-	-	162
Cash and cash equivalents at beginning of the year	2,824	2,533	3,275	2,530	3,178
Effects of exchanges rate fluctuations on cash and cash equivalents	-8	-79	21	-183	-58
Cash and cash equivalents at end of year	3,164	2,824	2,533	3,275	2,530

Key data ¹⁾	2013	2012	2011	2010	2009
Operating capital at year-end, MSEK	7,729	7,253	7,224	7,099	8,494
Net debt, MSEK	8,388	9,289	8,886	7,650	7,188
Investments in property, plant and equipment, MSEK	306	251	245	311	471
Operating margin, % ²⁾	29.3	32.3	31.7	25.2	24.1
Return on operating capital, % ²⁾	49.3	55.7	51.7	44.0	39.4
EBITA interest cover ²⁾	7.0	7.6	7.4	7.0	8.4
Net debt/EBITA ^{2),3)}	2.3	2.3	2.4	2.2	2.0
<i>Share data</i>					
Share capital, MSEK	390	390	390	390	390
Dividend per share, SEK	7.30 ⁴⁾	7.30	6.50	5.50	4.75
Earnings per share basic, SEK					
From continuing operations, including larger one-time items	13.63	14.33	12.14	13.12	9.67
From continuing operations, excluding larger one-time items	12.82	14.18	12.14	9.92	9.67
Including discontinued operations	-	-	-	-	12.88
Earnings per share diluted, SEK					
From continuing operations, including larger one-time items	13.61	14.25	12.07	13.09	9.66
From continuing operations, excluding larger one-time items	12.80	14.10	12.07	9.89	9.66
Including discontinued operations	-	-	-	-	12.87

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

²⁾ Including restructuring charges of 73 MSEK in 2009.

³⁾ Data for 2009 are calculated pro-forma excluding South African operations.

⁴⁾ Board proposal.

Sales by product area, MSEK	2013	2012	2011	2010	2009
Snus and snuff	4,868	5,049	4,726	4,522	4,250
Other tobacco products	2,564	2,661	2,388	2,440	2,337
Lights	1,332	1,339	1,346	1,429	1,403
Other operations	3,847	3,437	3,206	2,831	2,689
Sales from product areas	12,610	12,486	11,666	11,222	10,678
Businesses transferred to STG	-	-	-	2,385	3,526
Sales	12,610	12,486	11,666	13,606	14,204

Operating profit/loss by product area, MSEK	2013	2012	2011	2010	2009
Snus and snuff	2,195	2,349	2,181	2,080	1,916
Other tobacco products	1,029	1,161	1,049	942	804
Lights	230	222	240	279	312
Other operations	-80	-65	-105	-142	-132
Operating profit from product areas	3,375	3,666	3,365	3,158	2,900
Share of net profit/loss in STG ¹⁾	319	366	337	-60	-
Businesses transferred to STG	-	-	-	334	518
Subtotal	3,693	4,032	3,702	3,433	3,417
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	-	-	-	-
Operating profit	3,855	4,062	3,702	4,169	3,417

¹⁾ Businesses were transferred to STG on October 1, 2010.

Operating margin by product area, % ¹⁾	2013	2012	2011	2010	2009
Snus and snuff	45.1	46.5	46.1	46.0	45.1
Other tobacco products ²⁾	40.1	43.6	44.0	38.6	34.4
Lights	17.3	16.6	17.9	19.5	22.2
Operating margin from product areas³⁾	26.8	29.4	28.8	28.1	27.2
Operating margin⁴⁾	29.3	32.3	31.7	25.2	24.1

¹⁾ Excluding larger one-time items.

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

³⁾ Excluding share of net profit/loss in STG.

⁴⁾ Including share of net profit/loss in STG.

Quarterly data 2012–2013

Condensed consolidated income statements, MSEK	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	3,178	3,230	3,220	2,982	3,148	3,208	3,213	2,917
Gross profit	1,481	1,481	1,546	1,455	1,562	1,591	1,655	1,541
Operating profit	932	924	968	1,031	986	1,022	1,052	972
Net finance cost	-128	-142	-138	-136	-137	-141	-140	-134
Profit before income tax	804	782	830	895	850	881	942	838
Profit for the period	675	628	667	741	787	693	759	668
EBITDA excluding larger one-time items	1,009	990	1,031	938	1,055	1,097	1,128	1,049

Key data	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operating margin, % ^{1) 2)}	29.3	28.6	30.0	29.2	31.3	31.9	32.7	33.3
Investments in property, plant and equipment, MSEK	74	72	89	70	79	68	64	39
Earnings per share, basic, SEK	3.43	3.15	3.34	3.72	3.93	3.41	3.72	3.27

Sales by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	1,247	1,217	1,230	1,173	1,280	1,263	1,300	1,206
Other tobacco products	590	622	687	664	601	689	696	675
Lights	345	332	326	328	341	311	336	350
Other operations	996	1,058	976	816	926	944	880	687
Sales	3,178	3,230	3,220	2,982	3,148	3,208	3,213	2,917

Operating profit/loss by product area, MSEK	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	562	553	546	534	593	607	581	568
Other tobacco products	228	246	295	260	248	300	316	297
Lights	63	56	53	59	61	44	60	57
Other operations	-18	-19	-22	-20	-18	-8	-20	-19
Operating profit from product areas	835	836	871	832	883	942	938	903
Share of net profit in STG	97	88	95	39	103	80	114	69
Subtotal	932	924	966	872	986	1,022	1,052	972
Capital gain from transfer of businesses to STG	-	-	-	-	-	-	30	-
Capital gain from sale of land	-	-	2	159	-	-	-	-
Total larger one-time items	-	-	2	159	-	-	30	-
Operating profit	932	924	968	1,031	986	1,022	1,082	972

Operating margin by product area, % ¹⁾	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Snus and snuff	45.1	45.4	44.4	45.5	46.3	48.0	44.7	47.1
Other tobacco products	38.6	39.6	42.9	39.2	41.2	43.5	45.4	44.0
Lights	18.1	16.8	16.2	17.8	17.9	14.0	17.9	16.3
Operating margin from product areas³⁾	26.3	25.9	27.1	27.9	28.0	29.4	29.2	31.0
Operating margin²⁾	29.3	28.6	30.0	29.2	31.3	31.9	32.7	33.3

¹⁾ Excluding larger one-time items.

²⁾ Including share of net profit in STG.

³⁾ Excluding share of net profit in STG.

Definitions used in financial tables

AVERAGE OPERATING CAPITAL

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

EBITA INTEREST COVERAGE RATIO

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

OPERATING MARGIN (%)

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

DIVIDEND PAY-OUT RATIO (%)

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

EBITA MARGIN (%)

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

P/E RATIO

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

DIVIDEND YIELD (%)

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

EBITDA

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

RETURN ON OPERATING CAPITAL (%)

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

EARNINGS PER SHARE

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

EBITDA MARGIN (%)

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

SHARE TURNOVER VELOCITY (%)

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

EBIT MULTIPLE

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

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

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

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 2013 increased by 1 percent to 12,610 MSEK (12,486). Operating profit from product areas declined by 8 percent to 3,375 MSEK (3,666).

In local currencies, sales increased by 3 percent, while operating profit declined by 6 percent. Currency translation has affected the sales and operating profit comparison negatively by 260 MSEK and 54 MSEK, respectively. Full year 2013 operating profit was also impacted by restructuring costs of 28 MSEK recorded in the third quarter in connection with the reorganization of the Scandinavian snus operations.

Operating margin from product areas for the full year was 26.8 percent (29.4).

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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 snuff, Other tobacco products (cigars and chewing tobacco) and Lights (matches and lighters). The Group sells products across the globe, with production units in six countries. The Swedish Match share is listed on the NASDAQ OMX Stockholm (SWMA).

Sales

Sales for the year were 12,610 MSEK (12,486). In local currencies, sales increased by 3 percent.

For the year, sales of *Snus and snuff* declined to 4,868 MSEK (5,049). In Scandinavia sales declined by 3 percent, while shipment volumes declined by 1 percent compared to 2012. In the US, sales revenues for the year were down versus prior year on 3 percent lower volumes.

For *Other tobacco products* (cigars and chewing tobacco), total sales for the year amounted to 2,564 MSEK (2,661). In local currency sales for the year were flat compared to the previous year. Sales for US cigars in local currency were flat compared to prior year on 1 percent lower volumes. In addition, sales for cigars have benefited from a changed accounting treatment of tobacco excise taxes. Owing to changed logistics arrangements, tobacco excise taxes are now partly classified as cost of goods sold. During 2013, sales for chewing tobacco were also flat compared to 2012, as higher average sales prices compensated for a volume decline of 9 percent.

Product area *Lights* includes matches and lighters. For the full year sales in the Lights product area amounted to 1,332 MSEK (1,339). Compared to 2012, sales for lights in local currencies increased.

Sales in *Other operations* were 3,847 MSEK (3,437). 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 declined by 8 percent to 3,375 MSEK compared to 3,666 MSEK in 2012. Currency translation

has affected the operating profit comparison negatively by 54 MSEK. In local currencies operating profit from product areas declined by 6 percent.

Operating profit for *Snus and snuff* declined by 7 percent to 2,195 MSEK (2,349) compared to prior year, reflecting the modest volume declines as well as negative pricing developments in Scandinavian and the US. The operating profit of 2013 for the snus business in Scandinavia was affected by a restructuring charge of 28 MSEK. Operating profit also includes operating losses for international snus expansion in the US and through SMPM International amounting to 294 MSEK (248).

Operating profit for *Other tobacco products* amounted to 1,029 MSEK (1,161) representing a decrease by 11 percent compared to prior year. In local currency, operating profit declined by 8 percent. The decline in 2013 was driven by adverse competitive pricing development in the US cigar market. In local currency, operating profit for chewing tobacco increased, while operating profit for US cigars decreased compared to prior year.

Operating profit for *Lights* for the year amounted to 230 MSEK (222). Compared to prior year, operating profit increased for lighters and declined for matches.

Operating loss for *Other operations* for the year was 80 MSEK (65).

Operating profit, including share of net profit from Scandinavian Tobacco Group (STG) and larger one-time items, for the year amounted to 3,855 MSEK (4,062). The share of net profit in STG amounted to 319 MSEK (366) for the year.

Operating margin from product areas for the year was 26.8 percent (29.4). Operating margin, including share of net profit in STG and larger one-time items, was 30.6 percent (32.5).

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

Sales and operating profit/loss by product area

MSEK	Sales		Operating profit/loss	
	2013	2012	2013	2012
Snus and snuff	4,868	5,049	2,195	2,349
Other tobacco products	2,564	2,661	1,029	1,161
Lights	1,332	1,339	230	222
Other operations	3,847	3,437	-80	-65
Sales and operating profit from product areas	12,610	12,486	3,375	3,666
Share of net profit in STG			319	366
Total	12,610	12,486	3,693	4,032
<i>Larger one-time items:</i>				
Adjustment to capital gain from transfer of businesses to STG			-	30
Capital gain from sale of land			161	-
Total larger one-time items			161	30
Total			3,855	4,062

Summary of consolidated income statement

MSEK	2013	2012
Sales	12,610	12,486
Operating profit	3,855	4,062
Net finance cost	-544	-551
Taxes	-600	-604
Profit for the year	2,711	2,907
<i>Attributable to:</i>		
Equity holders of the Parent	2,712	2,906
Non-controlling interest	-1	0
Profit for the year	2,711	2,907
Earnings per share, basic (SEK)	13.63	14.33

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. At the establishment of STG the shareholders of the company entered into a shareholders agreement which includes a standstill agreement expiring on October 1, 2014. The shareholders have therefore now retained a financial advisor to evaluate their options in terms of future ownership structure for the company.

Swedish Match's 49 percent share of STG's net profit after interest and tax amounted to 319 MSEK (366) for the full year. Total STG net sales for the year amounted to 5,925 MDKK (5,978). EBITDA for total STG in the year amounted to 1,180 MDKK (1,313).

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. In 2012 a capital gain of 30 MSEK was recognized in the second quarter of 2012 relating to the transfer of business to STG as a consequence of a reversal of provisions for transaction guarantees.

Net finance cost

Net finance cost for the year decreased to 544 MSEK (551) mainly due to lower interest rates on the debt position during the year.

Taxes

For the full year, the reported tax expense amounted to 600 MSEK (604), corresponding to a tax rate of 18.1 percent (17.2). The reported tax rate excluding larger one-time items as well as profit and loss impact from associated companies and joint ventures was reduced to 20.9 percent (22) mainly due to the corporate income tax cut in Sweden from 26.3 percent to 22 percent. One-time items relate to the additional capital gain from the sale of a parcel of land in 2007. 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 13.63 SEK (14.33). Diluted earnings per share was 13.61 SEK (14.25). Basic earnings per share for the year, excluding larger one-time items, amounted to 12.82 SEK (14.18), while diluted earnings per share, excluding larger one-time items, was 12.80 SEK (14.10).

Liquid funds

Cash and cash equivalents amounted to 3,164 MSEK at the end of the year, compared with 2,824 MSEK at the beginning of 2013. As of December 31, 2013, Swedish Match had 1,429 MSEK in unutilized committed credit lines.

Financing and cash flow

Cash flow from operating activities for 2013 amounted to 2,500 MSEK compared with 2,805 MSEK for the previous year. The cash flow from operations decreased compared to the same period previous year mainly as a result of lower operating profits and higher taxes paid.

The net debt as per December 31, 2013 amounted to 8,388 MSEK compared to 9,289 MSEK at December 31, 2012.

During 2013 new bond loans of 1,225 MSEK were issued. Repayment of loans for the same period amounted to 1,491 MSEK. At December 31, 2013 Swedish Match had 10,508 MSEK of interest bearing debt excluding retirement benefit obligations compared to 10,796 MSEK at December 31, 2012. During 2014, 948 MSEK of this debt falls due for payment.

Capital expenditures and investments

Investments in property, plant and equipment during the year amounted to 306 MSEK (251). Total investments in intangible assets during 2013 amounted to 35 MSEK (48), relating to an investment in software development for an ERP system for the Group. During 2012, 44 MSEK were capitalized for this new ERP system.

Depreciations, amortizations and write-downs

During the year, total depreciation, amortization and write-downs amounted to 275 MSEK (296), of which depreciation and write-down on property, plant and equipment amounted to 244 MSEK (246) and amortization and write-down of intangible assets amounted to 31 MSEK (50).

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

Summary of consolidated balance sheet

MSEK	2013	2012
Non-current assets	8,670	8,466
Inventories	1,304	1,288
Other current assets	1,742	1,793
Cash and cash equivalents	3,164	2,824
Total assets	14,881	14,371
Equity	-785	-2,051
Non-current financial liabilities and provisions	2,472	2,879
Non-current loans	9,420	9,238
Current liabilities and provisions	2,854	3,186
Current loans	920	1,119
Total equity and liabilities	14,881	14,371

Summary of consolidated cash flow statement

MSEK	2013	2012
Net cash from operating activities	2,500	2,805
Net cash used in investing activities	-240	-323
Net cash transferred to shareholders	-1,623	-2,866
Net cash from other financing activities	-289	754
Net increase in cash and cash equivalents	348	371
Cash and cash equivalents at beginning of the year	2,824	2,533
Effects of exchanges rate fluctuations on cash and cash equivalents	-8	-79
Cash and cash equivalents at end of year	3,164	2,824

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 unchanged dividend of 7.30 SEK (7.30), equivalent to 57 percent of the full year's earnings per share, excluding larger one-time items. The proposed dividend amounts to 1,453 MSEK based on the 199.0 million shares outstanding at the end of the year.

Share structure

The Annual General Meeting on April 25, 2013 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, 4 million shares held in treasury have been cancelled. The total number of registered shares in the Company after the cancellation is 202.0 million shares with a quotient value of 1.9283 SEK representing a share capital of 389.5 MSEK. Each share carries one vote.

In line with the financial policy, 1.6 million shares were repurchased during the year for 352 MSEK at an average price of 222.69 SEK, following authorization from the Annual General Meetings held in 2012 and 2013. The purpose of the repurchase was primarily to enable the Company's capital structure to be adjusted and to cover the allocation of options as part of the Company's option programs. Total shares bought back by Swedish Match since the buyback programs started have been repurchased at an average price of 106.22 SEK. During the year the Company sold 1.2 million treasury shares at an average price of 154.15 SEK, totaling 187 MSEK, as a result of option holders exercising their options. As per December 31, 2013 Swedish Match held 3.0 million shares in treasury, corresponding to 1.46 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, 2013 amounted to 199.0 million. In addition, the Company has call options outstanding as of December 31, 2013 corresponding to 1.1 million shares exercisable from 2014 to 2015.

The Board will propose to the Annual General Meeting in May 2014 a renewed mandate to repurchase shares up to a total holding in treasury not exceeding 10 percent of the number of registered shares of the Company until the next Annual Meeting in 2015.

In addition a proposal will be 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 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 4,382 compared with 4,198 for the full year 2012.

Corporate governance report

Swedish Match has decided, in accordance with chapter 6 section 8 in the Swedish Annual Accounts Act, to produce a separate Corporate Governance Report instead of including the report in the Board of Director's report. The Corporate Governance Report is presented on page 95 and is also available on the Company's website www.swedishmatch.com.

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

Corporate Sustainability

Swedish Match works systematically with Corporate Sustainability across the organization. This work 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 fulfilling 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), applicable on a corporate, operating unit, and factory level, 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 compliance with all relevant environmental legislation, regulations and other requirements to which it subscribes. Also, the policy ensures that the Group commits to continuous 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 2013, the majority of Swedish Match's production facilities, with products accounting for more than 90 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. In January 2013, the Manaus lighter factory in Brazil was certified for ISO 14001 bringing the total to the ten most significant of the Company's twelve manufacturing facilities with both ISO 14001 certification and ISO 9001 certification.

Permits and obligatory reporting

All plants satisfied the requirements of their permits during 2013. 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 Protec-

tion 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 Swedish Match Distribution 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, ongoing or anticipated disputes, such lawsuits individually or in the aggregate, could have an adverse effect on the Groups results of operations.

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

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

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

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

Change of control clauses

Swedish Match AB and certain subsidiaries in the Group are party to agreements that include change of control clauses. Bonds issued under Swedish Match's 1,500 MEUR Global Medium Term Note Program and the 160 MEUR Revolving Credit Facility have covenants that can force the Company to pay back loans in a change of control situation. Some distribution agreements with third parties in the Swedish tobacco distribution business can be cancelled should there be a change of control of Swedish Match. The agreement with Philip Morris International to jointly commercialize Swedish snus and other smokefree products worldwide outside Scandinavia and the United States also includes a change of control clause.

The President and CEO may initiate the termination of his employment if the Company is delisted or in the event of a major change of ownership of the Company provided such change has a significant impact on the President and CEO's duties and responsi-

bility compared with the duties and responsibility immediately prior to such change. In such an event the President and CEO has the right to a notice period of six months and severance pay for 18 months. Also some executives in the US operations have change of control clauses which may be triggered by certain events.

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

The Board of Directors proposes that the following principles for remuneration and other terms of employment for the President and other members of the Group management be adopted by the Annual General Meeting 2014. 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 2013.

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 2014 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 2013.

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 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 2014 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 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. Accruals for short term variable salary objectives for GMT members 2014 are estimated¹⁾ 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 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 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 2014 but measured over the full performance period 2014–2016. The criterion is total Group Operating profit from product areas for the years 2014–2016. There will not be any pay-out at all unless there is an improvement in relation to the comparable performance of the Group in 2013.

Accruals for the GMT long term incentive programs are estimated¹⁾ 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 2013, see *Note 5 Personnel*.

Outlook

Swedish Match expect both the Scandinavian snus market and the US market for moist snuff and snus to continue to grow in volume terms in 2014. 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 is likely to imply some negative mix effects.

During the year we will continue to invest in growth for snus internationally, particularly in the US, and also continue to invest for share growth in the fast growing pouch segment of the US moist snuff market.

For cigars in the US, Swedish Match expects the market to remain highly competitive during 2014.

The tax rate for 2014, excluding one-time items as well as associated companies and joint ventures, is expected to be around 22 percent.

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

Swedish Match AB (publ)

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

Sales in the Parent Company for the full year amounted to 44 MSEK (87). Profit before income tax amounted to 2,648 MSEK (4,681) and net profit for the year amounted to 2,607 MSEK (4,586). The main sources of income for the Parent Company are dividends and Group contributions from subsidiaries. During the period, the Parent Company received dividends amounting to 2,627 MSEK (4,333) and net Group contributions amounting to 1,560 MSEK (2,071). An impairment loss on shares in subsidiaries of 1,072 MSEK was recognized during the period as a result of dividends paid out of retained earnings from subsidiaries.

The Parent Company sold a parcel of land adjacent to the old headquarters building in Stockholm in 2007, for which the final purchase price was subject to the approval of a changed city plan. The city plan was approved in January, and payment of the additional purchase price of 161 MSEK was received in the second quarter of 2013.

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 and hence any changes in interest rates would have an immaterial impact on the result of the Parent Company.

Capital expenditures on tangible fixed assets for the year amounted to 0 MSEK. During 2012, no capital expenditures were recognized. During the year no capital expenditures on intangible assets have been recognized. During the previous year, capital expenditures on intangible assets were 44 MSEK, reflecting an investment in software development for an ERP system for the Group that was subsequently transferred to a Group company during 2013.

During the year, a shareholder contribution was provided to a Group company in the amount of 770 MSEK (2,025).

During the year, new bond loans of 1,225 MSEK were issued and repayments of bond loans amounted to 1,491 MSEK. During the period, the Parent Company made share repurchases of 1.6 million (7.4) shares for 352 MSEK (1,946) and sold 1.2 million (2.7) treasury shares for 187 MSEK (414).

A dividend of 1,459 MSEK (1,334) has been paid during the year.

¹⁾ Estimation made on the assumption that Group Management Team is unchanged and on an assumed exchange rate SEK vs. USD of 6.48.

Consolidated income statement

MSEK	Note	2013	2012
Sales, including tobacco tax		24,991	25,449
Less tobacco tax		-12,381	-12,963
Sales	3	12,610	12,486
Cost of goods sold		-6,647	-6,138
Gross profit		5,963	6,349
Selling expenses		-1,818	-1,892
Administrative expenses		-728	-760
Other operating income and expenses	4	-10	-1
Share of profit in associated companies and joint ventures	14	287	337
Capital gain from transfer of businesses to STG		-	30
Capital gain from sale of land		161	-
Operating profit	3, 5, 6, 7, 21, 26	3,855	4,062
Finance income		34	38
Finance costs		-578	-589
Net finance cost	8	-544	-551
Profit before income tax		3,310	3,511
Income tax expense	9	-600	-604
Profit for the year		2,711	2,907
<i>Attributable to:</i>			
Equity holders of the Parent		2,712	2,906
Non-controlling interests		-1	0
Profit for the year		2,711	2,907
Earnings per share, basic, SEK	10		
Including larger one-time item		13.63	14.33
Excluding larger one-time items		12.82	14.18
Earnings per share, diluted, SEK	10		
Including larger one-time item		13.61	14.25
Excluding larger one-time items		12.80	14.10

Consolidated statement of comprehensive income

MSEK	Note	2013	2012
Profit for the year		2,711	2,907
<i>Other comprehensive income that have or will be reclassified to the income statement</i>			
Translation differences related to foreign operations	19	127	-365
Translation differences included in profit and loss	19	0	-3
Effective portion of changes in fair value of cash flow hedges	19	-28	-16
Share of other comprehensive income in associated companies and joint ventures	19	-147	-60
Income tax relating to components of other comprehensive income	9	6	1
Subtotal, net of tax for the period		-42	-444
<i>Other comprehensive income that will not be reclassified to the income statement</i>			
Actuarial gains and losses attributable to pensions, incl. payroll tax		359	-25
Share of other comprehensive income in associated companies and joint ventures		5	-30
Income tax relating to components of other comprehensive income	9	-144	8
Subtotal, net of tax for the period		221	-47
Total comprehensive income for the year		2,889	2,415
<i>Attributable to:</i>			
Equity holders of the Parent		2,890	2,415
Non-controlling interests		-1	0
Total comprehensive income for the year		2,889	2,415

Consolidated balance sheet

MSEK	Note	Dec. 31, 2013	Dec. 31, 2012
Assets			
Intangible assets	11	973	962
Property, plant and equipment	12	1,907	1,885
Forest plantations	13	120	125
Investments in associated companies and joint ventures	14	4,506	4,354
Other non-current receivables	15	442	429
Deferred income tax assets	9	723	710
Total non-current assets		8,670	8,466
Inventories	16	1,304	1,288
Trade receivables	17	1,440	1,554
Prepaid expenses and accrued income		89	70
Income tax receivables		74	67
Other current receivables	15	139	102
Cash and cash equivalents	18	3,164	2,824
Total current assets		6,211	5,904
TOTAL ASSETS		14,881	14,371
Equity			
Share capital	19	390	390
Reserves		-412	-370
Retained earnings		-763	-2,072
Equity attributable to equity holders of the Parent		-786	-2,053
Non-controlling interests		1	2
TOTAL EQUITY		-785	-2,051
Liabilities			
Loans and borrowings	20, 25	9,420	9,238
Other liabilities	23	312	488
Provision for pensions and similar obligations	21	1,128	1,382
Other provisions	22	464	504
Deferred income tax liabilities	9	567	505
Total non-current liabilities		11,892	12,117
Loans and borrowings	20, 25	920	1,119
Trade payables		559	635
Income tax liabilities		51	34
Other liabilities	23	1,459	1,619
Accrued expenses and deferred income	24	682	796
Provisions	22	103	102
Total current liabilities		3,774	4,305
TOTAL LIABILITIES		15,666	16,422
TOTAL EQUITY AND LIABILITIES		14,881	14,371

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

2012	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
Equity at beginning of year	19	390	74	-2,065	-1,602	2	-1,599
Profit for the year		-	-	2,906	2,906	0	2,907
Other comprehensive income, net of tax ¹⁾		-	-444	-47	-492	0	-492
Total comprehensive income		-	-444	2,859	2,415	0	2,415
Dividend		-	-	-1,334	-1,334	0	-1,334
Repurchase of own shares		-	-	-1,946	-1,946	-	-1,946
Stock options exercised		-	-	414	414	-	414
Cancellation of shares		-13	-	13	0	-	0
Bonus issue		13	-	-13	0	-	0
Equity at end of year		390	-370	-2,072	-2,053	2	-2,051

2013	Note	Equity attributable to equity holders of the Parent				Non-controlling interest	Total equity
		Share capital	Reserves	Retained earnings	Total		
Equity at beginning of year	19	390	-370	-2,072	-2,053	2	-2,051
Profit for the year		-	-	2,712	2,712	-1	2,711
Other comprehensive income, net of tax ¹⁾		-	-42	221	179	0	179
Total comprehensive income		-	-42	2,932	2,890	-1	2,889
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
Equity at end of year		390	-412	-763	-786	1	-785

¹⁾ 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 221 MSEK (-47).

Consolidated cash flow statement

MSEK	Note	2013	2012
Operating activities	30		
Profit before income tax		3,310	3,511
Share of net profit/loss in associated companies and joint ventures		-287	-337
Dividends receive from associated companies		234	218
Adjustments for other non-cash items and other		194	264
Income tax paid		-632	-563
Cash flow from operating activities before changes in working capital		2,820	3,093
Cash flow from changes in working capital			
Increase (-)/ Decrease (+) in inventories		-15	0
Increase (-)/ Decrease (+) in operating receivables		24	-188
Increase (+)/ Decrease (-) in operating liabilities		-328	-99
Net cash generated from operating activities		2,500	2,805
Investing activities			
Purchase of property, plant and equipment		-306	-251
Proceeds from sale of property, plant and equipment		-	6
Purchase of intangible assets		-35	-48
Investments in associated companies and joint ventures		-57	-40
Proceeds from sale of subsidiaries, net of cash disposed of		158	9
Changes in financial receivables, etc.		0	-
Net cash from investing activities		-240	-323
Financing activities			
Proceeds from non-current borrowing		1,225	2,062
Repayment of borrowings		-1,502	-1,315
Repurchase of own shares		-352	-1,946
Stock options exercised		187	414
Dividend paid to equity holders of the Parent		-1,459	-1,334
Other		-12	8
Net cash used in financing activities		-1,912	-2,112
Net increase in cash and cash equivalents		348	371
Cash and cash equivalents at the beginning of the year		2,824	2,533
Effect of exchange rate fluctuations on cash and cash equivalents		-8	-79
Cash and cash equivalent at end of year		3,164	2,824

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, 2012.

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 18, 2014.

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 are 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 2013. New standards and amendments to standards that have been applied as of January 1, 2013 are described below. Other changes in IFRS effective as of January 1, 2013 have not had any impact on the Group's financial statements.

As of January 1, 2013 the revised *IAS 1 Presentation of Financial Statements* have been applied for the Group's financial statements. The amendments to IAS 1 provide changes in regards to the presentation of *Other comprehensive income and expense*. Such items are presented into two categories 1) *Items that have or will be reclassified to the income statement* and 2) *Items that will not be reclassified to the income statement*. Comparable financials have been restated according to the new classification of components in *Other comprehensive income and expense*.

In addition, as of January 1, 2013 the revised *IAS 19 Employee benefits* have been applied on the Group's financial statements. The revised accounting for IAS 19 has had limited effect the Group's financial statements during 2013 as the "corridor" method has not been applied previously and actuarial gains and losses have been recognized in full in the period as they occur. The revised IAS 19 implies that service cost, past service cost and any administration costs directly 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 financial net. 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. The revised IAS 19 has resulted in somewhat higher pension costs in the income statement compared to previous reporting periods. The increase of pension costs in the income statement has been fully offset by a corresponding income reported in other comprehensive income. The reason for this shift of income from the income statement to other comprehensive income is that the amended IAS 19 requires that return on plan assets shall be recognized using the same interest rate as the discount rate used when measuring the pension obligations. As Swedish Match, for certain plans, currently expects a higher return on the plan assets than the discount rate such difference is part of the actuarial gains or losses reported in other comprehensive income. Comparable financials have not been restated to reflect the revised IAS 19 due to the limited effect on the Group's financial statements.

IFRS 13 Fair Value Measurements aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The new disclosure requirements, as applicable, can be found in *Note 25 Financial instruments and financial risks*.

In addition, new disclosures have been included in accordance with the amendments to *IFRS 7 Financial instruments* for the presentation of gross amounts of financial instruments under netting agreements.

The following new IFRS standards, amendments and interpretations to existing standards applicable as of January 1, 2013 have not had any significant impact on the Group's financial result or position: amendments to *IAS 12 Income taxes* and annual improvements to *IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34*. Amendments to *IAS 36 Impairment of assets* regarding the recoverable amount disclosures for non-financial assets have been adopted early.

New IFRSs and interpretations which have not yet been applied

A number of new standards, changes in standards and interpretations of standards apply from 2014 or later and have not been applied in these financial reports.

IFRS 9 Financial Instruments which is expected to be effective in 2017 and replacing *IAS 39 Financial Instruments: Recognition and Measurement* brings about changes regarding classification and measurement of financial assets and liabilities. 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, 2014 or later are not expected to have 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*.

Consolidation principles

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

Subsidiaries

Consolidated financial statements include all subsidiaries that are defined as companies in which Swedish Match holds shares carrying more than 50 percent of the votes or in which Swedish Match has control in some other way. All acquisitions of subsidiaries are reported in accordance with the purchase method. The method means that the acquisition of subsidiaries is considered

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

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

Joint ventures 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 that are attributable to the non-controlling interests.

Discontinued operations

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

Classification etc.

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

Reporting by segment

The Group's reportable segments are based on the internal reporting structure. Swedish Match chief operating decision maker is the Group's President and CEO, who monitors and makes decisions about operating matters based on product areas. The Group's reportable segments are *Snus and snuff*, *Other tobacco products* (cigars and chewing tobacco), *Lights* (matches and lighters) 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 is no internal sale between operating segments and the Group's financial costs as well as taxes are not allocated to product areas. Operating assets are not monitored on a segment basis.

Foreign currencies

(i) Transactions in foreign currencies

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

(ii) Financial reports of foreign operations

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

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

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

Country	Currency	Average exchange rate January–December		Exchange rate on December 31	
		2013	2012	2013	2012
USA	USD	6.51	6.78	6.48	6.50
Euro zone	EUR	8.65	8.71	8.93	8.58
Brazil	BRL	3.03	3.48	2.77	3.17
Norway	NOK	1.11	1.16	1.06	1.17

Revenues

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

Financial income and expenses

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

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

Financial instruments

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

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

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

NOTE 1 Continued

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

Receivables and liabilities in foreign currency

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

Cash flow hedges

When derivatives are used in order to convert 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 in a cash flow hedge relationship and are considered to be effective as described in IAS 39 are recognized in other comprehensive income and is accumulated in the hedge reserve and any ineffective portion is recognized directly in the income statement. Reclassification from the hedge reserve through other comprehensive income into the income statement is made either when the hedged item affects the income statement or when the hedged item has 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 change arising from revaluation of derivatives are recognized directly in earnings, and the related value change from the hedge item is similarly recognized in earnings thus offsetting the effective portion in the hedge relationship. Swedish Match presently has no fair value hedges.

Derivatives not used for hedge accounting

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

Leased assets

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

Intangible assets

(j) 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, customer lists etc.

(iii) Amortization

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

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

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

Tangible assets

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

Depreciation

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

- buildings, owner-occupied properties 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 are determined on the basis of value in use, applying discounted cash flow calculations. An impairment charged against the income statement is made when the carrying amount exceeds the recoverable amount. For the purpose of the 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 may no longer exist or may have decreased. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Provisions

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

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

Share capital

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

Employee benefits**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 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 fee for defined contribution plans are reported as an expense in the income statement as incurred.

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

NOTE 1 Continued

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

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, 2013 amounted to 973 MSEK and amortization and write downs amounted to 31 MSEK. The amount for goodwill, which is included in intangible assets, amounts to 556 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, 2013 the Group's investments in associated companies and joint ventures amounted to 4,506 MSEK. For further information on the Group's investments in associated companies and joint ventures see *Note 14 Investments in associated companies and joint ventures*.

Legal disputes

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

Post-employment defined benefits

Costs and liabilities attributable to post-employment defined benefit plans are recognized in the Group's financial statements based on actuarial calculations. Actuarial calculations requires management to make assumptions on the discount rate, 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, 2013 were estimated to exceed the fair value of plan assets by 1,044 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 snuff, Other tobacco products, Lights, and Other operations.

Snus and snuff are smokeless tobacco products that are produced and sold primarily in Sweden, Norway and the US. Sweden is the world's largest snus market measured by per capita consumption. The Norwegian market is smaller than the Swedish market but has 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 and 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 US 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. Swedish Match is the market leader in a number of markets for matches. The match brands are mostly local, with leading positions in their home countries. Larger brands include *Solstickan, Fiat Lux, Swan, Tres Estrellas, Feudor*, and *Redheads*. The Group's main brand for disposable lighters is *Cricket*. Swedish Match's largest market for lighters is Russia.

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 snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit in STG		Swedish Match Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
External sales	4,868	5,049	2,564	2,661	1,332	1,339	3,847	3,437	12,610	12,486	-	-	12,610	12,486
Depreciations, amortizations and write-downs	-163	-169	-52	-77	-33	-36	-28	-13	-275	-296	-	-	-275	-296
Income from associated companies and joint ventures	-37	-40	7	9	1	1	-3	1	-32	-30	319	366	287	337
Operating profit	2,195	2,349	1,029	1,161	230	222	-80	-65	3,375	3,666	319	366	3,693	4,032
Capital gain from transfer of businesses to STG	-	-	-	-	-	-	-	30	-	30	-	-	-	30
Capital gain from sale of land	-	-	-	-	-	-	161	-	161	-	-	-	161	-
Operating profit, including larger one-time items	2,195	2,349	1,029	1,161	230	222	82	-35	3,536	3,696	319	366	3,855	4,062
Finance income													34	38
Finance costs													-578	-589
Profit before income tax													3,310	3,511

Restructuring costs and results from sale of fixed assets	Snus and snuff		Other tobacco products		Lights		Other operations		Sub total reportable segments		Share of net profit in STG		Swedish Match Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Restructuring charges	-28	-	-	-	-	-	-	-	-28	-	-9	-	-37	-
Gains/losses from sale of fixed assets	-0	-1	0	0	-0	0	0	0	-0	0	-	-	-0	0
Investments														
Property, plant and equipment ¹⁾	169	110	62	54	64	61	11	26	306	251	-	-	306	251
Intangible assets	0	3	-	-	-	-	35	45	35	48	-	-	35	48

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

Geographic information

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

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

Country	Sales to external customers				Fixed assets ¹⁾			
	2013		2012		2013		2012	
	MSEK	Percent	MSEK	Percent	MSEK	Percent	MSEK	Percent
Sweden	7,028	56	6,723	54	6,333	81	6,180	81
USA	3,523	28	3,691	30	929	12	904	12
Rest of the world	2,059	16	2,072	17	547	7	576	8
Total	12,610	100	12,486	100	7,808	100	7,660	100

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

Information about major customers

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

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

4. Other operating income and expenses

Other operating income and expenses are specified below:

	2013	2012
Foreign exchanges gains	12	22
Foreign exchanges losses	-20	-22
Result from sale of fixed assets	0	0
Other	-1	0
Total	-10	-1

5. Personnel

The average number of employees in the Parent Company during 2013 was 42, and in the Group 4,382. The corresponding numbers in 2012 were 46 and 4,198, respectively. As of 2013, the average number of employees also include temporary employees. Prior-year figures are restated accordingly to allow comparability.

Group employees by country are summarized in the table below:

	2013		2012	
	Average number of employees	(of whom men, %)	Average number of employees	(of whom men, %)
Parent Company				
Sweden	42	50	46	50
Subsidiaries				
Belgium	2	-	3	-
Brazil	714	66	718	66
Dominican Republic	986	53	917	56
Netherlands	101	95	101	95
Norway	48	67	47	66
Philippines	306	52	264	59
Sweden	1,008	60	994	62
Turkey	15	73	15	73
United States	1,158	68	1,092	69
Other countries	2	50	1	100
Total	4,382	62	4,198	64

Board and Management by gender¹⁾:

	2013		2012	
	At end of period	(of whom men, %)	At end of period	(of whom men, %)
Parent Company				
Board members	10	60	9	67
President and other management	7	86	5	100
Group				
Board members	69	83	73	88
President and other management	39	92	53	91

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

NOTE 5 Continued

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

	2013			2012		
	Wages, salaries and other remunerations	Social costs	of which, pension costs ¹⁾	Wages, salaries and other remunerations	Social costs	of which, pension costs ¹⁾
Parent Company	48	30	13	81	40	16
Subsidiaries	1,076	530	174	1,175	527	168
Total	1,124	560	187	1,256	567	184

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

The pension costs for the Parent Company include 6 MSEK (6) attributable to the President and other management consisting in average of seven persons during 2013 and six persons in 2012.

The pension costs for the subsidiaries include 11 MSEK (12) attributable to Board members, Presidents and other management consisting in average of 28 persons during 2013 (32 persons in 2012). The defined benefit obligations related to Board members, Presidents and other management as of December 31, 2013 amounted to 57 MSEK (65).

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

	2013			2012		
	Board, President and other management ¹⁾	of which, variable salaries ²⁾	Other employees	Board, President and other management ¹⁾	of which, variable salaries ²⁾	Other employees
Parent Company						
Sweden	23	-3	25	45	18	36
Subsidiaries						
Total in subsidiaries	36	-5	1,041	81	30	1,094
Total	59	-7	1,066	126	48	1,130

¹⁾ The Board, President and other management employed by the Parent Company consisted in average of 14 persons (12) and in the subsidiaries of 28 persons (32), whereof two persons were members of the Group Management Team. For further information about remunerations to Group Management Team members see table below "Remuneration and other benefits to Group Management Team".

²⁾ Negative amounts in variable salary reflect current year reversal of provisions for long term incentive programs charged in prior years, as a result of lower expected outcome.

During 2013, 6 MSEK (48) was charged to the income statement, relating to a profit-sharing foundation on behalf of Group personnel in Sweden.

Remuneration to Swedish Match AB's Board of Directors

The Annual General Meeting on April 25, 2013 decided, for the period up to and including May 7, 2014 when the next Annual General Meeting is held that the Chairman of the Board shall receive a fee of 1,710,000 SEK, the deputy Chairman shall receive 810,000 SEK, that other members of the Board elected by the General Meeting shall each receive a fee of 685,000 SEK and as compensation for committee work the Chairmen of the Compensation Committee and the Audit Committee shall receive 250,000 SEK respectively and the other members of these committees shall each receive 125,000 SEK. Members of the Board employed by the Group shall not receive any Directors' fees.

There are no variable salaries or other benefits paid to the Board members for Board work during 2013. In 2013 a study fee in the amount of 56,483 SEK was paid to each of the three employee representatives on the Board, and in the amount of 42,276 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 2013 and 2012 are shown in the tables below:

Fees to Board members

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

TSEK	2012			
	Board fee	Compen-sation Committee	Audit Committee	Total remuneration for Board work
Conny Karlsson Board chairman	1,710	250	-	1,960
Andrew Cripps Board member	810	-	125	935
Karen Guerra Board member	685	125	-	810
Robert F. Sharpe Board member	685	125	-	810
Meg Tivéus Board member	685	-	250	935
Joakim Westh Board member	685	-	125	810
Total	5,260	500	500	6,260

Remuneration and other benefits to Group Management Team

The Annual General Meeting on April 25, 2013 adopted the following principles for remuneration and other terms of employment for the President and other members of the Group management. The members of the Group management are referred to below as the "Group Management Team" or "GMT".

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

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

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

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

- Profit Sharing System:** All employees in Sweden are participating in Swedish Match's profit sharing system ("PSS").
- Insurable benefits:** Old age pension, disability and sickness benefits, medical benefits and life insurance benefits shall be designed to reflect the practices in the country where a member of the GMT is resident. New members of the GMT shall preferably be covered by defined contribution plans.
- Severance pay, etc.:** A mutual period of notice of six months shall apply. Fixed salary during notice of termination and severance payment (if any) shall not exceed an amount corresponding to 24 months fixed salary. Members of the GMT residing outside Sweden may however be offered notice periods for termination and severance payment that are competitive in the country where the members are resident.
- Other benefits:** Other benefits shall be payable in accordance with local custom. The combined value of these benefits shall constitute a limited value in relation to the total remuneration package and shall correspond to the market norm.

- The Board's right to deviate from the principles:** The Board of Directors shall be entitled to deviate from the principles approved by the Annual General Meeting if specific reasons for doing so exist in any individual case.
- Committee work and decisions:** Swedish Match's Board of Directors shall have a Compensation Committee. The Committee has the authority to approve salary and other remuneration and employment terms for members of the GMT, except those regarding the President. The Committee shall prepare and present proposals for the Board's decisions on issues relating to salary and other remuneration and employment terms for the President. The Committee is authorized to decide and in relation to the President to propose to the Board of Directors the further details regarding the criteria and targets on which the variable salary is based for the GMT. In addition hereto the Committee is authorized to decide to what extent such criteria and targets have been met both for the GMT and the President.

Application of principles on variable salary for 2013

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 will include a short term cash incentive and a long term cash incentive program where the short term program will include an incentive for the GMT members to purchase and retain shares in the Company while the long term program shall include an obligation to purchase and an undertaking to retain such shares. The performance period for the short term and the long term programs will be one year and three years respectively. No payments will be made under the programs if the employment has been terminated by the employee or by the Company for cause during the performance period.

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 2013 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 2013 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 45 percent of the 2013 base salary. Subject to justified exemptions, all members of the GMT will be obliged to purchase company shares for the full cash award net of income tax and shall retain such shares for a period of not less than two years. One member of GMT residing outside Sweden may participate in an additional long term variable salary program capped at 100 percent of the base salary every second year.

Remuneration and other benefits to Group Management Team

TSEK		Fixed salary	Variable salary	Other benefits	Pension costs	Total	Defined benefit obligations	Severance costs
President	2013	6,159	-1,071	142	2,247	7,478	-	-
	2012	6,009	6,960	169	2,197	15,335	-	-
Other members of Group Management Team employed by the Parent Company	2013	11,261	-1,547	577	3,821	14,112	-	-
	2012	10,722	11,252	591	3,997	26,562	-	2,353
Other members of Group Management Team employed by subsidiaries	2013	4,667	-1,929	415	1,464	4,617	11,481	3,441
	2012	5,186	6,912	758	1,585	14,440	11,182	-
Total	2013	22,087	-4,547	1,134	7,532	26,207	11,481	3,441
	2012	21,917	25,124	1,518	7,779	56,337	11,182	2,353

Comments to the table

- At the end of 2013, the Group Management Team consisted of eight persons including the President. During 2013, nine persons, including the President, have been assigned to the Group Management Team. The President and six other members of the Group Management Team are employed by the Parent Company and one member is employed by a subsidiary. During 2013, one member of the Group Management Team, employed by a subsidiary, has left the company. Two members of the Group Management Team have during 2013 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 2012, the Group Management Team consisted of seven persons including the President. During 2012, eight persons, including the Presi-

dent, have been assigned to the Group Management Team. The President and four other members of the Group Management Team were employed by the Parent Company and two members were employed by subsidiaries.

- Variable salary pertains to accruals charged to the consolidated income statement during the year for short term and long term incentive programs. Negative amounts in variable salary reflect current year reversal of provisions for long term incentive programs charged in prior 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 2013, Group Management Team participated in short and long term incentive programs (variable salary) described under the presentation of the principles for remuneration and other terms of employment above.

The predominant performance criterion for the CEO and the heads of corporate functions in the short term incentive program for 2013 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 35 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 criterion for the CEO and other members of GMT for the final year 2013 in the three year long term program that started in 2011 was Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia) less 12 percent charge of the average operating capital (excluding shares in STG). The result of the performance criterion was established by the Compensation Committee to 3,368 MSEK in relation to 2013 and 10,039 MSEK for the total performance period 2011 to 2013. The threshold and target for maximum payout were 9,368 MSEK and 10,474 MSEK respectively for the total performance period.

In the three year long term program that started in 2013, the predominant performance criterion for the CEO and other members of the Group Management team is the accumulated Group operating profit (excluding share of net profit in STG and excluding investments in Swedish snus outside Scandinavia)

for the years 2013 to 2015. 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 2012. The long term program also has an additional criterion constituting a maximum of 25 percent of the long term incentive, based on qualitative and quantitative objectives established by the board and the Compensation Committee. As the long term program extends over three years the final result will be established at the end of the three year performance period.

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

Options

The Group had in 2009 an option program that could result in an allotment of call options on shares in Swedish Match AB during 2010. The allotment was subject to the fulfillment of the result of two mutually independent criteria: the improvement of the rolling three year average in the Group's 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	2013		2012	
	Weighted average exercise price	Number of underlying shares	Weighted average exercise price	Number of underlying shares
Outstanding at beginning of period	165.47	2,303,920	159.74	4,980,417
Granted during period	-	-	-	-
Exercised during period	154.15	1,215,813	154.80	2,676,496
Expired during period	171.60	3	144.60	1
Outstanding at period-end	178.11	1,088,104	165.47	2,303,920
Exercisable at period-end	178.11	1,088,104	151.11	1,590,250

The average share price for share options exercised in 2013 was 211.13 SEK (264.23).

The options outstanding at December 31, 2013 and which all are vested are specified in the table below:

Exercise period	Exercise price	Number of underlying shares	Exercised options	Net outstanding options
2012-03-01-2014-02-28	141.24	374,434	698,707	374,434
2013-03-01-2015-02-28	197.45	713,670	-	713,670
Total		1,088,104	698,707	1,088,104

Pensions**President**

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

Other members of Group Management Team

For members of Group Management Team who are residents in Sweden, 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 up 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 (bonus) is capped at 50 per cent of the fixed salary in the calculation of retirement benefits.

Other employment conditions**Severance pay etc.**

For the Group Management Team including the President, a mutual period of notice of six months applies and a maximum severance payment of 18 months' fixed salary is payable if the Company terminates the employment contract. The Group Management Team severance pay will be reduced by a maximum of 50 percent of any income received from another employer or assignment.

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	2013	2012
KPMG		
Audit services	7	7
Audit related services	0	0
Tax services	1	1
Other services	1	1
Total	9	9

Other services include assistance with testing of IT-controls.

7. Operating expenses classified by nature

Operating expenses	2013	2012
Personnel expenses	1,685	1,823
Depreciation, amortization and write-downs	275	296
Direct material	1,787	1,809
Finished products from third party manufacturers	3,702	3,279
Other operating expenses	1,755	1,583
Total	9,204	8,790

Expenses for research and development are recognized in the income statement as other operating expenses. During 2013 expenses for research and development amounted to 99 MSEK (99).

9. Income tax

The major components of income tax expense/income for the years ended December 31, 2013 and 2012 are:

Income tax expense reported in the Income statement	2013	2012	Income tax reported outside of the Income statement	2013	2012
<i>Current tax:</i>			Deferred tax	-138	8
Current tax on earnings for the year	-667	-577	Total	-138	8
Adjustments in respect of prior years	-26	24			
Total current tax	-693	-553	<i>This comprises:</i>		
<i>Deferred tax:</i>			Tax reported in other comprehensive income		
Origination and reversal of temporary differences	94	-97	Actuarial net gains/losses attributable to pensions	-144	8
Impact of change in tax rate	0	46	Revaluation of cash flow hedges net gain/loss	6	4
Total deferred tax	94	-51	Impact of change in tax rate	0	-4
Income tax expense	-600	-604	Total tax reported in other comprehensive income	-138	8
			Total tax reported outside of the Income statement	-138	8

The deductible and taxable temporary differences in the balance sheet for the years ended December 31, 2013 and 2012 are summarized below:

Deferred tax assets and deferred tax liabilities	2013			2012		
	Deferred tax assets	Deferred tax liabilities	Net balance	Deferred tax assets	Deferred tax liabilities	Net balance
Tax loss carry forwards	13	-	13	16	-	16
Trade receivables	2	-	2	2	-	2
Pensions and other post-employment benefits	439	19	420	547	18	529
Employment benefits	84	-	84	88	-	88
Intangible assets	149	246	-98	-	202	-202
Tangible assets	8	185	-177	12	196	-184
Tax allocation reserve	-	98	-98	-	51	-51
Inventory	3	66	-63	3	72	-69
Unremitted earnings in foreign subsidiaries	-	7	-7	-	8	-8
Financial assets	25	-	25	18	-	18
Other	55	-	55	66	-	66
Total	777	621	156	752	547	205
Netting of assets and liabilities	-54	-54	-	-42	-42	-
Net deferred tax balances	723	567	156	710	505	205

8. Net finance cost

Financial income	2013	2012
Interest income relating to pension receivables	3	2
Interest income relating to cash and bank	31	36
Interest income relating to financial instruments held for trading	0	0
Total	34	38
Financial expenses	2013	2012
Interest expense relating to pension liabilities	-53	-63
Interest expense relating to financial liabilities measured at amortized cost	-516	-514
Interest expense relating to financial liabilities pertaining to fair value	0	-1
Net foreign exchange losses	-2	-3
Other financial expenses	-8	-9
Net gain on financial liabilities revalued to fair value	1	0
Total	-578	-589
Net finance cost	-544	-551

NOTE 9 Continued

The net of deferred tax liabilities and assets for the years ended December 31, 2013 and 2012 are summarized below:

Movement in deferred tax liabilities, net	2013	2012
Opening balance, net	-205	-280
Deferred tax expense/income in the Income statement	-94	51
Deferred tax in other comprehensive income	138	-8
Acquisitions/disposals of subsidiaries	-	-
Translation differences	5	32
Closing balance, net	-156	-205

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, 2013 the Group's non-recognized deductible temporary differences are in total 10 MSEK (15) whereof non-recognized tax losses carried forward are 0 MSEK (3). The table below shows the amounts and expiration of the Group's tax losses carried forward:

Year	Amount
2014	-
2015	-
Subsequent years or no time limitation	37
Total tax losses carried forward recognized	37
Total tax losses carried forward not recognized	-

A reconciliation between tax expense and the product of accounting profit multiplied by Sweden's statutory tax rate for the years ended December 31, 2013 and 2012 is as follows:

Reconciliation of effective tax rate	2013		2012	
	%	MSEK	%	MSEK
Accounting profit before income tax		3,310		3,511
Swedish statutory tax rate	22.0	728	26.3	923
Effect of tax rates in foreign jurisdictions	1.5	50	-3.4	-120
Results from associated companies reported net of tax	-1.9	-64	-2.5	-87
Income tax in respect of prior years	0.2	7	-0.7	-24
Income not subject to tax	-3.8	-126	-1.4	-50
Expenses not deductible for tax purposes	0.1	4	0.3	11
Utilization of previously unrecognized tax losses	0.0	-1	-0.1	-3
Effect of enacted change of tax rate	0.0	0	-1.3	-46
Other items	0.0	1	0.0	0
Reported effective tax	18.1	600	17.2	604

Sweden has, effective from January 1, 2013, reduced the corporate tax rate from 26.3 percent to 22 percent. The main reason for the tax percentage increase in 2013 is the impact of the interest deduction limitation rules in Sweden offset by the corporate tax reduction in Sweden from January 1, 2013. The relevant deferred tax balances at year end 2012 have been remeasured with a positive impact of 46 MSEK as a consequence of the corporate tax reduction in Sweden.

10. Earnings per share

Basic	2013	2012
Profit for the year attributable to equity holders of the Parent	2,712	2,906
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items	2,550	2,876
Weighted average number of shares outstanding, basic	198,930,422	202,888,955

Diluted	2013	2012
Profit for the year attributable to equity holders of the Parent	2,712	2,906
Profit for the year attributable to equity holders of the Parent, excluding larger one-time items	2,550	2,876
Weighted average number of shares outstanding, basic	198,930,422	202,888,955
Effect of issued options	343,632	1,106,084
Weighted average number of shares outstanding, diluted	199,274,054	203,995,039

Earnings per share, basic, SEK	2013	2012
Including larger one-time items	13.63	14.33
Excluding larger one-time items	12.82	14.18

Earnings per share, diluted, SEK	2013	2012
Including larger one-time items	13.61	14.25
Excluding larger one-time items	12.80	14.10

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 2013. As of December 31, 2013 the Company has call options corresponding to 1.1 million shares outstanding. These call options can be exercised in gradual stages between 2014 and 2015 at exercise prices varying between SEK 141.24 and SEK 197.45. For a table detailing options outstanding at December 31, 2013, see Note 5 Personnel.

11. Intangible assets

Intangible assets at December 31 comprised the following:

	Goodwill		Trademarks		Other intangible assets ¹⁾		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Cost at beginning of year	596	619	976	992	154	108	1,726	1,719
Purchases/investments	-	-	-	-	35	48	35	48
Sales/disposals	-	-	-	-	-	-1	-	-1
Reclassifications ²⁾	-	-	-	-	8	-	8	-
Adjustment	-	-	-43	-	-	-	-43	-
Translation differences, etc.	-2	-23	-1	-17	0	0	-3	-40
Cost at end of year	595	596	931	976	198	154	1,723	1,726
Accumulated amortization and write-down at beginning of year	-39	-39	-677	-650	-48	-38	-764	-727
Amortization for the year	-	-	-15	-39	-15	-11	-30	-50
Write-down for the year	-	-	-	-	-1	-	-1	-
Sales/disposals	-	-	-	-	-	1	-	1
Adjustment	-	-	43	-	0	0	43	0
Translation differences, etc.	-	-	1	12	0	0	1	12
Accumulated amortization and write-down at end of year	-39	-39	-648	-677	-64	-48	-751	-764
Net carrying value at end of year	556	557	283	299	134	106	973	962

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

²⁾ During 2013, 8 MSEK was reclassified from construction in progress to software.

No borrowing costs have been capitalized during 2013 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	
	2013	2012
Cost of goods sold	-1	-1
Selling expenses	-18	-41
Administrative expenses	-12	-7
Total	-31	-50

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 is

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 on assumptions that management believes are reasonable. 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 2013, 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 percent (1) is applied for Other tobacco products operations, 2 percent (1) for Lights operations and 2 percent (2) for the US 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 thus no indications of impairment.

Cash generating unit	Goodwill in cash generating units			
	Pre-tax WACC 2013, %	2013	Pre-tax WACC 2012, %	2012
Other tobacco products operations	8.0	327	6.2	326
Lights operations	13.8	170	13.9	170
US snuff operations	7.4	59	6.1	62
Total		556		557

12. Property, plant and equipment

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

	Buildings and land ¹⁾		Plant and machinery		Equipment, tools and fixtures		Construction in progress		Total ²⁾	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Cost at beginning of year	975	990	2,955	2,971	601	724	132	93	4,663	4,779
Purchases/investments	5	2	88	54	97	51	97	119	287	226
Sales/disposals	-	0	-12	-36	-30	-172	-	0	-42	-208
Reclassifications ³⁾	21	7	90	68	1	1	-121	-78	-8	-1
Translation differences, etc.	-8	-25	-22	-102	-11	-3	-2	-2	-43	-132
Cost at end of year	994	975	3,099	2,955	658	601	105	132	4,857	4,663
Accumulated depreciation and write-down at beginning of year	-371	-358	-2,026	-1,973	-378	-497	-2	0	-2,777	-2,828
Depreciation for the year	-25	-26	-161	-164	-53	-54	2	-2	-238	-246
Write-down for the year	-	-	-3	-	-	-	-3	-	-6	-
Sales/disposals	-	0	11	33	30	169	-	-	41	203
Reclassifications ³⁾	-	-	-	0	-	0	-	-	-	-
Translation differences, etc	3	14	17	78	10	3	0	0	30	94
Accumulated depreciation and write-down at end of year	-393	-371	-2,162	-2,026	-392	-378	-4	-2	-2,950	-2,777
Net carrying value at end of year	601	604	937	929	267	223	102	129	1,907	1,885

¹⁾ Buildings and land include land and land improvements at a book value of 99 MSEK (104).

²⁾ Total property, plant and equipment exclude forest plantation.

³⁾ 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 244 MSEK (246) was charged to cost of goods sold in the income statement in an amount of 193 MSEK (195), to administrative expenses of 13 MSEK (12), and to selling expenses of 38 MSEK (39).

13. Forest plantations

Forest plantations at December 31 comprised the following:

Forest plantations	2013	2012
Carrying value at beginning of year	125	125
Purchases/investments/new planting	18	25
Sales/disposals during the year	0	-
Change in fair value	0	3
Transfer to inventories	-7	-9
Translation differences, etc.	-17	-19
Carrying value at end of year	120	125

The Group's forest plantations comprise poplar and pine forests in Brazil with a total area of 5,900 hectares at December 31, 2013. 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 2013 had an estimated value of 7 MSEK at the time of felling, and made up 89,000 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. 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 2013, 202 hectares (166) pine forest were replanted. At present, there is no corresponding requirement for poplar.

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

14. Investments in associated companies and joint ventures

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

Investments in associated companies

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

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 the new STG are included in the acquisition value. As Swedish Match continues to own 49 percent of the net assets transferred via the new company, 49 percent of the total capital gain has been deferred. Hence, in the Group's accounts the carrying value of the STG investment is adjusted by the deferred capital gain in an amount of 543 MSEK.

Other associated companies of Swedish Match are Arnold André GmbH & Co. KG, a cigar company in Germany and Malaysian Match Co. SDN. BHD. which is a sales distributor for primarily matches and lighters in the Asia region.

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

Associates	2013	2012
Carrying value at beginning of year	4,351	4,478
Share of net profit/loss in associated companies	324	377
Share of other comprehensive income in associated companies	-142	-90
Dividends from associated companies	-234	-218
Translation differences	184	-196
Carrying value at end of year	4,482	4,351

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

Country (share of ownership)	Road Cargo Sweden Holding AB		Arnold André GmbH & Co. KG		Malaysian Match Co. SDN. BHD.		Scandinavian Tobacco Group A/S		Total	
	Sweden (49%)		Germany (40%)		Malaysia (32%)		Denmark (49%)		2013	2012
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Sales	122	134	301	294	27	29	3,368	3,426	3,818	3,883
Profit/Loss (excluding other comprehensive income)	-3	1	7	9	1	1	319	366	324	377
Assets	25	48	194	203	14	14	7,895	7,868	8,128	8,133
Liabilities	25	46	100	105	4	5	2,980	3,087	3,109	3,242
Equity interest	0	1	95	98	11	10	4,915	4,781	5,020	4,890
Goodwill	-	-	-	-	4	4	-	-	4	4
Deferred capital gain net of transaction costs	-	-	-	-	-	-	-543	-543	-543	-543
Carrying value at end of year	0	1	95	98	15	14	4,372	4,238	4,482	4,351

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 2013 was 37 MSEK (40).

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

Joint ventures	2013	2012
Carrying value at beginning of year	3	3
Investment in joint ventures	57	40
Net loss of joint ventures	-37	-40
Carrying value at end of year	23	3

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

	2013	2012
Sales	5	3
Expenses	-42	-43
Loss	-37	-40
Total assets	40	18
Total liabilities	16	15
Equity interest	23	3

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 28 MSEK (29). Total sales to associated companies and joint ventures amounted to 177 MSEK (181). Payables to these companies totaled 5 MSEK (8). Total purchases from associated companies and joint ventures amounted to 81 MSEK (78).

15. Other non-current receivables and other current receivables

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

Non-current receivables	2013	2012
Non-current financial receivables	302	282
Net assets in pension plans	84	65
Other non-current receivables	56	83
Total	442	429

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.

Other non-current receivables mainly pertain to endowment assurances in the parent company.

Other current receivables at December 31 comprised the following items:

Other current receivables	2013	2012
Current financial receivables	12	11
VAT receivables	18	18
Other current receivables	109	73
Total	139	102

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	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Finished goods	504	-	504	499	-	499
Work in progress	39	-	39	40	-	40
Leaf tobacco	278	249	527	313	234	547
Other input materials and consumables	234	-	234	201	-	201
Total	1,055	249	1,304	1,054	234	1,288

During 2013, 27 MSEK (25) 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	2013	2012
Trade receivables	1,463	1,578
Less provision for impairment of trade receivables	-23	-25
Net total	1,440	1,554

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

Trade receivable provision	2013	2012
Carrying value at beginning of year	-25	-18
Provision	-8	-15
Recovery	7	6
Write-off	1	0
Companies divested	-	0
Translation differences, other deductions or additions, etc.	2	2
Carrying value at end of year	-23	-25

As of December 2013, trade receivables of 53 MSEK (32) were past due but not impaired. The aging of these trade receivables is as follows:

Aging of trade receivables	2013	2012
Current	1,387	1,522
Overdue < 31 days	35	24
Overdue 31-60 days	6	5
Overdue > 60 days	12	3
Total	1,440	1,554

Swedish Match does not generally hold collateral against trade receivable. The ten largest customers represent 39 percent (41) of total net sales. Trade receivables are generally held in domestic currencies, which have an insignificant impact on the foreign currency risk. The provision for account receivables mainly pertain to doubtful customer account receivables that have the potential risk for not being collected. The credit risk of the Group's trade receivables is deemed to be low. For more information see Note 25 *Financial instruments and financial risks*.

18. Cash and cash equivalents

	2013	2012
Cash and cash equivalents		
Cash and bank	3,164	2,824
Total	3,164	2,824

19. Equity

Objectives, policies and processes for managing capital

The Board of Directors of Swedish Match has concluded that in view of the good and stable prospects for the business the financial policy is that the Group will strive to maintain a net debt that does not exceed three times EBITA. The Board of Directors has further concluded that the strategic position of Swedish Match supports a dividend policy with a targeted pay-out ratio to 40 to 60 percent of the earnings per share for the year, subject to adjustments for larger one-time items. The Board of Directors proposes a dividend of 7.30 SEK, equivalent to 57 percent of the earnings per share for the year, excluding larger one-time items. Based on the number of shares outstanding at the end of the year, the total proposed dividend amounts to 1,453 MSEK. Dividend for 2012, paid in 2013, amounted to 1,459 MSEK corresponding to 7.30 per share, which is equivalent to 51 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)	
	2013	2012	2013	2012
Balance at beginning of year	6,592	8,828	-22,234	-20,702
Repurchase of own shares during the year	1,579	7,440	-352	-1,946
Stock options exercised during the year	-1,216	-2,676	187	414
Allocated to retained earnings by cancellation of treasury shares	-4,000	-7,000	-8	-13
Bonus issue	-	-	8	13
Balance at end of year	2,955	6,592	-22,398	-22,234

Since the buyback programs started in June 2000 the total number of share repurchased amounts to 218.5 million shares and the total number of cancellation of shares amounts to 201.9 million shares. Total number of shares sold as a result of option holders exercising options amounts to 13.5 million shares.

The Annual General Meeting on April 25, 2013 renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 4 million shares held in treasury. The total number of registered shares of the Company, after the cancellations, is 202.0 million shares.

During the year 1.6 million shares were repurchased for 352 MSEK at an average price of 222.69 SEK. As at December 31, 2013 Swedish Match held 3 million shares in its treasury, corresponding to 1.46 percent of the total number of shares. During the year the Company has sold 1.2 million treasury shares at an average price of 154.15 SEK, totaling 187 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 199.0 million. In addition, the Company has call options outstanding at year end corresponding to 1.1 million shares exercisable in gradual stages from 2014–2015.

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

2012	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	-76	150	2
Profit for the year pertaining to non-controlling interest	-	-	0
Translation differences related to foreign operations for the year	-	-365	0
Translation differences included in profit and loss	-	-3	-
Effective portion of changes in fair value cash flow hedges	-16	-	-
Share of reserves in associated companies and joint ventures, net of taxes ¹⁾	-28	-32	-
Income tax relating to components of other comprehensive income ²⁾	1	-	-
Balance at end of year	-119	-252	2

2013	Hedge reserve	Translation reserve	Non-controlling interest
Balance at beginning of year	-119	-252	2
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 ¹⁾	17	-164	-
Income tax relating to components of other comprehensive income ²⁾	6	-	-
Balance at end of year	-124	-288	1

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

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

Hedge reserve

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

Translation reserve

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

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	2013	2012
2013	-	6
2014	6	1,220
2015	1,999	1,998
2016	651	651
2017	3,120	2,998
2018	1,250	1,251
2019 and later	2,394	1,114
Total	9,420	9,238

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

Current interest-bearing liabilities	2013	2012
Current portion of non-current loans	919	1,107
Bank overdraft facilities utilized	1	12
Total	920	1,119

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	2013	2012
Defined benefit plans, net liabilities	398	639
Post-employment medical benefits, net liabilities	723	736
Other long term employee benefits, net liabilities	7	7
Provision for pensions and similar obligations	1,128	1,382
Defined benefit plans, net assets	-84	-65
Included in non-current receivables	-84	-65
Net post-employment liability	1,044	1,317

The year 2013 was characterized by an overall increase in discount rates and a good performance of the plan assets, mostly effecting the US plans. Consequently, the Group experienced a decrease in the net pension liability, and has recognized a net actuarial gain 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 members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

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

Normal retirement age for the US qualified pensions is 65 years and benefits do not receive inflationary increases. Plan assets are held in trusts and there are pension plan fiduciaries as required under US pension law. The fiduciaries, jointly with Swedish Match, are responsible for the governance of the plans. 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 pension 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 latest formal actuarial valuation of the plan showed an excess of assets over the present value of the accrued liabilities. Consequently, no contributions are currently payable to the plan.

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 some 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 composes 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:

	Defined benefit pension plans		Post-employment medical benefits	
	2013	2012	2013	2012
Post-employment defined benefits				
Present value of funded obligations	2,246	2,373	-	-
Fair value of plan assets	-2,029	-1,896	-	-
Deficit (+)/Surplus (-), net	217	477	-	-
Present value of unfunded obligations	88	82	723	736
Unrecognized past service costs	-	-	0	0
Unrecognized assets due to recoverability limit	10	15	-	-
Net asset (-)/liability (+) in the balance sheet	314	574	723	736
Amounts in the balance sheet				
Liabilities	398	639	723	736
Assets	-84	-65	-	-
Net asset (-)/liability (+) in the balance sheet	314	574	723	736

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 high quality corporate bond yields of appropriate duration or government bond yields for countries where a deep market of high quality corporate bonds is not available. Assumptions regarding future mortality experience are based on advice in accordance with published statistics and experience in each country. The 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 corporate and government bond yields would impact the plan liabilities. A decrease in bond yields will decrease the discount rate and increase plan liabilities. However, for the 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 members (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 US reflect assumptions around 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 averages):

Actuarial assumptions	Group			
	Defined benefit pension plans		Post-employment medical	
	2013	2012	2013	2012
Discount rate, %	4.7	3.9	4.9	3.9
Expected return on plan assets, %	-	6.7	-	-
Future salary increases, %	3.3	3.3	3.2	3.3
Future pension increases, %	3.0	2.4	-	-
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 195 MSEK and a decrease of 0.5 percent in the discount rate would increase the defined benefit obligation with 215 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	
	2013	2012	2013	2012
Balance at beginning of year	2,455	2,323	736	843
Adjustment of opening balance from change in accounting principle	-14	-	-	-
Service cost	54	46	31	34
Interest expense	93	105	28	36
Administrative expense	0	-	-1	-
Contributions by plan participants	-	-	2	2
Actuarial losses (+)/gains (-)	-135	210	-47	-111
Benefits paid	-118	-121	-22	-25
Taxes paid	-	-	-	-
Translation differences	-1	-108	-3	-44
Balance at end of year	2,334	2,455	723	736

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 14 MSEK. The salary pension tax asset in 2012 was reported as non-current financial receivables in an amount of 14 MSEK.

During 2013 the actuarial gain on the defined benefit obligation amounts to -182 MSEK in total. The actuarial gain consist of -265 MSEK from changes in financial assumptions, 72 MSEK from changes in demographic assumptions and 11 MSEK from the effect of experience assumptions.

As at the last valuation date the present value of the defined benefit obligation was comprised of approximately 1,056 MSEK relating to active employees, 432 MSEK relating to deferred members and 1,569 MSEK relating to members in retirement.

As per December 31, 2013 the weighted average duration of the defined benefit obligation is 13 years.

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	
	2013	2012	2013	2012
Fair value at beginning of year	1,896	1,808	0	0
Expected return of plan assets	-	119	-	-
Interest income on plan assets	70	-	-	-
Administrative expense	-9	-	-1	-
Actuarial losses (-)/gains (+)	175	74	-	-
Employer contributions	12	86	22	23
Employee contributions	-	-	2	2
Benefits paid	-118	-120	-22	-25
Taxes paid	-1	-	-	-
Translation differences	3	-71	-	-
Fair value at end of year	2,029	1,896	0	0

The actual return on plan assets in 2013 amounted to 245 MSEK compared to a return in 2012 of 180 MSEK.

Plan assets at December 31 are comprised as follows:

Plan assets	2013	2012
Equity securities ¹⁾	1,055	799
Debt instruments	385	484
Real estate	3	57
Other ²⁾	586	556
Total	2,029	1,896

¹⁾ Equity securities consist of quoted securities in all material respect. The Group's plan assets does not hold any own shares.

²⁾ A large part pertains to the UK annuity policies.

NOTE 21 Continued

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	
	2013	2012	2013	2012
Current service costs	54	46	31	34
Interest expense on obligation	93	105	28	36
Interest income on plan assets	-70	-	-	-
Expected return on plan assets	-	-119	-	-
Recognized past service costs	-	-	0	0
Administrative expense	5	-	-	-
Net income(-)/expense(+) reported in the income statement	83	32	59	70

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	
	2013	2012	2013	2012
Cost of goods sold	15	14	13	15
Administrative expenses	23	-26	4	4
Selling expenses	21	20	14	15
Interest income	-3	-2	-	-
Interest expense	26	26	28	37
Net income(-)/expense(+) reported in the income statement	83	32	59	70

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	
	2013	2012	2013	2012
Actuarial gains and losses on obligations, incl. salary taxes	-135	210	-47	-111
Return on plan assets, excl. interest income	-171	-74	-	-
Effect from change in asset ceiling	-5	0	-	-
Net income(-)/expense(+) reported in other comprehensive income statement	-312	136	-47	-111

Defined contribution plans

The Group has certain obligations under defined contribution plans. Contributions to these plans are determined by provisions in respective plan. Costs for defined contribution plans charged to income statement for the year amounts to 101 MSEK (102).

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 2013 were 52 MSEK (51). Swedish Match contribution represents 0.25 percent of the total contributions paid to Alecta. Swedish Match active members in the multi-employer plan are 0.07 percent of all active members in the plan. Alecta has a collective funding ratio as per December 2013 of 148 percent (129). 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.

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:

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
Total	3,064	2,029	1,034	10	1,044

2012	Present value of obligation	Fair value of plan assets	Net liability/asset	Asset ceiling	Net liability/asset in balance sheet
USA	2,415	1,076	1,339	-	1,339
UK	568	584	-15	15	0
Rest of the world	215	236	-22	-	-22
Total	3,198	1,896	1,302	15	1,317

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	
	2013	2012	2013	2012	2013	2012	2013	2012
Discount rate, %	4.8	3.9	4.9	3.9	4.2	4.0	4.3	3.9
Expected return on plan assets, %	-	8.0	-	-	-	5.3	-	3.9
Future salary increases, %	3.2	3.3	3.2	3.3	-	-	1.7	1.4
Future pension increases, %	2.2	2.3	-	-	3.2	2.5	1.6	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 2014 amounts to 125 MSEK.

22. Provisions

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

Non-current provisions	2013	2012	Current provisions	2013	2012
Income tax	128	74	Restructurings	0	1
Restructurings	3	-	Other operating provisions	103	102
Other operating provisions	6	34	Total current provisions	103	102
Deferred compensation	222	281	Total provisions	568	606
Other provisions	105	115			
Total non-current provisions	464	504			

Movements in provisions during the year were as follows:

Provisions	Income tax provisions	Restructuring provisions	Other operating provisions	Deferred compensation	Other provisions	Total
Carrying value at beginning of year	74	1	136	281	115	606
Provisions made during the year ¹⁾	61	3	31	52	0	146
Provisions used during the year	-	0	-69	-51	-10	-130
Provisions reversed during the year and changes in estimates	-	-	-5	-27	-	-32
Reclassifications	-	-	19	-21	-	-2
Translation differences, etc.	-7	0	-2	-11	-	-21
Carrying value at end of year	128	3	109	222	105	568

¹⁾ The restructuring charge of 28 MSEK relating to the reorganization of the Scandinavian snus operations, has increased restructuring provisions by 3 MSEK, other operating provisions by 16 MSEK, and deferred compensation by 8 MSEK.

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.

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	2013	2012
Non-interest bearing non-current liabilities	13	15
Non-current financial liabilities, derivatives	299	473
Total	312	488

Other current liabilities at December 31 comprised the following:

Other current liabilities	2013	2012
Tobacco taxes	1,058	1,129
VAT liabilities	327	364
Current financial liabilities, derivatives	29	85
Other	44	42
Total	1,459	1,619

24. Accrued expenses and deferred income

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

Accrued expenses and deferred income	2013	2012
Accrued wage/salary-related expenses	112	152
Accrued vacation pay	58	59
Accrued social security charges	48	58
Accrued interest	201	215
Other	263	312
Total	682	796

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

	2013			2012		
	Nominal	Assets	Liability	Nominal	Assets	Liability
Currency derivatives	-	-	-	5	-	0
Interest-rate derivatives*	7,496	18	253	8,863	38	507
Total	7,496	18	253	8,868	38	507
*Of which hedge accounting						
<i>Cash flow risk in financing</i>						
Cash flow hedges ¹⁾	5,931	10	237	6,104	-	476

¹⁾ 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 (transaction exposure).
- Earnings – when the earnings of foreign subsidiaries are translated to SEK (translation exposure).
- Earnings – if loans and deposits are made in other currencies than the unit's functional currency (translation exposure).
- Shareholders' equity – when the net assets of foreign subsidiaries are translated to SEK (translation exposure).

The consolidated income statement includes exchange rate losses of 10 MSEK (2) in operating income and losses of 2 MSEK (3) 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 1,050 MSEK on an annual basis. It is divided as following; 670 MSEK in NOK (64 percent), 200 MSEK in USD (19 percent), 65 MSEK in GBP (6 percent), 60 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, 2013, no transaction exposure for 2014 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 105 MSEK (125), which of 67 in NOK, 20 in USD, 6 in GBP, 6 in PHP, and 6 in other currencies for the year ending December 31, 2013.

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 1 910 MSEK in USD (73 percent), 353 MSEK in BRL (14 percent), 240 MSEK in EUR (9 percent) and in other currencies 95 MSEK (4 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 260 MSEK, which of 190 in USD, 35 in BRL, 25 in EUR, and 10 in other currencies based on the exposure at December 31, 2013.

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, 2013, the average interest maturity period for Group loans was 3,8 years (3,5 years), taking into account interest rate swaps. The interest maturity structure on December 31, 2013 was as follows:

Year	Loans		Loans and effects from derivatives	
	Fixed	Variable	Fixed	Variable
2014	256	669	702	223
2015	1,999		1,999	
2016	651		651	
2017	3,120		3,120	
2018	903	347	903	347
2019–	2,195	199	2,195	199
Total	9,124	1,215	9,570	769

At December 31, 2013, 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 24 MSEK (23) on an annual basis. The net interest bearing debt (including net pension obligations) at the same date amounted to 8,388 MSEK (9,289). 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 5 MSEK (10).

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 160 MEUR, which matures in January 2016. This was unutilized at year-end and contained no financial covenants. At year-end 2013, available cash funds and committed credit facilities amounted to 4,593 MSEK. Of this amount, confirmed credit lines amounted to 1,429 MSEK and cash and cash equivalents making up the remaining 3,164 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, 2013, a total of 10,357 MSEK of the global program was outstanding. The average maturity of the Group's bond borrowing at December 31, 2013 was 4,0 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
2014	1,312	123	559	1,994	1,571
2015	2,374	60		2,434	2,041
2016	926	60		986	694
2017	3,372	246		3,618	3,159
2018	1,369	15		1,384	1,256
2019–	2,688	62		2,750	2,429
Total	12,041	566	559	13,166	11,150

Under the global MTN program, Swedish Match has issued bonds in SEK, EUR, USD and CHF. Borrowing in EUR, USD and CHF are hedged by currency swaps and currency interest rate swaps. The average interest cost for outstanding borrowings (including derivative instruments) on December 31, 2013 was 4,7 percent (4,8).

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

Financial instruments under master netting agreements

	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
MSEK					
Derivatives – Assets	59	0	59	-44	15
Derivatives – Liabilities	307	0	307	-44	263
	2012				
	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
MSEK					
Derivatives – Assets	52	0	52	-24	28
Derivatives – Liabilities	532	0	532	-24	508

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 2013.

	2013			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-83	-28	-	-111
Total	-83	-28	-	-111

	2012			
	Jan 1	Change of market value	Allocated to earnings	Dec 31
Hedging instruments, derivatives	-67	-16	-	-83
Total	-67	-16	-	-83

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

	2014	2015	2016	2017	2018	2019–
Fixed rate interest on hedging swaps	287	262	262	262	96	384

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, 2013, the average interest maturity for the Group's current investments was approximately 0,4 months.

The Group's finance policy regulates the maximum credit exposure to various counterparties. The aim is that counterparties to Swedish Match in financial transactions should have a credit rating of at least A from Standard & Poor's or equivalent from Moody's.

To reduce the credit risk in receivables from banks arising via derivative instruments, Swedish Match has entered into netting agreements, known as ISDA Master Agreements, with all of its counterparties. 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, 2013. No collateral has been received or pledged.

NOTE 25 Continued

At December 31, 2013, credit exposure in derivative instruments amounted to 15 MSEK, and credit exposure in cash and deposits at banks amounted to 3,164 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 1,440 MSEK (1,554). For more information see Note 17 Trade receivables.

Credit ratings

At December 31, 2013, 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, 2013. Items carried at fair value via the income statement consist of derivatives, for which

hedge accounting is not applied. Derivatives attributable to cash flow hedges are carried at fair value via other comprehensive income. 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
2013							
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
Total assets	24	4,604	–	54	592	5,274	5,274
Loans and borrowings	–	–	10,340	–	–	10,340	10,927 ¹⁾
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
Total liabilities	17	–	11,072	354	1,909	13,352	13,939
2012							
Trade receivables	–	1,554	–	–	–	1,554	1,554
Non-current receivables	28	–	–	4	397	429	429
Other receivables	0	–	–	5	97	102	102
Prepaid expenses and accrued income	10	–	–	–	60	70	70
Cash and cash equivalents	–	2,824	–	–	–	2,824	2,824
Total assets	38	4,378	–	9	554	4,979	4,979
Loans and borrowings	–	–	10,357	–	–	10,357	11,445 ¹⁾
Other liabilities	23	–	7	534	1,543	2,107	2,107
Accrued expenses and deferred income	–	–	194	21	581	796	796
Trade payables	–	–	635	–	–	635	635
Total liabilities	23	–	11,193	555	2,124	13,895	14,983

¹⁾ 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, 2013 and 2012.

26. Operating lease agreements

The Group's leasing expenses for operating lease agreements for 2013 amounted to 46 MSEK (47).

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	2013	2012
Within one year	46	44
Between 1–5 years	82	80
Later than 5 years	34	24
Total	162	148

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

27. Pledged assets

Pledged assets

As per December 31, 2013 the Group had 50 MSEK (42) in assets pledged, pertaining to endowment insurance policies pledged as security for pension obligations. The corresponding amount recognized as an operating provision in the balance sheet includes payroll tax.

28. Commitments and contingent liabilities and assets

Contingent liabilities

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

Contingent liabilities	2013	2012
Guarantees on behalf of subsidiaries	46	51
Guarantees to associated companies	47	52
Other guarantees and contingent liabilities	143	139
Total	235	242

Legal disputes

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

Swedish Match subsidiaries in the US are defendants in cases in which it is claimed that the use of tobacco products caused health problems. Pinkerton Tobacco Company (a subsidiary of Swedish Match North America, Inc.) is named as a defendant in some of the more than 1,200 cases against cigarette manufacturers and other tobacco companies that have been brought before state courts in West Virginia. The cases against Pinkerton, however, have been dismissed in the combined process for these cases and it is unclear whether any of the plaintiffs in these cases intend to pursue their claims separately against Pinkerton. Swedish Match North America, Inc. and Pinkerton Tobacco Company are named as defendants in a lawsuit filed in Florida in November 2002 against several companies active in the American market for smokeless tobacco and their joint interest association. The claim was originally instituted as a class-action suit, but was changed during 2005 to an individual claim. 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 ¹⁾	Subsidiary's domicile, country	Ownership share, %	
		2013	2012
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	–
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
SM Distribution AB	Sweden	100	100
SM Industries AB	Sweden	100	100
SM Intellectual Property AB	Sweden	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
Vinne 14 AB ²⁾	Sweden	–	100
Svenska Tobaks AB ³⁾	Sweden	100	100
SM Kibrit ve Cakmak Endustri A.S.	Turkey	100	100
SM Cigars Inc.	USA	100	100
SM Leaf Tobacco Company	USA	100	100
SM North America Inc.	USA	100	100
The Pinkerton Tobacco Co.	USA	100	100

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

²⁾ Company changed name during the year from Svenska Tobaks AB and sold.

³⁾ Changed company name during the year from GC Sweden AB to Svenska Tobaks 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	2013	2012
Interest received	26	36
Interest paid	-530	-497
Total	-504	-461

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

Adjustments for non cash items and other	2013	2012
Depreciation, amortization and write down	275	296
Change in provisions	20	0
Capital gain on divested company	-161	-30
Change in defined benefit pension plans	107	-8
Change in accrued interest	-20	20
Change in market value revaluations and unrealized exchange rate differences	-4	-8
Realized exchange rate differences moved to financing	-2	8
Other	-21	-15
Total	194	264

Investments in associated companies, joint ventures and other companies

Investments in joint ventures during 2013 pertain to investments of 57 MSEK in SMPM International AB. During 2012 investments in joint ventures pertain to investments of 40 MSEK in SMPM International AB. For further information see *Note 14 Investments in associated companies and joint ventures*.

No acquisitions of subsidiaries have been made during 2013 or 2012.

Divestment of subsidiaries

The cash flow 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.

The cash flow from sale of subsidiaries during 2012 includes an additional payment of purchase price of 5 MSEK relating to divestment of Swedish Match UK during 2008 and 3 MSEK relating to the divestment of Swedish Match Bulgaria DA during 2011.

During 2013 the subsidiary Svenska Tobaks AB was divested. The name Svenska Tobaks AB was retained by Swedish Match and the buyer changed the name to Vinne 14. 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, disregarded intergroup transactions that are eliminated in the consolidated financial statements of the Group, no other related parties transactions have been conducted during the year.

32. Information about the Parent Company

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

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

The consolidated financial statements for 2013 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	2013	2012
Sales	1	44	87
Administrative expenses	2, 7, 8, 25	-213	-249
Other operating income and expenses	3	0	0
Operating loss		-169	-162
Result from participation in Group companies	4	2,463	4,335
Interest income and similar items	4	1	2
Interest expenses and similar items	4	-1,176	-1,428
Profit after financial items		1,118	2,746
Appropriations	5	1,530	1,935
Profit before income tax		2,648	4,681
Income tax expense	6	-41	-95
Profit for the year		2,607	4,586

Parent Company statement of comprehensive income

MSEK	Note	2013	2012
Profit for the year		2,607	4,586
<i>Other comprehensive income that will be reclassified to the income statement</i>			
Effective portion of changes in fair value of cash flow hedges		-28	-16
Income tax relating to components of other comprehensive income	6	6	1
Subtotal, net of tax for the year		-22	-16
Total comprehensive income for the year		2,585	4,571

Parent Company balance sheet

MSEK	Note	December 31, 2013	December 31, 2012
Assets			
Intangible assets	7	0	95
Tangible assets	8	1	1
Non-current financial assets			
Participations in Group companies	9	50,954	51,258
Other non-current receivables	10	100	69
Deferred income tax assets	6	38	30
Total non-current financial assets		51,092	51,357
Total non-current assets		51,093	51,452
Current assets			
Receivables on Group companies		2,087	2,297
Receivables on associated companies		1	1
Receivables on joint venture		0	0
Current income tax receivables	6	13	-
Other receivables	11	15	10
Prepaid expenses and accrued income	12	25	24
Total current assets		2,140	2,332
TOTAL ASSETS		53,233	53,784
Equity			
Restricted equity	13		
Share capital, 202,000,000 shares at 1.9283 SEK and 206,000,000 shares at 1.8909 SEK respectively		390	390
Unrestricted equity			
Reserve for fair value		-87	-65
Retained earnings		19,283	16,319
Profit for the year		2,607	4,586
TOTAL EQUITY		22,192	21,230
Untaxed reserves	14	290	260
Other provisions	15	77	92
Total provisions		77	92
Non-current liabilities			
Bond loans	16	9,420	9,238
Liabilities to Group companies	17	18,100	18,101
Other liabilities	18	300	475
Total non-current liabilities		27,820	27,814
Current liabilities			
Bond loans		919	1,107
Trade payables		7	16
Liabilities to Group companies		1,665	2,914
Current income tax liabilities	6	-	5
Other liabilities		47	100
Accrued expenses and deferred income	19	216	248
Total current liabilities		2,853	4,388
TOTAL EQUITY AND LIABILITIES		53,233	53,784
Memorandum items			
Pledged assets	20	46	39
Contingent liabilities	20	92	103

Statement of changes in Parent Company equity

2012	Note	Restricted equity		Unrestricted equity			Total equity
		Share capital	Reserve for fair value ¹⁾	Retained earnings	Profit for the year		
Equity at beginning of year	13	390	-49	17,766	1,419	19,525	
Profit for the year		-	-	-	4,586	4,586	
Other comprehensive income, net of tax for the year		-	-16	-	-	-16	
Total comprehensive income for the year		-	-16	-	4,586	4,571	
Allocation of profit		-	-	1,419	-1,419	-	
Dividend		-	-	-1,334	-	-1,334	
Repurchase of own shares		-	-	-1,946	-	-1,946	
Stock options exercised		-	-	414	-	414	
Cancellation of shares		-13	-	13	-	-	
Bonus issue		13	-	-13	-	-	
Equity at end of year		390	-65	16,319	4,586	21,230	

2013	Note	Restricted equity		Unrestricted equity			Total equity
		Share capital	Reserve for fair value ¹⁾	Retained earnings	Profit for the year		
Equity at beginning of year	13	390	-65	16,319	4,586	21,230	
Profit for the year		-	-	-	2,607	2,607	
Other comprehensive income, net of tax for the year		-	-22	-	-	-22	
Total comprehensive income for the year		-	-22	-	2,607	2,585	
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	-	-	
Equity at end of year		390	-87	19,283	2,607	22,192	

¹⁾ Reserve for fair value consists of a hedge reserve.

Cash flow statement for the Parent Company

MSEK	Note	2013	2012
Operating activities	21		
Profit after financial items		1,118	2,746
Adjustments for non-cash items and other		-550	-2,000
Income tax paid		-61	-1
Cash flow from operating activities before changes in working capital		507	745
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		13	-9
Increase (+)/Decrease (-) in operating liabilities		-47	22
Net cash generated from operating activities		473	757
Investing activities			
Purchase of tangible assets		0	-
Purchase of intangible assets		-	-44
Proceeds from sale of intangible assets		95	-
Proceeds from sale of subsidiaries, net of cash disposed of		1,603	1
Shareholders contribution		-770	-
Net cash from investing activities		928	-42
Financing activities			
Proceeds from non-current borrowings		1,225	2,045
Repayment of borrowings		-1,491	-1,315
Repurchase of own shares		-352	-1,946
Stock options exercised		187	414
Dividend		-1,459	-1,334
Changes in financial receivables/liabilities Group companies		503	1,399
Other		-14	23
Net cash used in financing activities		-1,400	-715
Net increase/decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at end of year		-	-

Notes for the Parent Company

All amounts referred to in the notes of the Parent Company financial statements are in millions of Swedish kronor (MSEK) unless stated otherwise. The amounts within brackets refer to the preceding year, 2012.

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	2013	2012
KPMG		
Audit services	3	3
Audit related services	0	0
Tax services	0	0
Other services	1	1
Total	4	4

Other services include assisting with testing of IT-controls.

3. Other operating income and expense

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

4. Financial items

Result from participation in Group companies	2013	2012
Dividends received	2,627	4,333
Impairment losses	-1,072	-
Gain on liquidation of Group companies	-	3
Gain on sale of Group companies	918	-
Loss on sale of Group companies	-10	-1
Total	2,463	4,335

As from 31 December, 2013, Group contributions, received and granted, are reported as appropriations. The previous year's contributions, recognized in financial items, has been reclassified in accordance with this new principle for 2013.

The impairment loss of 1,072 MSEK in 2013 was recognized following dividends paid from subsidiaries.

Gain on sale of Group companies includes an additional purchase price of 161 MSEK relating to divestment of a parcel of land adjacent to the old head-quarters building. It also includes a gain on sale of the subsidiary Svenska Tobaks AB of 757 MSEK to an external party following an internal sale and transfer of the assets in the company.

Loss on sale of shares in Group companies amounting to -10 MSEK (-1) relates to an additional outlay relating to guarantees in the purchase agreement of subsidiaries sold to STG in 2010.

Interest income and similar items	2013	2012
Interest income relating to Group companies	1	0
Interest income relating to financial instruments held for trading	-	1
Interest income relating to other financial instruments held for trading	0	0
Net foreign exchange gains	-	1
Total	1	2

Interest expenses and similar items	2013	2012
Interest expense relating to Group companies	-655	-907
Interest expense relating to financial liabilities measured at amortized cost	-515	-514
Net gains on financial liabilities held for trading	1	0
Other financial expenses	-6	-7
Net foreign exchange losses	0	-
Total	-1,176	-1,428

5. Appropriations

Appropriations	2013	2012
Difference between reported amortization/ depreciation and according to plan		
Software and licenses	30	-21
Equipment, tools and fixtures	0	0
Tax allocation reserve		
Appropriation current year	-60	-115
Group contributions		
Group contributions received	2,074	2,270
Group contributions granted	-513	-199
Total	1,530	1,935

6. Income tax

Income tax reported in income statement	2013	2012
Current tax expense for the period	-43	-94
Deferred tax due to temporary differences	2	1
Deferred tax due to change in tax rate	-	-2
Total	-41	-95

Income tax reported in other comprehensive income	2013	2012
Deferred tax due to change in tax rate	-	-4
Revaluation of cash flow hedges net gain/loss	6	4
Total	6	1

Reconciliation of effective tax rate	2013		2012	
	(%)		(%)	
Income before tax	2,648		4,681	
Swedish statutory tax rate	22.0	-583	26.3	-1,231
Non-taxable dividends	-21.8	578	-24.3	1,140
Tax exempt items	-7.6	202	-0.0	1
Non-deductible impairment losses	8.9	-236	-	-
Other non-deductible items	0.1	-2	0.0	-2
Taxes related to prior years	0.0	0	0.0	0
Effect of change of tax rate	-	-	0.1	-2
Deemed interest income, tax allocation reserve	0.0	-1	0.0	-1
Reported effective tax	1.6	-41	2.0	-95

Changed tax rate; as from 1 January, 2013, the tax rate in Sweden is reduced from 26.3 percent to 22 percent.

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

	Current income tax assets		Current income tax liabilities	
	2013	2012	2013	2012
Opening balance at beginning of year	-	88	5	-
Current tax expense	-43	-	0	94
Paid/received tax	56	-88	-4	-89
Closing balance at end of year	13	-	-	5

Tax receivable amounts to 13 MSEK (tax liability 5) and consists of taxes to be received/paid 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	2013	2012
Hedge reserve	25	18
Provision	13	11
Other	0	1
Total	38	30

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

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
Total	30	2	6	38

2012	Balance 1 Jan.	Charges to profit for the year	Charges to other comprehensive income	Balance 31 Dec.
Hedge reserve	18	-	1	18
Provision	11	0	-	11
Other	1	0	-	1
Total	30	0	1	30

7. Intangible assets

Other intangible assets	2013	2012
Cost at beginning of year	111	68
Purchases/investments	-	43
Sales/disposals	-107	-
Cost at end of year	4	111
Accumulated amortization at beginning of year	-17	-9
Amortization for the year	0	-7
Sales/disposals	13	-
Accumulated amortization at end of year	-4	-17
Net carrying value at end of year	0	95

Amortization is included in administrative expenses in the income statement in the amount of 0 MSEK (7).

All intangible assets are acquired.

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

No borrowing costs have been capitalized during 2013 nor during 2012.

8. Tangible assets

Equipment, tools and fixtures	2013	2012
Cost at beginning of year	3	3
Purchases/investments	0	-
Sales/disposals	0	-
Cost at end of year	3	3
Accumulated depreciation at beginning of year	-2	-1
Depreciation for the year	0	0
Sales/disposals	0	-
Accumulated depreciation at end of year	-2	-2
Net carrying value at end of year	1	1

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 2013 nor during 2012.

9. Group companies

2013	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Impairments	Divestments	Balance 31 Dec.
Cost	56,680	694	7,860	-	-7,785	57,448
Impairments	-5,422	-	-	-1,072	-	-6,494
Carrying value	51,258	694	7,860	-1,072	-7,785	50,954

2012	Balance 1 Jan.	Acquisitions	Shareholder's contribution	Impairments	Divestments	Balance 31 Dec.
Cost	54,717	-	2,025	-	-62	56,680
Impairments	-5,483	-	-	-	61	-5,422
Carrying value	49,234	-	2,025	-	-1	51,258

Impairments are reported in the result from participation in Group companies in the income statement. The impairment loss of 1,072 MSEK was recognized following dividends paid from subsidiaries.

Shares in subsidiaries, directly owned

Subsidiary	Corp. Reg.no.	Domicile	Number of shares	Ownership, %	2013	Ownership, %	2012
Swedish Match North Europe AB	556571-6924	Stockholm	1,000	100	15,750	100	15,750
Swedish Match Distribution AB	556571-7039	Stockholm	1,000	100	2,350	100	2,350
Svenska Tändsticksbolaget Försäljningsaktiebolag	556012-2730	Stockholm	34,403,000	100	1,006	100	236
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	7
Svenska Tobaks AB ¹⁾	556680-3028	Stockholm	100,000	100	0	100	0
Vinne 14 AB ²⁾	556337-4833	Stockholm	-	-	-	100	1
Swedish Match Treasury SEK SA ³⁾	0890.171.968	Belgium	9,999,999	99.99	23,117	99.99	23,117
Swedish Match Treasury USD SA	0894.153.126	Belgium	-	-	-	99.99	7,090
Swedish Match Treasury Lux S.à r.l.	B175024	Luxembourg	20,000	100	7,090	-	-
Swedish Match Group BV	17080059	Netherlands	20,900,000	100	17	100	1,083
Swedish Match North America Inc	62-1257378	USA	100	100	849	100	849
Swedish Match Dominicana S.A.	05338-2007-STI	Dominican Republic	9,249,907	99.99	171	99.99	171
Swedish Match Distribution A/S	930567647	Norway	500	100	1	100	1
SA Allumettiére Causemille ⁴⁾		Algeria	10,000	100	0	100	0
The Burma Match Co Ltd ⁵⁾		Burma	300,000	100	0	100	0
Vulcan Trading Co. Ltd ⁶⁾		Burma	4,000	100	0	100	0
Carrying value at end of year					50,954		51,258

¹⁾ Change of company name from GC Sweden AB.

²⁾ Change of company name from Svenska Tobaks AB.

³⁾ Remaining shares owned by subsidiary.

⁴⁾ Nationalized in 1963.

⁵⁾ Nationalized in 1968.

⁶⁾ 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.

10. Other non-current receivables

Other non-current receivables	2013	2012
Derivatives	56	32
Endowment insurances	44	38
Carrying value at end of year	100	69

Non-current derivatives include exchange rate differences and fair values of cross currency and interest rate swaps.

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

11. Other receivables

Other receivables	2013	2012
Derivatives	8	5
VAT receivables	4	4
Endowment insurances	2	1
Other current receivables	1	1
Carrying value at end of year	15	10

12. Prepaid expenses and accrued income

Prepaid expenses and accrued income	2013	2012
Accrued interest income	14	10
Prepaid bank charge	4	6
Accrued income	-	3
Prepaid rent	2	2
Other prepaid expenses	5	3
Carrying value at end of year	25	24

13. Equity

For information regarding the change in Parent Company equity see Statement of changes in Parent Company equity on page 84.

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

Number of registered shares	2013	2012
Issued at beginning of year	206,000,000	213,000,000
Cancellation	-4,000,000	-7,000,000
Total shares outstanding at end of year	202,000,000	206,000,000
Of which held by Swedish Match AB	-2,954,479	-6,591,665
Total shares outstanding, net of shares held by Swedish Match AB	199,045,521	199,408,335

Repurchase of own shares

Repurchase of own shares encompass the acquisition cost for treasury shares owned by the Parent Company. At December 31, 2013, the Parent Company's holding of treasury shares amounted to 2,954,479 shares (6,591,665).

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

	Number of shares (thousands)		Cumulative effect on equity (MSEK)	
	2013	2012	2013	2012
Balance at beginning of year	6,592	8,828	-22,234	-20,702
Repurchase of own shares during the year	1,579	7,440	-352	-1,946
Stock options exercised during the year	-1,216	-2,676	187	414
Allocated to retained earnings by cancellation of shares	-4,000	-7,000	8	13
Bonus issue	-	-	-8	-13
Balance at end of year	2,954	6,592	-22,398	-22,234

The Annual General Meeting on April 25, 2013, renewed the mandate to repurchase up to 10 percent of the shares of the Company. In addition, a decision was made to cancel 4 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 7.6 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 202 million shares with a quotient value of 1.9283 SEK.

During the year 1.6 million shares were repurchased for 352 MSEK at an average price of 222.69 SEK. Total shares bought back since the buyback program started have been repurchased at an average price of 106.22 SEK.

During 2013, the Company sold 1.2 million treasury shares at an average price of 154.15 SEK, totaling 187 MSEK, as a result of option holders exercising options.

As per December 31, 2013, Swedish Match held 3.0 million shares in its treasury, corresponding to 1.46 percent of the total number of shares.

The number of shares outstanding, net, as per December 31, 2013, amounted to 199.0 million. The Company has issued call options of which an amount corresponding to 1.1 million shares exercisable in gradual stages from 2014–2015 were outstanding as of December 31, 2013.

Dividend

After the balance sheet date, the Board proposed a dividend for 2013 of 7.30 SEK (7.30) per share. The dividend then amounts to 1,453 MSEK based on the number of shares outstanding at the end of 2013. Prior year total dividend amounted to 1,459 MSEK and corresponded to 199,830,395 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	2013	2012
Carrying value at beginning of year	-65	-49
Effective portion of changes in fair value of cash flow hedges	-28	-16
Income tax	6	4
Effect of change in tax rate	-	-4
Carrying value at end of year	-87	-65

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

14. Untaxed reserves

Untaxed reserves	2013	2012
Excess amortization/depreciation:		
Intangible assets		
Carrying value at beginning of year	30	9
Excess amortization for the year	-30	21
Total	0	30
Tangible assets		
Carrying value at beginning of year	0	0
Excess depreciation for the year	0	0
Total	0	0
Tax allocation reserve:		
Carrying value at beginning of year	230	115
Appropriation current year	60	115
Total	290	230
Carrying value at end of year	290	260

15. Other provisions

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

Other provisions	2013	2012
Pension obligation	57	48
Long term incentive	20	44
Carrying value at end of year	77	92
Where of total non-current	65	77
Where of total current	12	15

Movements in provisions during the year were as follows:

2013	Pension obligation	Long term incentive	Total
Carrying value at beginning of year	48	44	92
Provisions made during the year	6	3	9
Provisions used during the year	-3	-14	-17
Provisions reversed during the year and changes in estimates	6	-13	-8
Carrying value at end of year	57	20	77

2012	Pension obligation	Long term incentive	Other provisions	Total
Carrying value at beginning of year	41	29	1	71
Provisions made during the year	6	16	-	22
Provisions used during the year	-1	-	-1	-2
Provisions reversed during the year and changes in estimates	2	0	-	2
Carrying value at end of year	48	44	-	92

Pension obligation

Provisions recognized for pension obligations secured in endowment insurances reported as pledged assets in the balance sheet. Payments later than five years after the balance sheet date is calculated to 47 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.

Other provisions

Provisions of operating characters and not related to personnel compensation.

16. Bond loans

Liabilities due for payment later than five years after the balance sheet date amount to 2,372 MSEK (2,377).

17. Liabilities to Group companies

Liabilities due for payment later than five years after the balance sheet date amount to 0 MSEK (0).

18. 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 110 MSEK (63).

19. Accrued expenses and deferred income

Accrued expenses and deferred income	2013	2012
Accrued interest expenses	201	215
Accrued incentives incl. social security charges	6	20
Accrued social security charges	4	3
Accrued vacation pay	2	2
Personnel expenses	0	0
Other accrued expenses	3	8
Carrying value at end of year	216	248

20. Pledged assets and contingent liabilities/assets

Pledged assets

Pledged assets pertains to endowment insurance policies pledged as security for pension obligations amounting to 46 MSEK (39). The corresponding amount recognized as an operating provision in the balance sheet includes salary tax.

Contingent liabilities	2013	2012
Guarantees on behalf of subsidiaries	46	51
Guarantees on behalf of associated companies	47	52
Total	92	103

Contingent assets

As per December 31, 2013, the Parent Company had no contingent assets.

21. Supplementary information to cash flow statement

Interest paid and received and dividend received	2013	2012
Dividend received ¹⁾	1,933	2,308
Interest received, non-Group companies	0	1
Interest paid, non-Group companies	-535	-494
Interest received, Group companies	1	0
Interest paid, Group companies	-655	-907
Total	744	908

¹⁾ Amount for 2013 excludes 694 MSEK which refers to dividends in kind. Previous year 2,025 MSEK which referred to a dividend granted as a shareholder contribution were excluded.

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

Adjustments for non cash items and other	2013	2012
Depreciation and amortization	0	8
Impairment losses	1,072	-
Gain on sale of subsidiaries	-908	-
Dividend	-694	-2,025
Change in accrued interest	-20	20
Change in fair value revaluations	-1	0
Gain on liquidation of Group companies	-	-3
Exchange rate differences	0	-1
Total	-550	-2,000

22. Related parties

Summary of transactions with related parties	Subsidiaries		Associated companies		Joint venture	
	2013	2012	2013	2012	2013	2012
Revenues						
Dividends	2,627	4,333	-	-	-	-
Group contribution	2,074	2,270	-	-	-	-
Interest income	1	0	-	-	-	-
Sale of goods/services	41	81	1	1	1	4
Expenses						
Group contribution	-513	-199	-	-	-	-
Interest expenses	-655	-907	-	-	-	-
Purchase of goods/services	-74	-46	-	-	-	-
Receivables	2,087	2,297	1	1	0	0
Liabilities	19,765	21,015	-	-	-	-
Contingent liabilities	46	51	47	52	-	-

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

23. 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, 2013. 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 clas-

sify 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.

2013	Items carried at fair value via the income statement	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	2	-	54	44	100	100
Other receivables	8	-	-	7	15	15
Prepaid expenses and accrued income	14	-	-	11	25	25
Total assets	24	-	54	62	140	140
Loans and borrowings	-	10,339	-	-	10,339	10,926 ¹⁾
Other liabilities	17	-	326	4	347	347
Accrued expenses and deferred income	-	173	28	15	216	216
Trade payables	-	7	-	-	7	7
Total liabilities	17	10,519	354	19	10,909	11,496
2012	Items carried at fair value via the income statement	Other financial liabilities	Cash flow hedges	Non financial instruments	Total carrying value	Estimated fair value
Non-current receivables	28	-	4	37	69	69
Other receivables	-	-	5	5	10	10
Prepaid expenses and accrued income	10	-	-	14	24	24
Total assets	38	-	9	56	103	103
Loans and borrowings	-	10,345	-	-	10,345	11,445 ¹⁾
Other liabilities	23	7	535	10	575	575
Accrued expenses and deferred income	-	194	21	33	248	248
Trade payables	-	16	-	-	16	16
Total liabilities	23	10,562	556	43	11,184	12,284

¹⁾ 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, 2013 and 2012.

24. 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

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

2012	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	52	0	52	-24	28
Derivatives – Liabilities	532	0	532	-24	508

25. 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, 2013 the Swedish pension trust arrangement and the pension plan for employees in UK show a net surplus.

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

Defined benefit pension plans	2013	2012
Present value of funded obligations	731	710
Fair value of separately held assets	-821	-785
Surplus, net	-90	-75
Net surplus in pension trust not recognized in balance sheet	90	75
Net pension liability recognized in the balance sheet	-	-

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

Net pension liability	2013	2012
Balance at beginning of year	-	-
Benefits paid	10	8
Contribution received from pension trust	-10	-8
Balance at end of year	-	-

80 MSEK (-60) of the total net pension asset is covered by "Tryggandelagen".

Specification of expenses and income attributable to pension:

Defined benefit pension plans	2013	2012
Difference between contribution received from pension trust and benefits paid	0	-1
Interest cost on obligation	-25	-32
Actual return on separately held assets	63	80
Net income/expense for pension	38	47
Pensions covered by insurance premiums:		
Costs for pension insurance premiums recognized in income statement	-13	-15
Increase in surplus in pension trusts	-38	-48
Net pension costs recognized in income statement attributable to pension	-13	-16

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 8 percent (10).

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

Separately held assets	2013	2012
Debt instruments	153	192
Equity securities	36	172
Other ¹⁾	632	421
Total	821	785

¹⁾ 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 4.1 percent (3.9).

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

Proposed distribution of earnings

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

Retained earnings including reserve for fair value	SEK	19,195,633,741
Profit for the year	SEK	2,606,855,487
	SEK	21,802,489,228

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

To the shareholders, a dividend of 7.30 SEK per share based on 199,045,521 shares outstanding at the end of 2013	SEK	1,453,032,303
Retained earnings to be carried forward	SEK	20,349,456,925
	SEK	21,802,489,228

The income statements and balance sheets will be presented to the Annual General Meeting on May 7, 2014 for adoption. The Board of Directors also proposes May 12, 2014 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 18, 2014

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 F. Sharpe
Board member

Meg Tivéus
Board member

Joakim Westh
Board member

Lars Dahlgren
President and CEO

Our auditor's report was submitted on March 10, 2014

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 2013. 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 2013 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 2013 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 2013.

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 10, 2014

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 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.¹⁾ 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").²⁾ 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 2013, 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 202,000,000 shares at the end of 2013. 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 such factors as Swedish Match's ownership structure and share performance is presented on pages 38–39.

Annual General Meeting 2014

Swedish Match's 2014 Annual General Meeting will be held on May 7, 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 Swedish Match's 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*.

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.³⁾ 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 2014

The Nominating Committee for the Annual General Meeting in 2014 was announced on the Company's website on December 9, 2013. The Nominating Committee consists of the following members, in addition to the Chairman of the Board of Swedish Match, Conny Karlsson: Andy Brown (Cedar Rock Capital), William Lock (Morgan Stanley Investment Management), Björn Lind (AMF & AMF Funds), and William von Mueffling (Cantillon Capital Management). Andy Brown 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 Fredrik Peyron
Box 7179
SE-103 88 Stockholm, Sweden
E-mail:
nominating.committee@swedishmatch.com

¹⁾ Available on the Swedish Match's website www.swedishmatch.com/governance.

²⁾ Available on the Swedish Corporate Governance Board's website www.corporategovernanceboard.se.

³⁾ More information is available on Swedish Match's website www.swedishmatch.com/aggm.

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/aggm. There are no special provisions on how the General Meeting works in the Articles of Association or, as far as known to the Company, due to any shareholders agreement. Resolutions adopted by General Meetings are generally resolved by a simple majority. However, according to the Swedish Companies Act, certain matters are to be resolved by a qualified majority.

Audit Committee

The Audit Committee is appointed annually by the Board of Directors and is a body within the Board. Although the Audit Committee's work is primarily of a preparatory and advisory nature, the Board of Directors delegates decision-making authority on specific issues to the Committee. The Committee is responsible for monitoring the Company and its subsidiaries' accounting and financial reporting processes as well as, in respect of the financial reporting, the efficiency of the internal controls, internal audit and risk management.

The Committee is also to review and monitor the impartiality and independence of the auditors 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 procedures prevailing 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

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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.

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Governance of the Swedish Match Group 2013

Annual General Meeting 2013

In 2013 the Annual General Meeting was held on April 25. The minutes of the meeting are available on the Company's website: www.swedishmatch.com/agm.

The Annual General Meeting 2013 passed the following resolution, amongst others:

- Payment of cash dividend of 7.30 SEK per share for the 2012 fiscal year.
- Re-election of Andrew Cripps, Karen Guerra, Conny Karlsson, Robert F. Sharpe, Meg Tivéus, and Joakim Westh as Board members. Election of Wenche Rolfsen as new member of the Board. Re-election of Conny Karlsson and Andrew Cripps as Chairman of the Board and deputy Chairman of the Board, respectively.
- Unchanged fees to the Board of Directors compared to 2012.
- Withdrawal of 4,000,000 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 2012 and discharge from personal liability granted of the Board of Directors and the Chief Executive Officer.

For information as to 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 2013

The Nominating Committee for the Annual General Meeting in 2013 comprised the following five members: Andy Brown (Cedar Rock Capital), William Lock (Morgan Stanley Investment Management), Björn Lind (AMF & AMF Funds), William von Mueffling (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 2012 and 2013 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 2013.

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 2013, 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 2013: Conny Karlsson,



Conny Karlsson and Meg Tivéus at the Annual General Meeting 2013 in Stockholm, Sweden.

Andrew Cripps, Karen Guerra, Wenche Rolfsen, Robert F. Sharpe, Meg Tivéus, and Joakim Westh. Conny Karlsson served as Chairman of the Board. Employee representatives on the Board were Kenneth Ek, Håkan Johansson (until October 2013), Eva Larsson and Patrik Engelbrektsson (from October 2013) with Eva Norlén-Moritz, Gert-Inge Rang, and Joakim Andersson (from October 2013) 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 2013, 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

Pursuant to a resolution adopted by the 2013 Annual General Meeting, compensation to the Board for the period from the 2013 Annual General Meeting up to and including the 2014 Annual General Meeting should amount to 1,710,000 SEK to the Chairman of the Board, 810,000 SEK to the deputy Chairman and 685,000 SEK to each member of the Board elected by the General Meeting. In addition, the Chairmen of the Compensation and Audit Committees were granted 250,000 SEK each for committee work, with other members serving on these committees receiving 125,000 SEK each. No compensation for directorship work was paid to directors employed by the Swedish Match Group.

For further information about Directors' fees for 2013, see *Note 5 Personnel*, page 62.

Activities of the Board of Directors during 2013

During the period from January 1, 2013 until 31 December 2013, the Board held six scheduled meetings and one statutory meeting according to the following.

February: Full year report and annual report, meeting with auditors without the presence of management, proposals to AGM, HR Strategy, management compensation issues, investment follow up, Board evaluation, strategic issues.

April: Statutory meeting; decision on authorised signatories, election of Compensation Committee and Audit Committee and adoption of committee charters, adoption of the Board's work plan and instruction for internal reporting to the Board, information about fees to the Board, adoption of instruction for the President and CEO and annual plan for the Board meetings during 2013.

Scheduled meeting: Q1 interim report, utilization of mandate to repurchase shares, strategic issues, follow up on Board evaluation, corporate sustainability, crisis policy

June: Strategic issues.

July: Half year interim report.

October: Q3 interim report, strategic issues.

Composition of the Board and attendance 2013	Board of Directors	Audit Committee	Compensation Committee	Independent ¹⁾	Member since	Compensation, SEK
Total number of meetings	7	5	3			
Members elected by the General Meeting						
Conny Karlsson (Chairman)	7		3	Yes	2006	1,960,000
Andrew Cripps (Deputy Chairman)	7	5		Yes	2006	935,000
Karen Guerra	7		3	Yes	2008	810,000
Wenche Rolfsen	6	5		Yes	2013	810,000
Robert F. Sharpe	5		3	Yes	2011	810,000
Meg Tivéus	7	5		Yes	1999	935,000
Joakim Westh	6	5		Yes	2011	810,000
Employee representatives						
Kenneth Ek	7				1999	
Eva Larsson	7				1999	
Patrik Engelbrektsson	7				2012	
Håkan Johansson (until October 2013)	4				2004	
Employee representatives (deputies)						
Joakim Andersson (from October 2013)	2				2013	
Eva Norlén-Moritz	7				2010	
Gert-Inge Rang	7				2007	

¹⁾ As defined in the Swedish Code of Corporate Governance.

December: Long Range Plan, financial policy, revision of policies, compensation issues, strategic issues, evaluation of CEO performance.

So far 2014, one additional scheduled Board meeting has been held.

February 2014: Full year report and annual report, meeting with auditors without the presence of management, proposals to AGM, strategic issues, HR strategy, management compensation issues, Board evaluation.

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 2013 to present the audit report and observations from the audit. In conjunction with the Board's meeting in June, the Board visited the factory and the new R&D facilities in Gothenburg, Sweden.

Audit Committee

In 2013, 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 2013 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 2013 and, at two of these meetings, also met with the Committee without the presence of the management of the Company.

Compensation Committee

Members in 2013 were Conny Karlsson, (Chairman), Karen Guerra, and Robert F. 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 2013.

During 2013, the committee devoted special attention to determination of variable compensation for 2012 to be paid in 2013, proposals to the Board concerning adjustments of the President's salary and variable compensation for 2014 and determination of salaries and variable compensation for other members of the Group Management Team for 2014. 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 2013, the Swedish Match Group Management Team consisted of Lars Dahlgren, President and Chief Executive Officer; Rich Flaherty, President US Division; Marlene Forsell, Senior Vice President and Chief Financial Officer (from September 9, 2013); Emmett Harrison, Senior Vice President Corporate Communications and Sustainability; Fredrik Lagercrantz, Senior Vice President Business Control (from September 9, 2013); Lars Olof Löfman, former President Smokefree Products Division, assumed the position Chief Innovation Officer, Scandinavia Division (from December 20, 2013); Jonas Nordquist, President Scandinavia Division (until September 9, 2013); Fredrik Peyron, Senior Vice President Legal Affairs; and Joakim

Tilly, Chief Financial Officer and Senior Vice President Group Finance and IT, and Group Human Resources until September 9, 2013, and thereafter President, Scandinavia Division. 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 2013 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 2013 up to and including the Annual General Meeting in 2014. During 2013, in addition to auditing, KPMG AB provided consultancy services to the Group, primarily with regard to tax advice. Consulting services regarding testing of IT controls have as well been provided.

Cronie Wallquist, authorized public accountant, served as auditor in charge. For information concerning compensation to the Swedish Match's auditors during 2013, see *Note 6 Audit fees*, page 66.

Disclosure Committee

Members of the Disclosure Committee during 2013 were the heads of Business Control, Corporate Communications and Sustainability, Group Reporting and Tax, and Legal Affairs.

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 established framework. Based on the risk assessment, the Group defines a standardized system of controls to ensure that essential risks pertaining to financial reporting are properly mitigated. These standardized controls are reviewed and updated annually. In addition, each operating unit is charged with the responsibility to assess company-specific risks and identify additional key internal controls not covered by the standardized system of controls.

Control activities

Based on the framework of Group policies and instructions, the heads of Swedish Match's operating units are charged with the responsibility to establish internal controls over financial reporting. Control activities are established in all business processes and systems supplying information to the financial accounts in order to safeguard the reliability of the information.

Information and communication

The information and communication component includes the systems and procedures that support the identification, capture, and exchange of information in a form and timeframe that enable personnel to carry out their responsibilities and reliable financial reports to be generated. Management has established communication channels and forums to allow for an effective information flow

relating to business conditions and changes affecting financial reporting.

Monitoring

The Group monitors compliance with governing documents in the form of internal policies and instructions, and evaluates the effectiveness of the control structure. The Group Internal Audit department is established with the primary task of independently evaluating the effectiveness of internal controls. Internal Audit's work is based on 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 18, 2014

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 2013 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 10, 2014

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 and Euroflorist 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



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 Derma; 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: 1,680

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: 11,677



Karen Guerra

Robert F. Sharpe



ROBERT F. 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: Board member 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 

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, 2013. 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 and Björn Axén AB. Board member of Cloetta AB, Endomines AB and Nordea Fonder AB.

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

Own and related parties' shares: 6,000



Joakim Westh

JOAKIM WESTH

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

Other board assignments: Board member of Absolent AB, Saab AB, Intrum Justitia AB and 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 Senior Auditor: Cronie Wallquist. Born 1958. Authorized Public Accountant. Swedish Match auditor since 2012. Cronie Wallquist's other auditing assignments include Pream, 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

Wenche Rolfsen was elected as new member of the Board at the AGM 2013. Patrik Engelbrektsson replaced Håkan Johansson as an employee representative from October 2013. Joakim Andersson is a new Deputy member from October 2013.

Secretary to the Board of Directors

Since 2007 Fredrik Peyron, Senior Vice President Corporate and Legal Affairs and General Counsel is Secretary to the Board.

EMPLOYEE REPRESENTATIVES

Kenneth Ek

Eva Larsson

Patrik Engelbrektsson

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. Deputy member since 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.

Previous positions: Line Operator at Swedish Match's match factory in Tidaholm.

Own and related parties' shares: 0

EMPLOYEE REPRESENTATIVES (DEPUTIES)

Gert-Inge Rang

Eva Norlén-Moritz

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 the Distribution facility in Solna, Stockholm, Sweden. Module technician at the Swedish Match distribution facility in Solna.

Previous positions: Module Technician, Swedish Match's distribution facility in Solna.

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.

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.

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: 30,500

Call options: 36,818



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 LLM Taxation New York University.

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: 15,000

Call options: 47,520



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.

Previous positions: Vice President Group Reporting, Swedish Match AB; Vice President Business Control, Swedish Match Smokefree Division; Vice President Corporate Control, Swedish Match AB.

Own and related parties' shares: 900

Call options: 5,403

Tom Hayes (CFO US Division) has been appointed Acting Chief Financial Officer during Marlene Forsell's parental leave.



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.

Previous positions: Vice President Group Business Control, Swedish Match; Management Consultant, McKinsey & Co.
Own and related parties' shares: 940
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.

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: 8,689
Call options: 20,710



Fredrik Peyron

FREDRIK PEYRON

Senior Vice President, Corporate and Legal Affairs and General Counsel, Swedish Match since 2007. Joined Swedish Match in 2000. Member of the Group Management Team and Secretary to the Board since 2007. Born 1967. Bachelor of Law (LLB), Lund University.

Previous positions: Senior Vice President, Legal Affairs and General Counsel, Swedish Match AB; Vice President Corporate Affairs, Swedish Match AB; Legal Counsel, Akzo Nobel; Associate, Mannheimer Swartling law firm.
Own and related parties' shares: 7,181
Call options: 14,278



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.


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: 6,240
Call options: 15,172

Changes in the Group Management Team during 2013 and up until March 2014

On September 9, 2013, the following changes were made to the Group Management Team. Joakim Tilly (former Senior Vice President, Group Finance and IT, and Chief Financial Officer) was appointed President Scandinavia Division. Marlene Forsell (former Vice President Group Reporting) assumed the position of Senior Vice President and Chief Financial Officer. On the same date, Fredrik Lagercrantz, Senior Vice President Business Control, became a member of the Group Management Team. Jonas Nordquist (former President Scandinavia Division) left the company on September 9, 2013. On December 20, 2013 Lars Olof Löfman (former President Smokefree Products Division) assumed the position Chief Innovation Officer, Scandinavia Division. On January 7, 2014 Emmett Harrison left the Group Management Team, assuming the role of Senior Vice President Investor Relations and Corporate Sustainability.

Holdings of own and related parties shares and call options as of December 31, 2013. For a detailed report of remuneration and benefits for senior executives, refer to Note 5 Personnel.

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 mission is to responsibly develop, manufacture, market, and sell quality products with market leading brands in the product areas Snus and snuff, Other tobacco products, and Lights, delivering growing and sustainable profits to our shareholders.



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www.swedishmatch.com



Cover photo

Swedish Match employees.

Photo taken at the Swedish

Match snus store "Svenskt Snus"

in Stockholm, Sweden.

